

Governance, Risk and Best Value Committee

10:00am, Tuesday, 19 March 2019

Draft Edinburgh Integration Joint Board Internal Audit Charter 2019/20 – referral from the Edinburgh Integration Joint Board Audit and Risk Committee

Item number 7.4
Executive/routine
Wards
Council Commitments

1. For Decision/Action

- 1.1 The Governance, Risk and Best Value Committee is requested to note the refreshed 2019/20 Internal Audit (IA) Charter and to agree that the Convener will sign it to confirm that the City of Edinburgh Council will support delivery of the 2019/29 Edinburgh Integration Joint Board (EIJB) IA annual plan and opinion in line with the authority delegated by the EIJB to IA.

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Referral Report

Draft Edinburgh Integration Joint Board Internal Audit Charter 2019/20 – referral from the Edinburgh Integration Joint Board Audit and Risk Committee

2. Terms of Referral

- 2.1 On 8 March 2019, the Edinburgh Integration Joint Board (EIJB) Audit and Risk Committee considered the draft EIJB Internal Audit (IA) Charter for 2019/20.
- 2.2 Public Sector Internal Audit Standards specify that the purpose, authority, and responsibility of IA must be formally defined in an IA Charter that is periodically reviewed, and presented to senior management and the board for approval.
- 2.3 The EIJB Audit and Risk Committee agreed:
 - 2.3.1 To approve and sign the refreshed 2019/20 IA Charter.
 - 2.3.2 To refer the approved Charter to both the Council's Governance, Risk and Best Value Committee, and the NHS Lothian Audit and Risk Committee, with a request that it is signed by the Conveners of the respective committees to confirm that both partner organisations will support delivery of the 2019/20 EIJB IA annual plan and opinion in line with the authority delegated by the EIJB to IA.

3. Background Reading/ External References

None.

4. Appendices

Draft Edinburgh Integration Joint Board Internal Audit Charter 2019/20 – report by the Chief Internal Auditor

Report

Draft Edinburgh Integration Joint Board Internal Audit Charter 2019/20

IJB Audit and Risk Committee

8 March 2019

Executive Summary

1. The purpose of this paper is to present the revised draft Internal Audit (IA) Charter for 2019/20 to the Audit and Risk Committee for approval on behalf of the Edinburgh Integration Joint Board (EIJB).
2. Public Sector Internal Audit Standards (PSIAS) specify that the purpose, authority, and responsibility of IA must be formally defined in an IA Charter (the "Charter") that is periodically reviewed, and presented to senior management and the board for approval. The EIJB's IA Charter fulfils this requirement.

Recommendations

3. The Audit and Risk Committee is requested to:
 - a. Review, approve, and sign the refreshed 2019/20 IA Charter; and
 - b. Refer the approved Charter to both the Council's Governance, Risk and Best Value Committee, and the NHS Lothian Audit and Risk Committee, with a request that it is signed by the Conveners of the respective committees to confirm that both partner organisations will support delivery of the 2019/29 EIJB IA annual plan and opinion in line with the authority delegated by the EIJB to IA.

Background

4. The PSIAS specify (at section 1000) that the purpose, authority, and responsibility of IA must be formally defined in a charter that is periodically reviewed and presented to senior management and the board for approval.

5. The PSIAS state that the IA Charter must also define the terms 'board' and 'senior management' for the purposes of IA activity; cover arrangements for appropriate resourcing; define the role of IA in any fraud-related work; and include arrangements for avoiding conflicts of interest if IA audit undertakes non-audit activities.
6. Within the EIJB, the role of the chief audit executive is fulfilled by the Chief Internal Auditor, the role of senior management is fulfilled by the senior management teams of the EIJB's partners (the City of Edinburgh Council and NHS Lothian), and the board role is undertaken by the members of the Integration Joint Board as a body.
7. The IA Charter is presented to the EIJB Audit and Risk Committee annually for scrutiny, review, and approval on behalf of the Board.

Main report

8. The IA Charter is essentially the operational terms of reference agreed between the EIJB Audit and Risk Committee (on behalf of the Board); IA; and the partner organisations (City of Edinburgh Council (the Council) and NHS Lothian (NHSL)) that provide ongoing support to the EIJB under the terms of the EIJB Scheme of Integration.
9. The Charter has been reviewed and refreshed, and the content covers the following specific areas:
 - 9.1 Purpose of Internal Audit;
 - 9.2 Definitions;
 - 9.3 Independence and Objectivity;
 - 9.4 Authority;
 - 9.5 Objectives and Responsibilities of Internal Audit;
 - 9.6 Professionalism;
 - 9.7 Internal Audit Plan;
 - 9.8 Resourcing;
 - 9.9 Management Responsibilities;
 - 9.10 Follow-up;
 - 9.11 Reporting;
 - 9.12 Internal Audit Annual Opinion;
 - 9.13 Fraud and Corruption;
 - 9.14 Quality Assurance and Improvement Programme;
 - 9.15 Approval;
 - 9.16 Appendix 1 - Internal Audit Journey Map and Key Performance Indicators

9.17 Appendix 2 – Internal Audit Annual Opinion Definitions

10. Key changes to the Charter include:

- 10.1 The definitions section has been updated to include PSIAS definitions of independence and impairment;
- 10.2 The section on the IA plan now includes reference to PSIAS requirements for IA to share information; coordinate activities; and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of effort;
- 10.3 The section on management responsibilities now reflects the Internal Audit Journey map and key performance indicators that have been developed and I be applied by the Council's IA team when delivering audits for the EIJB, and notes that their objective is to ensure that the both IA and management support effective and timely delivery of the annual plan. This section has also been updated to include the options available to management when agreeing IA findings;
- 10.4 The approach to follow up has been refreshed to confirm that IA does not currently apply a 'risk based' follow up approach, based on the acknowledged need to further improve risk and control awareness and embed the risk and control culture across both the EIJB and Council; and
- 10.5 A new section on the annual opinion has been included to reflect the PSIAS requirement to produce an annual opinion and outline the process for preparation and the prescribed content.
- 10.6 The annual opinion definitions applied by IA have also been refreshed to ensure that they are clearer; more easily understood; and relevant to public sector. The refreshed definitions are included at Appendix 2 to the refreshed Charter.

Key risks

11. That IA cannot obtain the necessary access to the records; assets; physical; properties; and personnel of the EIJB's partner organisations (the Council and NHSL) to enable delivery of the EIJB IA annual plan and opinion, as detailed in this charter.

Financial implications

12. There is no direct financial impact arising from this report.

Implications for Directions

13. There are no specific implications for directions arising from this report.

Equalities implications

14. There are no equalities impacts.

Sustainability implications

15. No direct sustainability implications.

Involving people

16. The draft Charter has been presented directly to the EIJB Audit and Risk Committee for their review and approval.

Impact on plans of other parties

17. The section on 'Authority' notes that IA is authorised by the EIJB Audit and Risk Committee to have full, free, and unrestricted access to any and all of the EIJB's records, assets, physical properties, and personnel, and those of its partners, the Council and NHSL to enable delivery of the IA annual plan and opinion. This could potentially have an impact on their operational plans

Background reading/references

18. [Public Sector Internal Audit Standards](#)

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Edinburgh Integration Joint Board

Draft Internal Audit Charter 2019/20

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Executive Summary

This Charter sets out the purpose, scope, authority, and responsibility of the Edinburgh Integration Joint Board's (the EIJB) Internal Audit (IA) function in accordance with the Public Sector Internal Audit Standards (PSIAS). The PSIAS are applicable across the whole of the public sector and are intended to ensure sound corporate governance and set out roles and responsibilities for both IA and management to support delivery of IA services.

Purpose of Internal Audit

The purpose of IA is to provide a high quality independent audit service to the EIJB, in accordance with PSIAS, that provides assurance over the risk management frameworks; control environments; and governance frameworks established to manage the EIJB's key risks, and ensure that the EIJB's strategic and operational objectives can be achieved.

The PSIAS recognise that IA's remit extends to the entire control environment of the organisation and not just to financial controls.

IA assurance is provided by delivering an annual schedule of audit work that independently and objectively assesses the design and effectiveness of the controls established to manage the EIJB's most significant risks, with the remaining risks covered on a cyclical basis.

The PSIAS notes that IA should also consider providing consultancy services based on their potential to improve management of risks, add value, and improve the organisation's operations.

Definitions

Chief Audit Executive; Senior Management and Board

The PSIAS requires that all public sector IA charters define the terms 'Chief Audit Executive (CAE)', 'Senior Management' and 'Board'.

Within the EIJB:

- the role of the 'CAE' is performed by the Chief Internal Auditor (CIA);
- the role of the 'Chief Financial Officer' is fulfilled by the EIJB's Chief Finance Officer (who is the designated statutory Section 95 Officer),
- the role of 'Senior Management' is performed by the senior management teams employed by both of the EIJB's partners, the City of Edinburgh Council (the Council) and NHS Lothian (NHSL).
- Health and Social Care Partnership's executive management team (EMT); and
- the 'Board' role is performed by the members of the Edinburgh Integration Joint Board as a body.

Internal Auditing

The EIJB has adopted the following PSIAS definition of internal auditing:

'Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation establish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.'

Assurance Services

The EIJB has adopted the following PSIAS definition of assurance services:

'An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements.'

Assurance Services

The EIJB has adopted the following PSIAS definition of assurance services:

'An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements.'

Independence

The EIJB has adopted the following PSIAS definition of independence:

'Freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.'

Impairment

The EIJB has adopted the following PSIAS definition of impairment:

'Impairment to organisational independence and individual objectivity may include personal conflict of interest; scope limitations; restrictions on access to records, personnel, and properties; and resource limitations (funding).'

Consulting Services

The EIJB has adopted the following PSIAS definition of consulting services:

'Advisory and Auditee related service activities, the nature and scope of which are agreed with the Auditee, that are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.'

Independence and Objectivity

To ensure that IA independence and objectivity is maintained, IA will remain free from interference from anyone within the EIJB in relation to audit selection, scope, procedures, frequency, timing, and report content.

Additionally, IA will have no operational responsibility or authority over any organisational activities audited to prevent any conflicts of interest. Accordingly, they will not perform operational processes; implement internal controls; develop procedures; install systems; prepare records; will not be permitted to audit any activities for which they have previously

been responsible within a period of one year; and will not engage in any other activity that may impair judgment or independence.

Where consulting services are provided, the IA role will be specifically restricted to providing guidance, views, and opinions. To comply with PSIAS independence requirements IA will not be involved in any aspects of operational decisions subsequently taken by management.

PSIAS also requires the CIA to report to a level within the organisation which allows IA to fulfil its responsibilities and ensure that organisational independence is maintained. Within the EIJB, the CIA reports to the EIJB Audit and Risk Committee and the Chair of the EIJB main Board.

The CIA will confirm to the EIJB, at least annually, the organisational independence of IA. The CIA will also inform the Convener of the EIJB Audit and Risk Committee of any real or potential impairment of organisational independence.

Authority

IA derives its authority from the EIJB through the Audit & Risk committee.

To ensure that IA objectives are achieved and their independence maintained with no impairment, and with strict accountability for confidentiality and safeguarding records and information, IA is authorised by the EIJB Audit and Risk Committee to:

- have full, free, and unrestricted access to any and all of the EIJB's records, assets, physical properties, and personnel, and those of its partners, the Council and NHSL. The CIA is also authorised to designate members of the audit team to have the same level of access when discharging their responsibilities, and may engage experts to perform certain engagements which will be communicated to management.
- have free and unrestricted access to all EIJB Officers; the EIJB Audit and Risk Committee; and the EIJB main Board;
- raise findings in relation to any control gaps identified that could expose the EIJB to significant risk where these are identified outwith the scope of audit reviews included in the IA annual plan; and
- review and report on the content of the annual governance attestations prepared by the EIJB to confirm whether the content in relation to effective management of risk and control across appropriately reflects the outcomes of completed audit work and progress with implementation of agreed management actions.

Additionally, all Officers are required to assist Internal Audit in fulfilling its roles and responsibilities.

Objectives and Responsibilities of Internal Audit

IA responsibilities include the requirement to independently review, evaluate and report on the following across all areas of the EIJB:

- the adequacy and effectiveness of the systems of financial, operational and management control and their operation in practice in relation to the risks facing the EIJB;
- the extent of compliance with, relevance of, and financial effect of directions established by the EIJB and the extent of compliance with external laws and regulations, including reporting requirements of regulatory bodies;
- the extent to which EIJB assets and interests are acquired economically, used efficiently, accounted for, and safeguarded from losses of all kinds arising from waste, extravagance, inefficient administration, poor value for money, fraud or other cause, and that adequate business continuity plans exist;
- the suitability, accuracy, reliability and integrity of financial and other management information and the means used to identify measure, classify, and report such information;
- the integrity of processes and systems, including those under development, to ensure that controls offer adequate protection against error, fraud, and loss of all kinds; and that the process aligns with the EIJB's strategic goals;
- the follow-up action taken to remedy any weaknesses identified by IA review, ensuring that good practice is identified and communicated widely;
- the operation of the EIJB's corporate governance arrangements; and
- the risk of fraud as part of the audit work performed. Where required, the role of IA is to provide support to the officers appointed to investigate potential fraud cases.

Professionalism

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined; must make balanced assessments of all the relevant circumstances; and not be unduly influenced by their own or others interests in forming judgments.

To achieve this, IA will ensure that it conducts its work with due professional care and in line with the requirements of the PSIAS or other relevant professional standards.

IA will comply with the PSIAS mandatory guidance, including the Definition of Internal Auditing and the Code of Ethics (the Code). This mandatory guidance is a set of principles detailing the fundamental requirements for IA professional practice, and evaluating the effectiveness of IA's performance.

The four principles contained within the Code are: Integrity, Objectivity, Confidentiality, and Competency.

Additionally, IA will comply with relevant EIJB policies and procedures and IA's standard operating procedures manual.

The CIA is expected to report on PSIAS compliance in the annual opinion.

Internal Audit Plan

Annually, the CIA will submit to the EIJB Audit and Risk Committee an IA plan for the following audit year, designed to support provision of an annual evidence based opinion, for their review and approval.

This plan will be developed, based on a prioritisation of the audit universe using a risk-based methodology including input, as a minimum, from Elected Members; the Chief Officer; the Chief Finance Officer (statutory section 95 Chief Financial Officer); the Chief Risk Officer; and the EIJB Audit and Risk Committee.

Changes to the IA Plan

The nature of evolving risks makes it likely that the audit assignments included annual plan may be subject to change.

The audit plan will be kept under review and any significant deviation from the approved internal audit plan (due to emerging risks, fraudulent activity or other factors that result in changes to planned Internal Audit or consulting activities) will be reported through the quarterly Internal Audit monitoring process to the Partnership's Executive team, and the Audit and Risk Committee.

Working in Partnership

The PSIAS also notes that when preparing the annual plan, the CIA should share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of effort.

IA will be cognisant of the partnership nature of the EIJB and will seek to work in partnership with IA teams of the EIJB's partners, the Council and NHSL. IA will also seek to work in partnership with the external auditors appointed to the EIJB.

Where this approach is adopted, a consistent process for the basis of reliance should be established. Where reliance is placed on the work of others, the CIA remains accountable and responsible for ensuring that there is adequate support for conclusions and opinions reached where reliance has been placed on work performed by other assurance providers.

Consequently, when dealing with an external party, IA will clearly define the respective roles, responsibilities, and other expectations (including restrictions on distribution of results of the engagement and access to engagement records).

IA also reserves the right to raise findings on areas that have not been specifically included in the annual plan where significant or systemic control gaps are evident.

Resourcing

The CIPFA Local Government Application note for applying UK Public Sector Internal Auditing Standards states that *'No formula exists that can be applied to determine internal audit coverage needs. However, as a guide, the minimum level of coverage is that required to give an annual evidence based opinion. Local factors within each organisation will determine this minimum level of coverage'*.

Audit Scotland have advised that that they expect a risk based IA plan to be prepared and that they would expect sufficient resources to be in place to accommodate all high-risk items identified.

The EIJB's internal audit plan will reflect Audit Scotland's requirements and include details of resources allocated to support the EIJB for the following year from the Council and NHSL.

Should circumstances arise during the year that suggests that available resource levels will fall or appear to be falling below the level required to deliver the plan, the CIA will communicate the impact of resource limitations and significant interim changes to both the Partnership Executive team and the Chair of the EIJB Audit and Risk Committee.

Management Responsibilities

Management will co-operate with IA on assignments and provide access to records, systems and staff as required within a reasonable timeframe following the request.

An IA journey map and key performance indicators (KPIs) have been developed and are included at Appendix 1. The purpose of the key performance indicators is to ensure that both IA and management support effective and timely delivery of the annual plan.

All audit and consulting assignments will be the subject of formal reports or formal management letters. Draft reports will be shared with management teams for agreement as to the factual accuracy of draft findings raised, and awareness of IA recommendations designed to address the control weaknesses identified.

It is management's responsibility to:

- accept the risk associated with not implementing IA recommendations (with supporting rationale); or
- agree to address the risks identified by adopting an alternative approach to that recommended by IA; or
- accept and fully implement all IA recommendations.

When a draft audit report is delivered, management are required to provide formal responses (agreed management actions) to all IA findings raised and supporting recommendations, including specifying responsibility and anticipated dates for the implementation of these actions, in line with timeframes specified in the KPIs included at Appendix 1.

Management is also responsible for the ensuring that agreed management actions are implemented and effectively sustained.

PSIAS also require the CIA to report to the EIJB Audit and Risk Committee information about management's response to risk that (based on the CIA's judgement) may be

unacceptable to the EIJB. Consequently, any High and Medium rated IA findings where management has accepted the risk will be highlighted in IA reports.

Follow up

IA will follow up and report progress with implementation of agreed management actions to support closure of findings raised on a regular basis, and seek to confirm that they have been undertaken within agreed timescales.

IA does not currently apply a 'risk based' follow up approach based on the need to further improve risk and control awareness and embed the risk and control culture across the EIJB. Consequently, all agreed management actions will be subject to review by IA to confirm that they have been effectively implemented prior to closure. This approach will be reconsidered annually.

The follow up process involves review of evidence provided by management to support implementation of agreed management actions, and reperformance testing to confirm that they have been effectively implemented and sustained.

Additionally, IA may opt to include a 'validation' audit in the annual plan that will challenge and confirm whether historic management actions implemented to address control gaps and mitigate risks have been appropriately sustained and embedded.

Reporting

The CIA is also professionally responsible and accountable to the EIJB Audit and Risk Committee for IA performance, and reports regularly on the progress with, and results of, its work. PSIAS required that IA provides regular updates covering the following areas:

- The IA charter (reviewed and approved annually);
- IA independence (included in the annual opinion);
- The annual audit plan (reviewed and approved annually);
- Progress with delivery of the IA plan (quarterly updates);
- Resourcing requirements (included in the annual plan, with any resourcing challenges reported in quarterly updates);
- Audit outcomes (completed audits and progress with follow up reported included in quarterly updates);
- IA conformance with the Code of Ethics and PSIAS (included in the annual opinion); and
- Management's response to risk where (in the CIA's opinion), risk acceptance of High and Medium rated findings may be unacceptable to the organisation (included in quarterly updates).

Internal Audit Annual Opinion

The PSIAS specify that the CIA must deliver an annual IA opinion and report that can be used by the organisation to inform its annual governance statement.

This opinion is based on the outcomes of the audits included in the annual plan; progress with implementation of agreed management actions to support closure of IA findings; the result of any other IA activities that have identified control gaps that are exposing the EIJB to risk; and the professional judgement of the CIA

PSIAS specify that the IA annual opinion must:

- conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control; and
- include a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

Details of the definitions applied by IA when preparing the annual opinion have been refreshed and are included at Appendix 2.

Fraud and Corruption

Management are responsible for the prevention and detection of fraud or corruption. IA will assist management in the discharge of this responsibility.

Audit procedures alone cannot guarantee that all fraud or corruption will be detected. IA will however exercise an appropriate level of professional skepticism during audit field work and be alert to risks and exposures that could allow fraud or corruption to occur.

Whilst IA should be alert to indications of the existence of fraud and weaknesses in internal control which would permit fraud to occur, IA will not perform specific fraud-related work. Instead, reliance will be placed on fraud-related work performed by the Council and NHSL teams.

Discovery of any fraud or irregularity that affects the EIJB's affairs should be reported immediately to the CIA.

Quality Assurance and Improvement Programme

IA will maintain a quality assurance and improvement programme that covers all aspects of IA activity. The programme will include an evaluation of IA's ongoing compliance with PSIAS requirements and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of IA and identifies opportunities for improvement.

The CIA is also responsible also for providing a periodic self-assessment of IA, as regards its consistency with the Audit Charter (purpose, authority, and responsibility) and performance relative to its Plan.

The CIA will communicate to the EIJB Audit and Risk Committee on IA's quality assurance and improvement programme, including results of ongoing internal assessments and external assessments conducted at least every five years.

Approval

This charter is subject to approval by the EIJB Audit and Risk Committee annually.

Signed by:

Chief Internal Auditor:

Chief Officer, Edinburgh Health and Social Care Partnership:

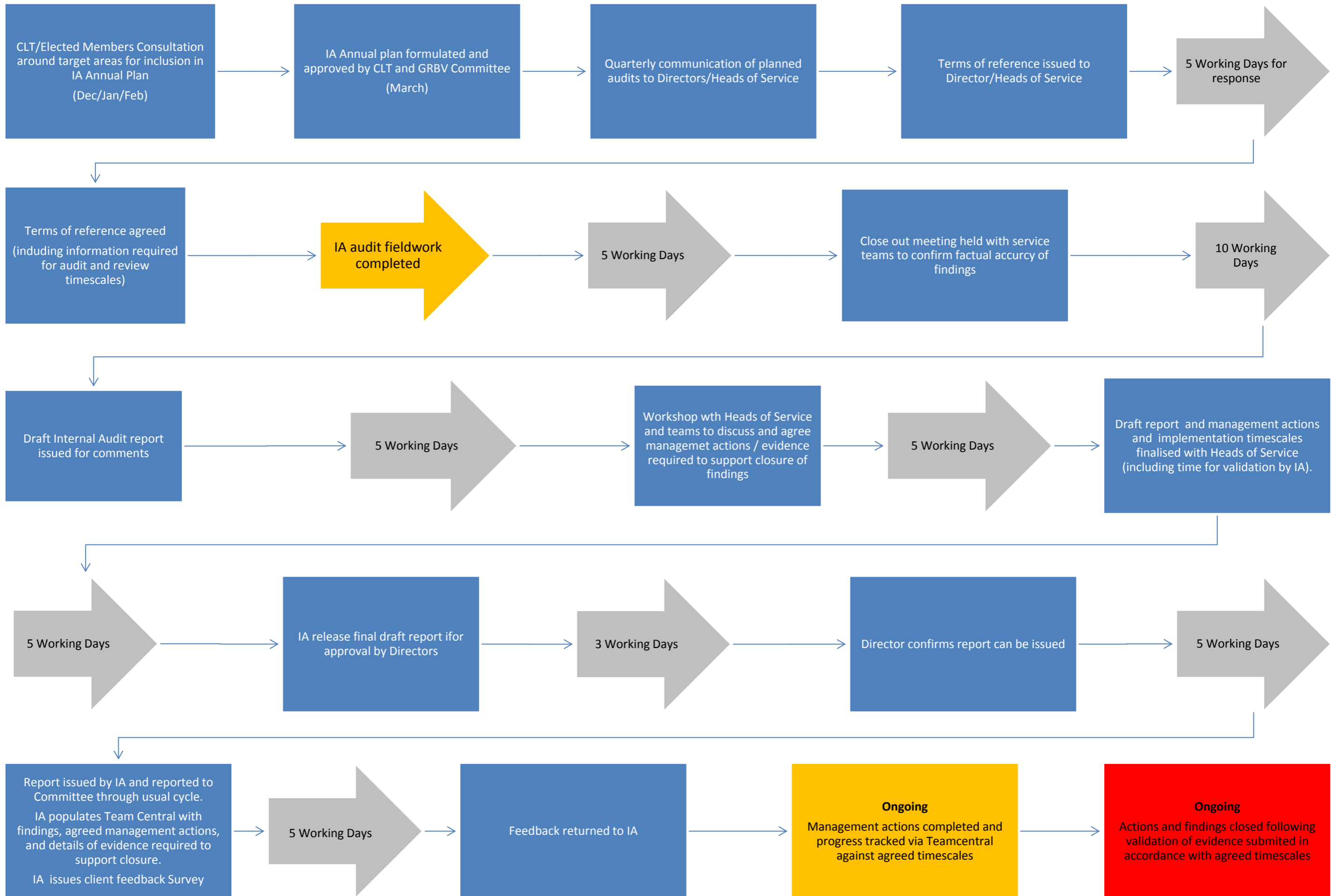
Convener of the EIJB Audit and Risk Committee:

Content approved by the EIJB Audit and Risk Committee: 8 March 2019

Convenor of the City of Edinburgh Council Governance, Risk, and Best Value Committee

Convenor of the NHSL Lothian Audit and Risk Committee

Appendix 1 - Internal Audit Journey Map and Key Performance Indicators



Appendix 2 – Internal Audit Annual Opinion Definitions

The PSIAS require the provision of an annual Internal Audit opinion, but do not provide any methodology or guidance detailing how the opinion should be defined.

Professional judgement is exercised in determining the appropriate opinion, and it should be noted that in giving an opinion, assurance provided can never be absolute.

We will apply the approach set out below to support our assessment of the annual opinion for the EIJB with effect from 1 April 2019. This involves an assessment against 4 possible opinion types:

<p>1 Effective</p> <p><i>The control environment and governance and risk management frameworks have been adequately designed and are operating effectively, providing assurance that risks are being effectively managed and the EIJB's objectives should be achieved.</i></p>	<p>2 Some improvement required</p> <p><i>Whilst some control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks, they provide reasonable assurance that risks are being managed, and the EIJB's objectives should be achieved.</i></p>
<p>3 Significant improvement required</p> <p><i>Significant and / or numerous control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks. Consequently, only limited assurance can be provided that risks are being managed and that the EIJB's objectives should be achieved.</i></p>	<p>4. Inadequate</p> <p><i>The design and / or operating effectiveness of the control environment and / or governance and risk management frameworks is inadequate, with a number of significant and systemic control weaknesses identified, resulting in substantial risk of operational failure and the strong likelihood that the EIJB's objectives will not be achieved.</i></p>