

Committee: Governance, Audit and Performance Committee

Date:
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Title: Internal Audit Annual Report 2021/22

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Summary

1. This report summarises the work that Internal Audit has undertaken during the financial year 2021/22 and provides details on the high risk and priority issues which could impact on the effectiveness of the internal control environment, risk management and governance arrangements across the Council.

Recommendations

2. GAP Committee are requested to note the content of this report

Financial Implications

3. None

Background Papers

4. None.

Impact

Communication/Consultation	This report was discussed and noted by CMT in June 2022.
Community Safety	None
Equalities	None
Health and Safety	None
Human Rights/Legal Implications	None
Sustainability	None
Ward-specific impacts	None
Workforce/Workplace	None

Situation

5. The provision of a continuous internal audit service assists the Council in providing assurance on the control environment that supports the delivery of the Council's strategy.
6. The attached report summarises the work that Internal Audit has undertaken during the financial year 2021/22 and provides details on the high risk and priority issues which could impact on the effectiveness of the internal control environment, risk management and governance arrangements across the Council.
7. The Public Sector Internal Audit Standards (PSIAS) require that the Audit Manager provides an annual audit opinion and report that can be used by the organisation to inform its governance statement in respect of the adequacy and effectiveness of the organisation's framework of internal control, risk management and governance.

Risk Analysis

8.

Risk	Likelihood	Impact	Mitigating actions
Inadequate audit coverage may lead to failure to provide an annual opinion of the Council's governance, risk and control arrangements; reputational damage and failure to comply with PSIAS	2	2	Monitoring of plan delivery and reporting to CMT and GAP, contingency built into plan for additional days if required; Quality Assurance and Improvement Programme

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.

Internal Audit Annual Report 2021-22

1. Introduction

1.1. Purpose of this report

1.1.1. This report summarises the work that Internal Audit has undertaken during the financial year 2021/22 and provides details on the high risk and priority issues which could impact on the effectiveness of the internal control environment, risk management and governance arrangements across the Council.

1.2. The Role of Internal Audit

1.2.1. The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. The purpose of UDC's Internal Audit section is to provide independent, objective assurance and consulting services to the Council (via the GAP Committee, Chief Executive, Section 151 Officer, External Audit and senior managers), relating to these arrangements, which are designed to add value and improve the Council's operations. The Council's response to Internal Audit activity should lead to the strengthening of the control environment.

1.2.2. Each year, we seek to adapt and enhance our audit approach in order to take in to account the Council's risk profile and changes in the system of internal control. This ensures that our work remains focused on the areas of high risk and seeks to avoid duplication of effort, where there are other sources of assurance in operation, for example, External Audit.

1.2.3. Internal Audit remains free from all conditions that threaten the ability of the Council's Internal Auditors to carry out their responsibilities in an unbiased manner, including matter of audit selection, scope, procedures, frequency, timing and report content. If the Audit Manager determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties. This has not arisen for 2021/22. The Council's Internal Auditors also maintain an unbiased mental attitude that allows them to perform engagements objectively. Internal Auditors have had no direct operational responsibility or authority over any of the activities audited.

1.2.4. Our Internal Audit Charter was presented to Senior Management and GAP Committee in March 2022 and will continue to be updated and appended to the annual Internal Audit Plan each year.

1.3. Overview of the Internal Audit Approach

1.3.1. The Public Sector Internal Audit Standards (PSIAS) require that the Audit Manager provides an annual audit opinion and a report that can be used by the organisation to inform its governance statement in respect of the overall adequacy and effectiveness of the organisation's framework of governance, risk management and internal control.

1.3.2. This is achieved through a risk-based plan of work, agreed with management and approved by the GAP Committee, which should provide a reasonable level of assurance, subject to the inherent limitations set out in Appendix A. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.

- 1.3.3. Internal audit work was performed in accordance with the Council's Internal Audit methodology which is in conformance with the PSIAS.
- 1.3.4. The audit plan for 2021/22 was approved by GAP Committee in February 2021. The Internal Audit Team was made up of the following resources during 2021/22:
 - 0.5 FTE Audit Manager (seconded 18 hours a week from Chelmsford City Council to deliver Internal Audit services to UDC).
 - 1.6 FTE Auditor

2. Internal Audit Opinion

2.1. Internal Audit is satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the organisation is reasonable assurance there are no major weaknesses in the Council's risk management, control and governance processes.

2.2. In assessing the level of assurance to be given, the following has been considered:

- All audits undertaken in the year
- Any follow up action taken in respects of audits from previous periods
- The effects of any significant changes in the Council's systems or objectives
- Any limitations which may have been placed on the scope of internal audit
- The extent to which resource constraints may impact on the Audit Manager's ability to meet the full needs of the organisation.
- The results of work performed by other assurance providers, such as External Audit.

OVERALL OPINION	<p>Limited Assurance – a number of significant control weaknesses, including one critical and 14 high priority have been identified in individual assignments during 2021/22, which may put the achievement of key service objectives at risk and result in error, fraud, loss or reputational damage. Please see our Summary of Findings in Section 4.</p> <p>Internal Audit reached this conclusion because the medium and high risk rated weaknesses identified in individual assignments are considered to be significant in aggregate to the system of internal control, but discrete parts of the system of internal control remain unaffected. The critical rated weakness identified is also not considered to be pervasive to the system of internal control.</p> <p>This opinion has been derived from consideration of the detail below.</p> <p>An explanation of the types of opinion that may be given can be found in Appendix A.</p>
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3. Other Sources of Assurance

3.1. Risk Management Framework

- 3.1.1. The Council utilises risk management as part of a package of performance management related measures to enable it to deliver its corporate priorities. By identifying and assessing risks and making informed decisions on the extent to which these risks need to be mitigated, the Council can ensure it is effectively tackling threats and maximising opportunities.
- 3.1.2. The Council's Corporate Risk Register should comprise the most significant risks for the Council in delivering its corporate objectives and services as set out in the Corporate Plan and Corporate Plan Delivery Plan and/or the risks that have the potential to disrupt or stop altogether the council's work. The Council's identified risks are managed within the corporate performance management system, Pentana. The Council's risk information and corporate/service plans are considered as part of Internal Audit work, in order to ensure that the Internal Audit programme is focussed on the Council's highest risks/key priorities.
- 3.1.3. Internal Audit will undertake an independent assessment of the Council's approach to Corporate Risk Management in 2022/23, to identify any organisational improvement opportunities to ensure that the Council's risk management approach is proportionate and robust.

3.2. Internal Audit View on the Risk of Fraud

- 3.2.1. The Council's approach to Counter Fraud was refreshed in 2021/22 to ensure it is in line with best practice, CIPFA's guidance on Managing the Risk of Fraud and Fighting Fraud and Corruption Locally.
- 3.2.2. The 2022 Counter Fraud Strategy encompasses key principles such as acknowledging the responsibility for countering fraud and corruption, identification of fraud and corruption risks, provision of resources to implement the strategy and the action to be taken in response to fraud and corruption.
- 3.2.3. Supplementing the Strategy is an action plan which sets out how Counter Fraud Strategy will be delivered over the next year to March 2023, and by whom. A key part of this governance and delivery will be the Council's Counter Fraud Working Group who will provide operational oversight of the Council's counter-fraud activities across all areas of the Council, including those specifically recognised as high-risk areas i.e., Revenues, Benefits, Internal Audit, HR, Cyber Security/Information Governance, Democratic Services, Finance, Procurement, Housing, Insurance and Risk.

4. Summary of Findings

4.1. Key themes identified in 2021/22

The Internal Audit Opinion considers the number of limited assurance reports/high priority findings and their overall impact on the control environment. A summary of the key issues arising from these reports is presented below:

Report Title	Assurance Rating	Critical	High	Medium	Low	Key Issues Arising
Uttlesford Norse (UNSL) Governance Arrangements						<p>The original review identified several significant findings, and a Treatment Response Plan was developed by UDC to address these issues. In March 2022, the Chief Executive reported to GAP that following management investigation into the handling of health and safety aspects, improvements have been delivered in the reporting and monitoring of health and safety requirements.</p> <p>Internal Audit undertook an initial follow up assessment of the implementation of the original recommendations in May 2022, and discussions have highlighted that of the 26 recommendations, 3 have been implemented (one of which related to health and safety and two of which related to high priority Communication recommendations), 20 are currently work in progress, 2 are outstanding, and 1 is no longer applicable. This means that all 9 areas of risk originally identified, including the critical finding relating to Health and Safety, and the three high priority findings relating to Safeguarding, Roles and Responsibilities, and Communication have only been partially addressed to date and whilst positive actions have been, and are being, taken, it is not yet possible for Internal Audit to provide independent assurance that the control environment has significantly improved and it remains at this time indicative of a 'no assurance' opinion. A final follow up assessment will be undertaken in August 2022 and reported to GAP in September 2022.</p>
Safeguarding	Limited	0	3	2	0	Three high priority findings were identified relating to introduction of corporate and service level safeguarding risk monitoring, training and social media, photography, and filming requirements.

Report Title	Assurance Rating	Critical	High	Medium	Low	Key Issues Arising
Planning Investigations	Limited	0	3	2	0	Three high priority findings were identified relating to lack of compliance in practice with the adopted Enforcement Planning Policy, including IDOX configuration of priorities, performance measurement and recording of enforcement notices.
CCTV and RIPA	Limited*	0	4	6	0	<i>The management response to the audit report is in the process of being finalised and therefore these results are currently indicative and may be subject to change. However, four high priority findings have been initially identified relating to the Council's governance and management arrangements for CCTV.</i>
Officer & Member Conflicts of Interest	Moderate	0	1	5	0	A high priority finding was identified relating the pro-active identification and management of potential bribery and corruption risk to ensure compliance with internal policies and legislation such as the Bribery Act. Five medium priority recommendations were also made, including ownership, oversight and effectiveness and efficiency of the current system of updating the Officer registers of Interest and Gifts and Hospitality; and consideration of implementing recommendations and best practice made in the Local Government Ethical Standards 2019 relating to management of conflicts to enhance demonstration of fairness and transparency, and regular review of declarations for completeness.

NB Income Generating Waste and Cash Management are work in progress and are due to be finalised July 2022.

4.2. Grants Sign Off

4.2.1. During 2021/22, Internal Audit were required to carry out audit testing and review to ensure that the conditions attached to the following Government grants were complied with. No issues were noted.

- **Disabled Facilities Grant** (from the Department of Levelling Up, Housing and Communities (DLUHC) via Essex County Council) to fund adaptations for disabled people who qualify for a Disabled Facilities Grant.
- **Protect and Vaccinate Grant** (from DLUHC) to accommodate and vaccinate rough sleepers in response to the Omicron variant Covid 19 outbreak in December 2021.

4.3. Management's Response to Implementing Audit Recommendations

4.3.1. A key measure of success and a strong internal control environment is timely implementation of recommendations. All planned audit work undertaken is subject to a formal follow up to ensure that all agreed actions have been implemented.

4.3.2. Performance relating to the implementation of recommendations during 2021/22 is tabled below.

Audit Title	Original Assurance Rating	Key Findings
Insurance	Moderate	In the previous report, two recommendations (both medium priority) were made. Based on the evidence presented, our follow up audit revealed that both recommendations (one relating to the Insurance Policy and the other relating to the Register of Claims) have been partially implemented.

4.4. Due to timing of implementation dates the following previous year (2020/21) reviews will be followed up in 2022/23:

Original Audit Title	Original Assurance Rating
UNSL Governance Arrangements	Management Letter (1 critical, 3 high priority findings) (see above)
Grants Governance	Management Letter (2 high, 4 medium priority findings)
HR and Payroll	Limited (new full review in 2022/23 plan)
Section 106 Obligations	Limited (2 high, 1 medium)
Housing Allocations	Moderate
Domestic Waste & Recycling	Moderate
Information Governance	Moderate

4.5. Summary of remaining reviews

Report	Key Issues
Leasehold Service Charges	Two medium findings were raised relating to the update of the Leasehold Management Policy to ensure it reflect current/best practice requirements and obtaining supporting data for the insurance apportionment of the service charge
NEPP (North Essex Parking Partnership)	Identified risks are being managed and no recommendations are required at this stage.
Electoral Registration and Conduct of Elections	Identified risks are being managed and no recommendations are required at this stage.
Medium Term Financial Strategy	This was an advisory piece of work, therefore providing an assurance opinion was not appropriate, however, we noted that identified risks are being managed and no recommendations are required at this stage.
Covid 19 Grants	Identified risks are being managed and no recommendations are required at this stage.

5. Reconciliation between Original Plan received by GAP (February 2021) to current status

Original Plan received by GAP	Current Status
Uttlesford Norse (c/fwd from 2020/21)	Complete
Officer and Member Conflicts of Interest	Complete
MTFS	Complete
Safeguarding	Complete
Leasehold Service Charges	Complete
Planning Interventions	Complete
NEPP	Complete
Elections	Complete
Covid 19 Grants	Addition to Plan. Complete.
Disabled Facilities Grant	Addition to Plan. Complete.
Protect & Vaccinate Grant	Addition to Plan. Complete.
RIPA	Draft Report Stage
Income Generating Waste	Draft Report Stage
KFS 2021/22 (Cash Management)	WIP
Risk Management	Addition to Plan. Deferred to 2022/23 due to resourcing
Procurement and Contract Management	Deferred to 2022/23 due to wider Council work in this area.
Climate Change	Deferred to 2022/23 due to wider Council work in this area.
Cyber Security	Deferred to 2022/23 due to wider Council work in this area.
Local Plan	Deferred to 2022/23 due to wider Council work in this area.

Original Plan received by GAP	Current Status
PFI	Deferred to 2022/23 due to resourcing limitations
Business Continuity and Emergency Planning	Deferred to 2022/23 due to resourcing limitations
Homelessness Strategy	Deferred to 2022/23 due to resourcing limitations
Commercial Investment Strategy	Superseded by wider review of Council approach to Risk Management. To revisit after conclusion of that review.
Digital Strategy	Superseded by wider review of Council approach to Risk Management. To revisit after conclusion of that review.
Day/Community Centres	n/a due to wider Council changes to this service

6. Review of the Effectiveness of Internal Audit

6.1. Our performance against Key Performance Indicators (KPIs) used to demonstrate the effectiveness of the internal audit function during 2021/22 is shown in the table below.

KPI	Target	Result 2021/22	Comments
Audit Plan delivered to Draft Report Stage by 31st March:	90%	75%	Draft report stage missed due to resourcing/further work required.
Audit Plan delivered to final report stage by 30 th April:	100%	67%*	*100% of applicable draft reports issued by end of March were issued as final by 30 th April. All reports due to be completed by July 2022.
Completion of follow ups for applicable audit reports by 30 th April.	100%	100%	
Customer Satisfaction results: overall average score good/excellent good or good) each survey returned	100%	100%	
Audit areas where the indicative level of assurance has improved from no assurance/ limited assurance at the follow-up stage	n/a for 2021/22 follow ups.		

6.2. Quality assurance and improvement programme

PSIAS require that Internal Audit develops and maintains a quality assurance and improvement programme that covers all aspects of the internal audit activity. Periodic reviews of the quality of internal audit work completed internally and the Audit Manger reviews all draft and final reports. Planning and delivery of the Service (including this Annual Report) has been done in conformance with the requirements of the PSIAS.

7. Update on Progress of Internal Audit Strategy 2021-22

The Internal Audit Strategy 2021-22 was approved by GAP in June 2021. Progress is documented below.

Original Strategy Goal	2021/22 Progress
Develop a planning process which identifies the Council's most significant internal and external risks and deliver an Annual Internal Audit Plan focussing on these key risks, and which meets stakeholder needs.	The 2021/22 Internal Audit Plan was developed using a prioritisation of the audit universe using a risk-based methodology, including input from the Council's Corporate Plan, Corporate Risk Register, as well as discussions with Council staff, senior management, plus consideration of local and national issues and risks. The plan was discussed and agreed by Senior Managers, CMT and GAP Committee. A contingency was also included in the plan to cover requests from management for ad hoc, advisory type work on risk identification and subsequent control design (as well as urgent, unplanned reviews arising during the year).
To contribute to the Council's delivery of its governance and assurance framework	Internal Audit also use the Corporate Risk Register, and other risks identified through the risk management framework, to inform the annual risk-based Internal Audit plan and to inform audit planning for individual audit assignments. Internal Audit will bring any serious, emerging issues to the attention of Management and GAP Committee. Internal Audit will undertake an independent assessment of the Council's approach to Corporate Risk Management in 2022/23, to identify any organisational improvement opportunities to ensure that the Council's risk management approach is proportionate and robust.

Original Strategy Goal	2021/22 Progress
	<p>The Council's approach to Counter Fraud was refreshed in 2021/22 to ensure it is in line with best practice, CIPFA's guidance on Managing the Risk of Fraud and Fighting Fraud and Corruption Locally. The 2022 Counter Fraud Strategy encompasses key principles such as acknowledging the responsibility for countering fraud and corruption, identification of fraud and corruption risks, provision of resources to implement the strategy and the action to be taken in response to fraud and corruption. The Audit Manager also chairs the cross-Council Counter Fraud Working Group.</p>
<p>To be a trusted advisor to Senior Managers and GAP Committee</p>	<p>As demonstrated through the Internal Audit Annual Report and organisation feedback.</p>
<p>To monitor the critical skills and resource blend required to ensure Internal Audit deliver their mission and objectives.</p>	<p>In-house team training needs are monitored. The Audit Manager is seconded from Chelmsford City Council for 18 hours a week to deliver Internal Audit services to Uttlesford District Council.</p>

Annual Opinion Categories

The table below sets out the four types of annual opinion that Internal Audit use, along with the types of findings that may determine the annual opinion given. The Audit Manager will apply their judgement when determining the appropriate annual opinion, so the guide given below is indicative rather definitive.

Type of Annual Opinion	When to use this type of annual opinion
Substantial	<ul style="list-style-type: none"> • Generally, only low risk rated weaknesses found in individual assignments; and • None of the individual assignment report have an overall report classification of either high or critical risk
Moderate	<ul style="list-style-type: none"> • Medium risk rated weaknesses identified in individual assignments that are <i>not significant in aggregate</i> to the system of internal control; and/or • High risk rated weaknesses identified in individual assignments that are <i>isolated</i> to specific systems or processes; and • None of the individual assignment reports have an overall classification of critical risk
Limited	<ul style="list-style-type: none"> • Medium risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete</i> parts of the system of internal control remain unaffected; and/or • High risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete</i> parts of the system of internal control remain unaffected; and/or • Critical risk rated weaknesses identified in individual assignment that are <i>not pervasive</i> to the system of internal control; and • A <i>minority</i> of the individual assignment reports may have an overall report classification of either high or critical risk.
No	<ul style="list-style-type: none"> • High risk rated weaknesses identified in individual assignments that <i>in aggregate are pervasive</i> to the system of internal control; and/or • Critical risk rated weaknesses identified in individual assignments that are <i>pervasive</i> to the system of internal control; and/or • <i>More than a minority</i> of the individual assignment reports have an overall report classification of either high or critical risk.

Key to Assurance Levels in Individual Reports

No Assurance	There are fundamental weaknesses in the control environment which jeopardise the achievement of key service objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered.
Limited	There are a number of significant control weaknesses which could put the achievement of key service objectives at risk and result in error, fraud, loss or reputational damage. There are High recommendations indicating significant failings. Any Critical recommendations would need to be mitigated by significant strengths elsewhere.
Moderate	An adequate control framework is in place but there are weaknesses which may put some service objectives at risk. There are Medium priority recommendations indicating weaknesses, but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any High recommendations would need to be mitigated by significant strengths elsewhere.
Substantial	There is a sound control environment with risks to key service objectives being reasonably managed. Any deficiencies identified are not cause for major concern. Recommendations will normally only be advice and best practice.

Key to Risk Ratings for Individual Findings in Reports

Critical	Financial: Severe financial loss; Operational: Cessation of core activities; People: Life threatening or multiple serious injuries to staff or service users or prolonged workplace stress. Severe impact on morale & service performance. Mass strike actions etc; Reputational: Critical impact on the reputation of the Council which could threaten its future viability. Intense political and media scrutiny i.e. front-page headlines, TV; Legal and Regulatory: Possible criminal, or high-profile civil action against the Council, members or officers. Statutory intervention triggered impacting the whole Council. Critical breach in laws and regulations that could result in material fines or consequences; Projects: Failure of major Projects and/or politically unacceptable increase on project budget/cost. Elected Members required to intervene.
High	Financial: Major financial loss. Service budgets exceeded; Operational: Major disruption of core activities. Some services compromised. CMT action required to overcome medium-term difficulties; People: Serious injuries or stressful experience (for staff member or service user) requiring medical attention/ many workdays lost. Major impact on morale and performance of staff; Reputational: Major impact on the reputation of the Council. Unfavourable media coverage. Noticeable impact on public opinion; Legal and Regulatory: Major breach in laws and regulations resulting in significant fines and consequences. Scrutiny required by external agencies; Projects: Key targets missed. Major increase on project budget/cost. Major reduction to project scope or quality.
Medium	Financial: Moderate financial loss. Handled within the team; Operational: Significant short-term disruption of non-core activities. Standing Orders occasionally not complied with, or services do not fully meet needs. Service Manager action will be required; People: Injuries (to staff member or service user) or stress levels requiring some medical treatment, potentially some workdays lost. Some impact on morale and performance of staff; Reputational: Moderate impact on the reputation or brand of the organisation. Limited unfavourable media coverage; Legal and Regulatory: Moderate breach in laws and regulations resulting in fines and consequences. Scrutiny required by internal committees or internal audit to prevent escalation; Projects: Delays may impact project scope or quality (or overall project must be re-scheduled). Small increase on project budget/cost. Handled within the project team.
Low	Financial: Minor financial loss; Operational: Minor errors in systems/operations or processes requiring Service Manager or Team Leader action. Little or no impact on service users; People: Minor injuries or stress with no workdays lost or minimal medical treatment. No impact on staff morale; Reputational: Minor impact on the reputation of the organisation; Legal and Regulatory: Minor breach in laws and regulations with limited consequences; Projects: Minor delay without impact on overall schedule. Minimal effect on project budget/cost or quality.

Limitations and Responsibilities

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems. Internal Audit shall endeavour to plan its work so that there is a reasonable expectation of detecting significant control weaknesses and, if detected, Internal Audit shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, the examinations of Internal Audit should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless Internal Audit is requested to carry out a special investigation for such activities in a particular area.

Limitations inherent to the internal auditor's work

Internal Audit work has been performed subject to the limitations outlined below:

- **Opinion**

The opinion is based solely on the work undertaken as part of the agreed internal audit plan. There might be weaknesses in the system of internal control that Internal Audit are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence, management and GAP should be aware that the opinion may have differed if the programme of work or scope for individual reviews was extended or other relevant matters were brought to Internal Audit's attention.

- **Internal control**

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

- **Future periods**

Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- The degree of compliance with policies and procedures may deteriorate