

**HUNTINGDONSHIRE DISTRICT COUNCIL**

**Title/Subject Matter:** Internal Audit Service:  
Annual Report and Internal Audit Charter review

**Meeting/Date:** Corporate Governance Committee – 24 May 2017

**Executive Portfolio:** Strategic Resources: Councillor J A Gray

**Report by:** Internal Audit & Risk Manager

**Wards affected:** All Wards

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**Executive Summary:**

The Public Sector Internal Audit Standards (PSIAS) requires the Committee to receive an annual report on the work of the Internal Audit Service. The report is required to include:

- The opinion
- A summary of the work that supports the opinion; and
- A statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

This report details the work undertaken by Internal Audit during the year ending 31 March 2017 to support the following opinion statement.

**Audit Opinion**

Based upon work undertaken and statements from external assurance providers, it is my opinion that the Council's internal control environment and systems of internal control as at 31 March 2017 provide adequate assurance over key business processes and financial systems.

**David Harwood**  
**Internal Audit & Risk Manager**

April 2017

The assurance opinion is at the same level as last year.

The opinion is based on the outcome of 27 audit reviews and the quarterly review of five key financial systems. Ten audits have been given a limited assurance rating. Of these, two – safeguarding and the management of complaints - are of significant concern due to the potential impact upon service delivery arrangements or non-delivery of the objectives set out in the Customer Service Strategy

It is pleasing to be able to report that internal controls operating in the Accounts Receivable system have improved and the area has been given an increased assurance rating, up from 'little' to 'adequate'.

The percentage of agreed management actions introduced on time as at 31 March 2017 was 31% against a target of 100%. This is the lowest recorded figure for the year. The percentage average for 2016/17 of 41%.

The 2016/17 audit plan included 20 days contingency allowance. However over 150 days have been spent on unplanned activities during the year. Whilst 39 days of this time can be attributed to internal audit reviews taking longer than anticipated, the remainder of the time has been spent on a variety of tasks, including the Lean review of the service, staff development opportunities, investigations and the internal audit shared service arrangements. As a result, nine audit reviews included in the approved plan have not been undertaken. A further four audits were omitted and substituted by alternative audit reviews.

The amount of unplanned time incurred is unprecedented. It highlights the need to review the audit planning and approval process, so that non-delivery of the audit plan, (which is approved ahead of the financial year to which it relates) is not seen as a service failure.

The Internal Audit & Risk Manager (IARM) continues to report functionally to the Corporate Governance Committee and maintains organisational independence. He has had no constraints placed upon him in respect of determining overall audit coverage, audit methodology, the delivery of the audit plan or proposing actions for improvement or forming opinions on individual audit reports issued.

### **Quality Assurance and Improvement Programme**

One of the major elements of the PSIAS is the requirement to maintain a quality assessment and improvement programme (QAIP). This has been in place throughout the year. The IARM undertook in April 2017 a self-assessment review to evaluate Internal Audit's conformance with the PSIAS. This self-assessment did not identify any significant areas of non-conformance.

### **Audit Charter**

A review of the Internal Audit Charter has also been conducted. A number of amendments were made to the PSIAS in April 2017. These are minor in nature. After comparing the revised PSIAS against the current Audit Charter the IARM considers that no change is required to the Charter as it adequately deals with the April 2017 amendments.

## **RECOMMENDATION**

It is recommended that the Committee:

1. Consider and comment upon the report; and
2. Take into account the Internal Audit & Risk Manager's opinion when considering the Annual Governance Statement for 2016/17.

## **1. PURPOSE OF THE REPORT**

- 1.1 This is the annual report of the Internal Audit & Risk Manager (IARM). It covers the period 1 April 2016 to 31 March 2017.
- 1.2 The report includes the IARM annual opinion on the overall adequacy and effectiveness of the Council's internal control and governance processes.

## **2. WHY IS THIS REPORT NECESSARY**

- 2.1 The Accounts and Audit (England) Regulations 2015 require the Council to 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
- 2.2 The Public Sector Internal Audit Standards (PSIAS) require an annual report to be considered by the Committee as they fulfil the role of the Board (as defined by PSIAS). The PSIAS details the matters that are required to be included in the annual report. These are:
  - a) The opinion
  - b) A summary of the work that supports the opinion; and
  - c) A statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

## **3. ANALYSIS**

### **Annual audit report**

- 3.1 The overall opinion of adequate assurance is unchanged from last year. The internal control environment is generally effective.

There has been a higher number of limited assurance reports issued in 2016/17 than in previous years. Two of these have been highlighted in the annual report as areas of concern.

#### **Safeguarding**

The current safeguarding procedures are not effective and a fundamental review is required. The audit review found amongst others, an ad-hoc approach across Services to the assessment of safeguarding risks, piecemeal training and a lack of evidence that checks on employees suitability for employment are carried out.

#### **Management of complaints**

Customer feedback procedures are a key element of the Customer Services Strategy 2015-18. The audit revealed overly bureaucratic and time consuming systems are in place to handle customer complaints. In line with the Transformation agenda, management have agreed to undertake a Lean review of complaints handling, with the focus on ensuring investigation outcomes are in the best interests of the customer.

## Quality Assessment & Improvement Programme (QAIP)

- 3.2 The Internal Audit & Risk Manager has maintained a QAIP throughout the year in accordance with the PSIAS and undertook in April 2017 a self-assessment to evaluate Internal Audit's conformance with the PSIAS.
- 3.3 The self-assessment review did not identify any areas of significant non-conformance and there are no issues that need to be brought to the attention of Committee or require inclusion in the Annual Governance Statement.
- 3.4 Improvements can always be made. The review has identified that the two issues included in the 2016 action plan remain outstanding. These are:

Regularly reviewing and updating policies and procedures to reflect changes in working practices and standards; and

*Due to time pressures, the audit manual is not updated as regularly as it should be. Auditors are made aware of all changes to policies, procedures, working practices and standards by the IARM at fortnightly team meetings and through email instruction.*

Carrying out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance

*An assurance mapping exercise was carried out to assist the 2015 AGS process, but was found too onerous to properly maintain. An alternative mapping process is being evaluated based on the findings from individual audits.*

## Audit Charter

- 3.5 The current Audit Charter was approved by the Committee in June 2016.
- 3.6 The PSIAS were revised in April 2017 to reflect changes introduced to the Institute of Internal Auditors International Professional Practices Framework.
- 3.7 The majority of the revisions are minor in nature and have been introduced to clarify individual Standards that make up the PSIAS. There are however two main changes:
1. Introducing safeguards when the Internal Audit Manager has roles and responsibilities that fall outside of internal auditing.
  2. The need to inform the Committee on the results of the quality assurance and improvement programme (QAIP).

Due to the IARM being responsible for insurance and risk management services as well as internal auditing, the Charter had already recognised and dealt with point 1. above. In respect of point 2, the Charter already requires that the results of the QAIP are reported to senior management and the Committee. After considering the revised PSIAS, it is proposed that no amendments are made to the Audit Charter.

#### **4. KEY IMPACTS**

- 4.1 Failure to provide an annual report would lead to non-compliance with the PSIAS and require the matter to be reported in the Annual Governance Statement. This would not reflect well upon the Council's overall governance arrangements.

#### **5. WHAT ACTIONS WILL BE TAKEN/TIMETABLE FOR IMPLEMENTATION**

- 5.1 The annual report will be considered by the Committee during the preparation of the Annual Governance Statement.

#### **6. LINK TO THE CORPORATE PLAN**

- 6.1 The Internal Audit Service provides assurance to management and the Committee that risks to the delivery of the Corporate Plan across all of its areas are understood and managed appropriately.

#### **7. RESOURCE IMPLICATIONS**

- 7.1 There are no resource implications arising from this report.

#### **8. REASONS FOR THE RECOMMENDED DECISIONS**

- 8.1 In fulfilling its obligations under the PSAS, the Committee is required to receive an annual report on the work of the Internal Audit Service. The outcomes of the report, particularly the annual opinion statement, will be included within the Council's annual governance statement.

#### **9. LIST OF APPENDICES INCLUDED**

Appendix 1 - Internal Audit Service annual report 2016/17.

#### **BACKGROUND PAPERS**

Internal Audit Reports  
Internal Audit performance management information  
PSIAS self-assessment

#### **CONTACT OFFICER**

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Internal Audit Service  
Annual Report  
2016/17

## 1. INTRODUCTION

1.1 This is the annual report of the Internal Audit & Risk Manager (IARM) as required by the Public Sector Internal Audit Standards (PSIAS). It covers the period 1 April 2016 to 31 March 2017.

1.2 The report includes the IARM's annual opinion on the overall adequacy and effectiveness of the Council's internal control and governance processes.

The opinion is based upon

- the work carried out by Internal Audit during the year; and
- the assurances provided by the external auditors.

1.3 The report provides information on:

- the delivery of the annual audit plan;
- audit reports issued and issues of concern;
- implementation of agreed actions;
- Internal Audit's performance; and
- the quality assessment and improvement programme.

## 2. OVERALL OPINION

### **Audit Opinion**

Based upon work undertaken and statements from external assurance providers, it is my opinion that the Council's internal control environment and systems of internal control as at 31 March 2017 provide adequate assurance over key business processes and financial systems.

**David Harwood**  
**Internal Audit & Risk Manager**

April 2017

2.1 Assurance can never be absolute. The audit opinion reflects the IARM view on the current state of the internal control environment and the effectiveness of the systems of internal control across the Council and provides the Committee with an opinion for inclusion in the Annual Governance Statement (AGS).

If significant changes occur to the internal control environment prior to the Committee approving the AGS the Committee will be informed.

2.2 In preparing the internal audit plan for 2016/17, Managers were asked if they were aware of any planned reviews by external organisations from which assurance could be obtained on the operation of the internal control environment and systems of internal control. With the exception of the statutory external audit of accounts/grant certification no other external assurances were identified for 2016/17.

2.3 The IARM continues to report functionally to the Corporate Governance Committee and maintains organisational independence. He has had no constraints placed upon him in respect of determining overall audit coverage, audit methodology, the delivery of the audit plan or proposing actions for improvement or forming opinions on individual audit reports issued.

### 3. DELIVERY OF THE AUDIT PLAN

3.1 The Internal Audit Plan, prepared in accordance with the PSIAS, was approved by the Corporate Management Team (CMT) and the former Corporate Governance Panel in March 2016 in respect of the year ending March 2017.

3.2 The plan consisted of 30 general reviews, six IT related reviews and the quarterly key control reviews of five financial systems. At the 31 March 2017, 21 general audits and five IT audits (undertaken by BDO LLP) have been completed or were underway.

#### Unplanned time

3.3 The audit plan is reviewed at the end of each quarter and updated to reflect changing priorities. Committee were informed in December 2016 that an exceptional amount of unplanned time had been incurred in the period ending October 2016.

3.4 In the second half of the year, the amount of unplanned time reduced but still remained high. Overall a total of 158 days has been spent on areas not envisaged when the audit plan was prepared in February 2016.

3.5 The main areas of unplanned time are listed below:

Preparing the internal audit shared services business plan	26 days
Auditor secondment to the Transformation project	25
Undertaking on behalf of the Corporate Director (Delivery) a review of staff restructuring processes and procedures	18
External 'Lean' review of the service	16
Completing 2015/16 audit plan reviews: 3 reviews	15
Audit reviews of: Overtime	10
Flexi-time Management & Work-life Balance	7
Management of Ill Health & Sickness	7
4Action – audit action performance reporting	6
Auditor involvement in the Local Authority challenge	4

3.6 The audit plan has been frequently reviewed to take account of the unplanned activities. This has led to nine audits included in the approved plan not being undertaken. A further four audits were omitted and substituted by alternative audit reviews.

In addition, due to the delay in the implementation of the new financial management system, the planned review of system security was postponed.

Annex A contains details of the audits undertaken in 2016/17 against those included in the approved 2016/17 internal audit plan.

#### Internal Audit Reports Issued

3.7 Audit reports that have been issued during the period April 2016 – March 2017 are listed in the table below, grouped by assurance opinion (see Annex C for further explanation) and showing action type and number of actions.



3.8 Eight reviews from the 2015/16 audit plan were underway at the 31 March 2016. These have been completed and are included in the table below, as they inform the annual opinion statement.

Audit area		Action type & No.	
		Red	Amber
<b>Substantial</b>			
	IT strategy		2
<b>Adequate</b>			
	Staff appraisal scheme **	3	1
	IT disaster recovery	1	4
	Overtime procedures	1	3
	LGSS contract management *	1	3
	Management of street markets	1	
	Management of ill health & sickness		9
	Purchasing & corporate cards		5
	Management of vacancies		5
	Development management		5
	Bank reconciliation *		4
	Project Management of the Capital Plan *		4
	IT change management		3
	Budget forecasting, accuracy & assumptions		3
	Managing bribery risks		3
	Staff training		2
	Housing Benefits		1
<b>Limited</b>			
	Flexi-time management	3	4
	Effectiveness of Governance Boards *	2	4
	Cyber security	2	3
	Safeguarding **	1	
	Management of complaints	1	
	Data Protection & Information Management *		10
	Information Security *		10
	Business application security		4
	Data quality & performance indicators *		4
	Delivery of corporate & service plans *		4

\* 2015/16 audit plan reviews. Reports issued in 2016/17.

\*\* 2016/17 audit plan reviews. Fieldwork completed/draft reports issued at 31 March 2017.

3.9 In addition to the reports listed above, reviews have also been completed on the following areas.

- Implementation of policy initiatives
- Prevention of fraud
- Transformation Challenge Award

These three reviews resulted in no overall assurance opinions being given due to either limited testing being undertaken or the audits changing focus and becoming more advice orientated. Suggested improvements to controls were made as appropriate.

3.10 Three reviews from the 2016/17 audit plan are still to be completed. These are a review of the legal debt recovery process, capital plan programming within services and 3C ITSS software licence costs.

3.11 The continuous auditing of key controls across five key financial systems has continued to be undertaken on a quarterly basis. At the time of writing this report the 2016/17 fourth quarter reviews had not all been completed. The table below is the IARM estimation of the likely assurance opinion outcome based on the work already completed. The IARM will update the Committee if any changes to the assurance opinions are required following the conclusion of the audit reviews.

Audit area	Level of assurance			
	Substantial	Adequate	Limited	Little
Council tax		✓		
Non domestic rates		✓		
Accounts payable (Creditors)		✓		
Main accounting system		✓		
Accounts receivable (Debtors)		✓		

3.12 Since 2014/15 internal audit have only given a 'little' assurance opinion on the control process associated with the accounts receivable system and the collection of general debt. Due to little improvement being made during 2015/16 this matter was included as a key improvement area in last year's annual governance statement.

It is pleasing to be able to report that significant improvements have been made during the year, such that the assurance opinion has been increased to 'adequate'. Whilst there are a small number of areas where further improvement can be made, the failure of these controls either individually or collectively do not put at risk the achievement of the systems objectives.

3.13 Due to the planned introduction of a new financial management system in October 2017, the quarterly reviews undertaken on the operation of the controls in the current financial management system, accounts payable and accounts receivable systems will not be undertaken in respect of the quarters ending June and September. Time will be spent however on preparing new key control schedules that will form the basis of the December 2017 and March 2018 reviews.

#### **Other review areas**

3.14 Internal Audit have also undertaken work in a number of other areas. These include:

- Continued involvement in agreeing the contractors final account for the redevelopment of One Leisure St Ives.
- Providing assistance to Cambridge City Council (who are the 3Cs internal audit lead) on the new financial management project.
- Attending 14 quotation openings
- Responding to whistleblowing complaints

- Developing a new Code of Corporate Governance
- Assisting the Corporate Fraud Team introduce 'real-time' document checks to reduce fraudulent access to services
- Supporting the Committee in the annual governance review, the preparation of the Annual Governance Statement, the review of its own effectiveness and preparation of its annual report.
- Attending the Social Media Group and Sickness Focus Group to provide them with advice and insight into the findings from audit reviews
- Identifying areas of non-compliance across the Council (overtime, flexi management, sickness, annual leave, expenses etc.) to assist Corporate Office staff prepare for the newly introduced Managers' Forums

Guidance has also been provided to managers and staff on an ad-hoc basis on a wide variety of risk and control issues.

#### **4. ISSUES OF SPECIFIC CONCERN**

##### **Safeguarding**

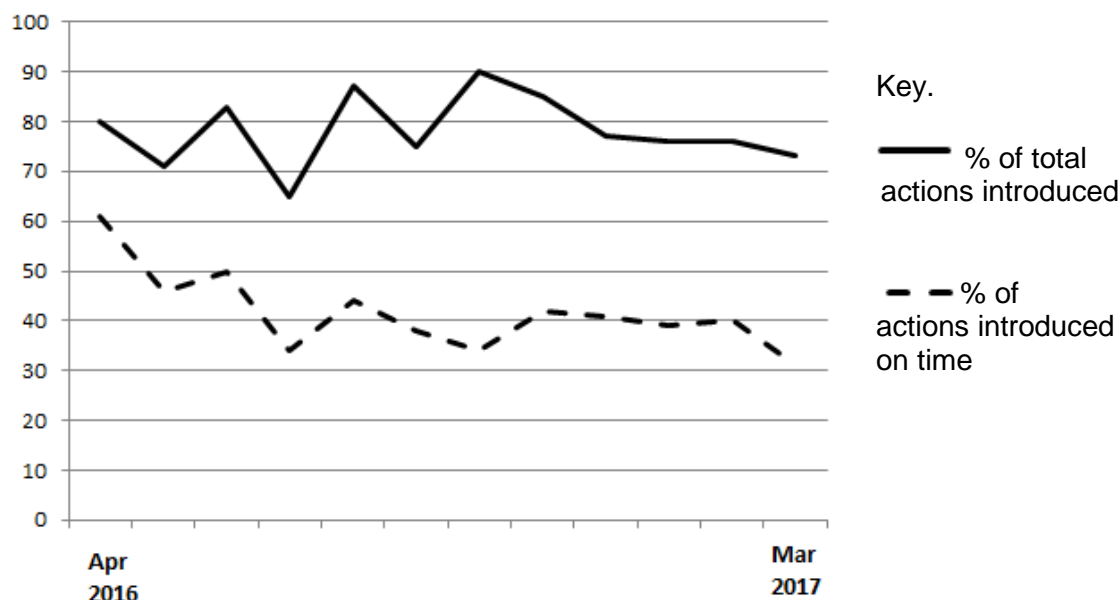
- 4.1 At the time of writing this report, the Safeguarding audit report had only been issued in draft form. However the control failings were such that I consider that the matter should be included in this report.
- 4.2 The current safeguarding procedures are not effective. Only one action was proposed – there should be a fundamental review of the Council's approach to safeguarding. The audit revealed that there is no policy for undertaking Disclosure and Barring Service (DBS) checks, evidence could not be found that all DBS checks had been completed. DBS checks on Countryside Services volunteers were stopped as a result of LGSS charging for the service, despite a national policy of volunteers being able to be checked for free. An e-learning programme has been developed but not introduced and no alternative formal training programme is in place. Training is done on a piecemeal basis. Safeguarding responsibilities are not included in job roles or descriptions.
- 4.3 There is a specific risk register entry for safeguarding (risk 147) which has three controls listed against it. Two were considered by management to be substantially effective, the remaining, adequate. This allowed the inherent high risk to be reduced to a medium residual risk. The audit opinion is that the three controls provide only limited assurance and the residual risk level has been evaluated at too low a level.

##### **Management of Complaints**

- 4.4 The internal audit review revealed that overly bureaucratic and time consuming systems (both electronic and manual) are in place to handle customer complaints. Like the Safeguarding audit, only one action was proposed and agreed by management. A Lean review of the complaints process should be undertaken, to introduce greater efficiency and ensure the focus of any investigation is on providing a satisfactory response to the complainant.
- 4.5 A target date of 30 June 2017 has been set for the Lean review to be completed. This date may slip however as it is dependent on an early decision being taken on the resourcing of the review.

## 5. IMPLEMENTATION OF AGREED ACTIONS

- 5.1 The Corporate Management Team has set a target of 100% of agreed actions to be implemented on time, based on a rolling 12 month timeframe. As at the 31 March 2017 the figure achieved was 31% (38 actions from a total of 121). This increases to 73% (88 actions from a total of 121) when actions implemented on time and late are combined.



- 5.2 Not all of the introduced actions are routinely followed up. The IARM decides if a follow-up review is required after considering the actions classification, the action itself, the evidence provided by a manager and his own knowledge of the action taken.

A total of 51 follow-up reviews have been completed on actions marked as been fully introduced. These reviews found that:

- 44 had been fully introduced
- 3 had been partially introduced
- 2 have been superseded with an alternative control and for
- 2 it is unclear as to what action has been taken and further work is underway. If it is found that the actions have not been introduced, then the action will revert back to outstanding within the 4Action system.

## 6 LOW GRADED AUDITS FROM PREVIOUS YEARS

- 6.1 Three audit reviews had been given 'limited' assurance opinions in previous years. They are listed below together with a summary of the progress made towards implementation of the agreed actions.

The right hand column of the table shows a revised assurance opinion, based upon the action that has been taken by the Manager and evidence from the follow-up work that has been completed. The revised opinion is only a guide to the potential improvement that would be expected if the audit was repeated and all other system controls remained effective.

Original level assurance	Agreed Action Status		Audit area	'Potential' level of assurance
Red Amber				
<b>2014-15</b>				
Limited	0	2	<p><b>Service desk, change &amp; release management</b> The audit actions have been superseded.</p> <p>The report was issued in April 2015 and examined how well the Council was conforming with Information Technology Infrastructure Library (ITIL) practices. At the time of the audit, ITIL was being proposed as the management control framework. The introduction of the 3C ITSS delayed implementation of the actions. 3C ITSS has decided that ITIL will not be pursued currently. The audit actions are no longer valid.</p>	----
Limited	1	1	<p><b>E-payments</b> The red action remains outstanding. It requires the completing and submission to our payment card provider, a payment card industry security standard self-assessment. Work is currently underway on introducing the action and an update will be provided to Committee later in the year.</p>	Limited
<b>2015-16</b>				
Limited	2	1	<p><b>Licencing</b> The two red actions remain outstanding. Both refer to the need to recalculate fees and charges for licences.</p>	Limited

## 7. INTERNAL AUDIT PERFORMANCE

7.1 In addition to undertaking a review against the PSIAS, Internal Audit also maintains a series of internal performance targets. These are prepared and reported quarterly within the teams Service Plan. The performance as at 31 March 2017 is detailed below.

### 7.2 Customer satisfaction

Target: 85% or more of customers rating service quality as good or better via customer survey forms.

Achieved: 12 months to March 2017 – 100% (from 13 responses).

### 7.3 Service delivery targets

Target: The four service delivery targets are achieved.

Achieved: Two of the targets have been achieved.

*There are four elements to this target which all relate to the progress of individual audits and the reporting process. It is the intention to keep the same targets for 2017/18. They are both challenging and achievable with managers co-operation.*

	Target	March 2017		March 2016
a) Complete audit fieldwork by the date stated on the audit brief.	75%	Below target	58%	53%
b) Issue draft audit reports within 15 working days of completing fieldwork.	90%	Below target	68%	89%
c) Meet with customer and receive response allowing draft report to progress to final within 15 working days of issuing draft report.	75%	Above target	77%	84%
d) Issue final audit report within 5 working days of receiving full response.	90%	Above target	100%	100%

7.5 In respect of target a) above, the targets have not been achieved due to either the auditor being over-optimistic as to the date by which fieldwork would be completed or the scope of the audit increased which meant that the planned fieldwork date could not be achieved.

7.6 In respect of target b) above, eight of the 25 reports issued have not met the target. The reasons why the target date was not met are different for each of the eight audits. The two principle reasons are service staff unavailability and management challenge to the findings at 'wash-up' stage which require further work to be undertaken.

#### **Annex**

- A. Status of audits as per the audit plan agreed
- B. External assurance received
- C. Definitions used in the report

David Harwood : Internal Audit & Risk Manager  
Huntingdonshire District Council  
April 2017

**Status of audits as per the agreed 2016/17 audit plan.****Audits undertaken**

- 1 Prevention of fraud
- 2 Staff appraisal scheme
- 3 Safeguarding
- 4 Employee training
- 5 Management of ill health & sickness
- 6 Budget forecasting, accuracy & assumptions
- 7 Housing Benefits
- 8 Overtime procedures
- 9 Replacement FMS
- 10 Management of vacancies
- 11 Development Management
- 12 Management of Complaints
- 13 Implementation of policy initiatives
- 14 Flexi-time management
- 15 Management of street markets
- 16 Managing bribery risks
- 17 Purchasing & corporate cards

**Audits not undertaken**

- ~~48~~ VFM review of services
- ~~49~~ Document Centre
- ~~20~~ One Leisure
- ~~24~~ Client management of Shared Services
- ~~22~~ Energy management
- ~~23~~ Commercial investment strategy

*Committee informed in December 2016 that the following audits would be deleted from the audit plan.*

- ~~24~~ S106 Agreements
- ~~25~~ Management of health & safety
- ~~26~~ Housing - Choice based lettings
- ~~27~~ Business continuity
- ~~28~~ Equipment servicing
- ~~29~~ Elected Member development
- ~~30~~ Lean process

**Additional audits undertaken, not in the original 2016/17 audit plan**

- 18 Transformation Challenge Award
- 19 3C ITSS software licence costs

*Committee informed in December 2016 that the following audits had been added to the audit plan.*

- 20 Legal – management of debt recovery
- 21 Capital plan programming within Services

**Status of audits as per the agreed 2016/17 audit plan.**

**IT audits (delivered by external contractor)**

- 1 IT disaster recovery
- 2 Cyber security
- 3 Business application security
- 4 IT strategy
- 5 IT change management
- 6 IT financial management system security



**External Assurance Received**

<b>Date</b>	<b>Report from</b>	<b>Area covered</b>	<b>Assessment</b>
November 2016	External Auditor (Ernst Young LLP)	Annual Audit Letter 2015/16	Unqualified accounts. Unqualified value for money opinion.
March 2017	-----   ----	Grant Certification Report 2015/16	One grant certified: BEN01 Housing and Council Tax Benefit Subsidy - qualified.

## Assurance definitions: for information

*Substantial Assurance* There are no weaknesses in the level of internal control for managing the material inherent risks within the system. Testing shows that controls are being applied consistently and system objectives are being achieved efficiently, effectively and economically apart from any excessive controls which are identified in the report.

*Adequate Assurance* There are minor weaknesses in the level of control for managing the material inherent risks within the system. Some control failings have been identified from the systems evaluation and testing which need to be corrected. The control failings do not put at risk achievement of the system's objectives.

*Limited Assurance* There are weaknesses in the level of internal control for managing the material inherent risks within the system. Too many control failings have been identified from the systems evaluation and testing. These failings show that the system is clearly at risk of not being able to meet its objectives and significant improvements are required to improve the adequacy and effectiveness of control.

*Little Assurance* There are major, fundamental weaknesses in the level of control for managing the material inherent risks within the system. The weaknesses identified from the systems evaluation and testing are such that the system is open to substantial and significant error or abuse and is not capable of meeting its objectives.

## Internal control environment

The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:

- establishing and monitoring the achievement of the organisation's objectives
- the facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the organisation, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties
- ensuring the economical, effective and efficient use of resources and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness
- the financial management of the organisation and the reporting of financial management
- the performance management of the organisation and the reporting of performance management.

## System of internal control

A term to describe the totality of the way an organisation designs, implements, tests and modifies controls in specific systems, to provide assurance at the corporate level that the organisation is operating efficiently and effectively.