

Eastern Internal Audit Services



BRECKLAND DISTRICT COUNCIL

Annual Report and Opinion 2017/18

Responsible Officer: Emma Hodds – Head of Internal Audit for Breckland DC

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1. INTRODUCTION

- 1.1 The Accounts and Audit Regulations 2015 require that “a relevant authority must 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”.
- 1.2 Those standards – the Public Sector Internal Audit Standards - require the Chief Audit Executive to provide a written report to those charged with governance (known in this context as the Governance and Audit Committee) to support the Annual Governance Statement (AGS). This report must set out: -
- The opinion on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control during 2016/17, together with reasons if the opinion is unfavourable;
 - A summary of the internal audit work carried out from which the opinion is derived, the follow up of management action taken to ensure implementation of agreed action as at financial year end and any reliance placed upon third party assurances;
 - Any issues that are deemed particularly relevant to the Annual Governance Statement (AGS);
 - The Annual Review of the Effectiveness of Internal Audit, which includes; the level of compliance with the PSIAS and the results of any quality assurance and improvement programme, the outcomes of the performance indicators and the degree of compliance with CIPFA’s Statement on the Role of the Head of Internal Audit.
- 1.3 When considering this report, the statements made therein should be viewed as key items which need to be used to inform the organisation’s Annual Governance Statement, but there are also a number of other important sources to which the Governance and Audit Committee and statutory officers of the Council should be looking to gain assurance. Moreover, in the course of developing overarching audit opinions for the authority, it should be noted that the assurances provided here, can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes subject to internal audit review. The annual opinion is thus subject to inherent limitations (covering both the control environment and the assurance over controls) and these are examined more fully at **Appendix 3**.

2. ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT

2.1 Roles and responsibilities

- The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements.
- The AGS is an annual statement by the Leader of the Council and the Chief Executive that records and publishes the Council’s governance arrangements.
- An annual opinion is required on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control, based upon and limited to the audit work performed during the year.

This is achieved through the delivery of the risk based Annual Internal Audit Plan discussed and approved with Executive Management Team and key stakeholders and then approved by the Governance and Audit Committee at its meeting on 24 February 2017. Any justifiable amendments that are requested during the year are discussed and agreed with senior management, and reported through to Committee. This opinion does not imply that internal

audit has reviewed all risks and assurances, but it is one component to be taken into account during the preparation of the AGS.

The Governance and Audit Committee should consider this opinion, together with any assurances from management, its own knowledge of the Council and any assurances received throughout the year from other review bodies such as the external auditor.

2.2 The opinion itself

- The overall opinion in relation to the framework of governance, risk management and controls at Breckland District Council is **reasonable**.
- It is important to recognise that the specific areas of; Corporate Performance & Corporate Plan, Community Safety, Accountancy Services, Accounts Receivable, Risk Management and Key Controls & Assurance received a substantial assurance.
- Committee's attention is however drawn to comments made at paragraph 3.6 of this report and will require consideration for inclusion in the Annual Governance Statement.
- In providing the opinion the Council's risk management framework and supporting processes, the relative materiality of the issues arising from the internal audit work during the year and management's progress in addressing any control weaknesses identified therefrom have been taken into account.
- The opinion has been discussed with the Section 151 Officer, the Performance, Risk and Audit Board and the Finance Board prior to publication.

3. **AUDIT WORK UNDERTAKEN DURING THE YEAR**

3.1 **Appendix 1** records the internal audit work delivered during the year on which the opinion is based. In addition, **Appendix 2** is attached which shows the assurances provided over previous financial years to provide an overall picture of the control environment.

3.2 Internal audit work is divided into 4 broad categories;

- Annual opinion audits;
- Fundamental financial systems that underpin the Council's financial processing and reporting;
- Service area audits identified as worthy of review by the risk assessment processes within internal audit;
- Significant computer systems which provide the capability to administer and control the Council's main activities.

3.3 **Summary of the internal audit work**

The work undertaken by internal audit services (TIAA Ltd) in 2017/18 has covered a wide range of services and has resulted in both assurance opinion reports being concluded and suggested improvements made through position statements.

Internal Audit has issued 16 assurance reports, with 6 of these assurances being positive (substantial assurance) and 7 reports being (reasonable assurance). The following 3 reports have been concluded with a negative assurance grading (limited).

Environmental Protection – Five priority two recommendations were raised, one of which has already been implemented. The remaining recommendations are work in progress, and are due to be fully implemented in quarter two of 2018/19.

Cyber Security - Fifteen recommendations (one priority one, eight priority two and six priority three) were raised. A total of three recommendations, including the priority one finding, were addressed prior to the final report being issued, therefore addressing a valuable proportion of the security vulnerabilities.

Private Sector Housing - Twelve recommendations (three priority one, six priority two and three priority three) were raised. Actions have been agreed with management to address the associated risks and the weaknesses with the system.

Internal Audit has also provided advice and guidance in the areas of the Transformation Programme. The conclusions were reported to management in a Position Statement, providing suggested actions and improvements.

Finally, Breckland has participated in a cross-authority review for the third year, with the focus this year on the HR service. The overall objective of the review was to identify where there are opportunities to improve practices in Human Resources (HR) and, in addition, to provide information to be analysed for future HR and payroll audits. The review evaluates the arrangements at the Council in respect of this area and those at three other Councils in the region to identify and share opportunities for good practice.

The Executive Summary of all reports have been presented to the Governance and Audit Committee, ensuring open and transparent reporting and enabling the Committee to review key service area controls and the conclusions reached.

The changes to the internal audit plan this year include the cancellation of Communications and the postponement of Democratic Services and Procurement and Contract Management to 2018/19. 10 days of the IT Project Delivery – Phase 2 and 3 was replaced with a Cyber Security review. The remaining 2.5 days of the IT Internal Audit Plan are currently being used to formulate a three year risk based IT Internal Audit Plan.

All rationale and reasoning for changes to the 2017/18 Audit Plan have been presented to the Committee through Internal Audit Progress Reporting throughout the year. Overall, the 2017/18 plan has been reduced by 17 days to take account of the needs of the business and to ensure the Internal Audit Service was able to add value where required.

3.4 West Suffolk Internal Audit Services has concluded on the ARP reviews for 2017/18. The reports provided are reviewed by the Head of Internal Audit for Breckland DC and reliance placed on the work. The outcomes are as follows: Council Tax – Reasonable Assurance, National Non-Domestic Rates – Reasonable, Benefits – Reasonable Assurance. Overpayments – Reasonable, ARP Enforcement - Reasonable.

3.5 Follow up of management action

In relation to the follow up of management actions to ensure that they have been effectively implemented the position at year end is that of the 77 audit recommendations raised by TIAA Ltd in 2017/18, 28 have been actioned by management and 45 are not yet due.

The remaining three are outstanding; two are priority two and one priority three. One priority three recommendation has been rejected by management.

Three recommendations remain outstanding from 2016/17, two of these are priority two. There are also five priority two recommendations outstanding from the 2015/16 financial year relating to Business Continuity Planning and Disaster Recovery.

In relation to these 11 outstanding recommendations management have provided updates as to the progress made to date to address the control weaknesses and provided new deadline dates.

The Performance, Risk and Audit Board is proactive in ensuring that managers are requested to provide further updates and explanations where necessary, and these managers are requested to attend the Board meetings as appropriate. The performance module utilised by the Council (Pentana) is now well embedded and has accurate records of the audit recommendations, as well as all related performance information such as risk and performance measures. There does however remain the challenge of ensuring that Managers see this key tool as something to support the “day job” and ensure that this is kept up to date at all times, and that responses are provided as needed for corporate reporting and monitoring of services.

3.6 Issues for inclusion in the Annual Governance Statement

- 3.6.1 Looking back on the issues raised in the 2016/17 Head of Internal Audit Annual Opinion, progress is as follows. Non-Domestic Rates was given a limited assurance grading during 2016/17 and was highlighted in the Internal Audit Annual Opinion as an area of concern. However, we are pleased to report that that all actions raised in this report have since been delivered to control the risk exposure.

The 2016/17 limited Housing Needs, Allocations, Homelessness and Housing Register assurance review highlighted a total of six urgent priority concerns all of which have now been resolved. It is positive to note that controls in this area have been strengthened and is due to be revisited in 2018/19 to ensure that controls remain robust. It is also worth highlighting that this area of the council has received another negative assurance grading (limited) in the Private Sector Housing report carried out during the 2017/18 financial year.

A total of three urgent priority findings have been raised in the Private Sector Housing review in relation to the timely completion of fire risk assessments, enforcement of licencing restrictions and empty dwellings. Actions have been agreed with management and are all currently within deadline, and the area will be revisited by internal audit early in 2019/20. However due to the nature and urgency of the findings raised we feel it would be prudent to highlight this area of concern within the Annual Opinion and Annual Governance Statement.

The ARP Council Tax report gave Reasonable Assurance overall, however we feel that the two priority ones recommendations should be highlighted and considered for the Annual Governance Statement. The first priority one finding relates to credit balance reports not being regularly produced and reviewed. The second priority one finding relates to an absence of senior officer verification for council tax variations and reconciliations. The first agreed management action is due for September 2018 the second has been reported as complete during final report issue.

A limited assurance grading has been given for Environmental Protection. This review covered both Breckland and South Holland. Five Priority two findings were raised in relation to controls tested at Breckland. Management have responded positively to the issues raised. We therefore feel that risks are being suitably mitigated against and do not need to be raised in the Internal Audit Opinion or Annual Governance Statement.

We have been able to make the same judgement for the limited assurance Cyber Security audit report, as one urgent finding was raised and resolved prior to final report issue and another priority two action has since been completed. The remaining seven priority two recommendations will be resolved by October 2018. We are satisfied that the urgent risks raised have been mitigated and therefore do not feel this needs to be raised within the Annual Opinion or Annual Governance Statement.

4. THIRD PARTY ASSURANCES

- 4.1 In arriving at the overall opinion reliance has been placed on third party assurances provided by West Suffolk Internal Audit Services, East Suffolk Internal Audit Services and Fenland Internal Audit Services. Protocols are in place to enable this in so much as all audit work programmes are shared with the Head of Internal Audit before the start of the audit and on conclusion of the audit the summary working papers and draft report is also provided. This approach enables input into the scope of the audit to ensure that all pertinent areas are covered it also enables a detailed review of the work that has been undertaken and to be in agreement with the conclusions that are reached and the recommendations that are raised. This is the sixth financial year that these arrangements have been in place and they continue to work well. A further two councils, East Suffolk and Fenland became members in April 2016.

5. ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

5.1 Quality Assurance and Improvement Programme (QAIP)

5.1.1 Internal Assessment

A checklist for conformance with the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note has been completed for 2017/18. This covers; the Definition of Internal Auditing, the Code of Ethics and the Standards themselves.

The Attribute Standards address the characteristics of organisations and parties performing Internal Audit activities, in particular; Purpose, Authority and Responsibility, Independence and Objectivity, Proficiency and Due Professional Care, and Quality Assurance and Improvement Programme.

The Performance Standards describe the nature of Internal Audit activities and provide quality criteria against which the performance of these services can be evaluated, in particular; Managing the Internal Audit Activity, Nature of Work, Engagement Planning, Performing the Engagement, Communicating Results, Monitoring Progress and Communicating the Acceptance of Risks.

On conclusion of completion of the checklist conformance has been ascertained in relation to the Definition of Internal Auditing, the Code of Ethics and the Performance Standards.

The detailed internal assessment checklist has been forwarded to the Section 151 Officer, and their Deputy, for independent scrutiny and verification.

5.1.2 External Assessment

In relation to the Attribute Standards it is recognised that to achieve full conformance an external assessment is needed. This is required to be completed every five years, with the first review having been completed in January 2017.

The external assessment was undertaken by the Institute of Internal Auditors and it has concluded that ***“the internal audit service conforms to the professional standards and***

the work has been performed in accordance with the Internal Professional Practices Framework". Thus, confirming conformance to the required standards.

The external assessment report has previously been provided to the Section 151 Officer, their Deputy and the Governance and Audit Committee.

Two improvement points were raised in relation to the assessment. The first relates to updating and documenting current risks relating to the delivery of the TIAA contract. The second relates to the Internal Audit Manager carrying out yearly deep dive assurance exercises on a sample of TIAA audit files to give assurance that audit procedures are being followed in line with the PSIAS. We will complete these actions as recommended by the assessors over the next financial year.

5.2 Performance Indicator outcomes

5.2.1 The Internal Audit Service is benchmarked against a number of performance indicators as agreed by the Governance and Audit Committee.

Actual performance against these targets is outlined within the following table:

Area / Indicator	Frequency	Target	Actual	Comments
Audit Committee / Senior Management				
1. Audit Committee Satisfaction – measured annually	Annual	Adequate	TBC	TBC
2. Chief Finance Officer Satisfaction – measured quarterly	Annual	Good	Excellent	Exceeded

<u>Internal Audit Process</u>				
3. Each quarters audits completed to draft report within 10 working days of the end of the quarter	Quarterly	100%	100%	Achieved – 16 assurance reports, 1 position statement issued. 1 Cross Authority review issued.
4. Quarterly assurance reports to the Contract Manager within 15 working days of the end of each quarter	Quarterly	100%	100%	Achieved - All quarterly reports received with 15 working days of year end. Annual report received
5. An audit file supporting each review and showing clear evidence of quality control review shall be completed prior to the issue of the draft report (a sample of these will be subject to quality review by the Contract Manager)		100%	100%	Achieved
6. Compliance with Public Sector Internal Audit Standards		Generally conforms	Generally conforms	Achieved
7. Respond to the Contract Manager within 3 working days where unsatisfactory feedback has been received.		100%	n/a	No issues to address.
<u>Clients</u>				
8. Average feedback score received from key clients (auditees)		Adequate	Excellent	Exceeded, 10 responses received.
9. Percentage of recommendations accepted by management		90%	99%	Exceeds – 1 recommendation rejected.
<u>Innovations and Capabilities</u>				
10. Percentage of qualified (including experienced) staff working on the contract each quarter		60%	88%	Exceeds
11. Number of training hours per member of staff completed per quarter		1 day	1 day	Achieved

5.2.2 It is encouraging to note that all performance measures have been achieved, with four of these exceeding targets. Client feedback has been provided which has been extremely positive recognising the professional service provided and also the value that internal audit has brought to the Council. The contractor has also provided the Council with a higher percentage of qualified / experienced staff to undertake the audit reviews, supported by new auditors to ensure continuity and resilience on the contract.

It is also extremely encouraging to note that all 17 internal audit reviews were at draft report stage by 13 April 2018, with all at final report by 2 May 2017. Thus ensuring audits are completed within financial year and ensuring that this annual opinion can be ready in line with the earlier reporting requirements associated with the audit of the accounts.

5.3 Effectiveness of the Head of Internal Audit (HIA) arrangements as measured against the CIPFA Role of the HIA

5.3.1 This Statement sets out the 5 principles that define the core activities and behaviours that apply to the role of the Head of Internal Audit, and the organisational arrangements to support them. The Principles are:

- Champion best practice in governance, objectively assessing the adequacy of governance and management of risks;
- Give an objective and evidence based opinion on all aspects of governance, risk management and internal control;
- Undertake regular and open engagement across the Authority, particularly with the Management Team and the Audit Committee;
- Lead and direct an Internal Audit Service that is resourced to be fit for purpose; and
- Head of Internal Audit to be professionally qualified and suitably experienced.

Completion of the checklist confirms full compliance with the CIPFA guidance on the Role of the Head of Internal Audit in relation to the 5 principles set out within.

The detailed checklist has been forwarded to the Section 151 Officer, and their Deputy, for independent scrutiny and verification.

APPENDIX1 – AUDIT WORK UNDERTAKEN DURING 2017/18

Audit Area	Assurance Level	Number of Recs	Implemented	P1	P2	P3	Not yet due
Building Control	Reasonable	5	5	0	0	0	0
Corporate Performance and Corporate Plan	Substantial	2	2	0	0	0	0
Cross Authority Review - HR & Payroll							
Elections & Electoral Registration	Reasonable	2	2	0	0	0	0
Environmental Services	Reasonable	7	6	0	1	0	0
Community Safety	Substantial	0	n/a	0	0	0	0
Planning	Reasonable	6	2	0	1	1	2
Environmental Protection	Limited	12	1	0	0	0	11
Accountancy Services	Substantial	2	2	0	0	0	0
Accounts Receivable	Substantial	2	1	0	0	0	1
Income	Reasonable	3	1	0	0	0	2
Private Sector Housing	Limited	12	0	0	0	0	12
Corporate Governance	Reasonable	5	0	0	0	0	5
Risk Management	Substantial	2	1	0	0	0	1
Key Controls and Assurance	Substantial	1	1	0	0	0	0
Transformation Programme							
IT Audits							
IT Project Delivery - Phase 1	Reasonable	1	1	0	0	0	0
Cyber Security	Limited	15	3	0	0	0	11
Total		76	28	0	2	1	45

Assurance level definitions		Number
Substantial Assurance	Based upon the issues identified there is a robust series of suitably designed controls in place upon which the organisation relies to manage the risks to the continuous and effective achievement of the objectives of the process, and which at the time of our audit review were being consistently applied.	6
Reasonable Assurance	Based upon the issues identified there is a series of internal controls in place, however these could be strengthened to facilitate the organisations management of risks to the continuous and effective achievement of the objectives of the process. Improvements are required to enhance the controls to mitigate these risks.	7
Limited Assurance	Based upon the issues identified the controls in place are insufficient to ensure that the organisation can rely upon them to manage the risks to the continuous and effective achievement of the objectives of the process. Significant	3

	improvements are required to improve the adequacy and effectiveness of the controls to mitigate these risks.	
No Assurance	Based upon the issues identified there is a fundamental breakdown or absence of core internal controls such that the organisation cannot rely upon them to manage risk to the continuous and effective achievement of the objectives of the process. Immediate action is required to improve the controls required to mitigate these risks.	0

Urgent – Priority 1	Fundamental control issue on which action to implement should be taken within 1 month.
Important Priority 2	Control issue on which action to implement should be taken within 3 months.
Needs Attention – Priority 3	Control issue on which action to implement should be taken within 6 months.

In addition West Suffolk Internal Audit Section completed the following audits:

Description of the audit	Assurance level awarded	No of recommendations
Council Tax	Reasonable	22 (2/15/5)
National Non-Domestic Rates	Reasonable	16 (0/10/6)
Benefits	Reasonable	25 (0/17/8)
Overpayments	Reasonable	15 (0/10/5)
ARP Enforcement	Reasonable	6 (0/5/1)

APPENDIX 2 ASSURANCE CHART

	Previous Contract		Current Contract			
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Annual Opinion / Corporate Audits						
Corporate Governance			Substantial	Reasonable	Reasonable	X
Risk Management			n/a	Postponed to 2017-18	Substantial	
Transformation Programme				n/a	Position Statement	X
Corporate Performance and Corporate Plan		Deferred to 2015/16	Substantial		Substantial	
Procurement & Contract Management		Substantial		n/a	CF to 2018/19	X
ARP Governance	Limited	Substantial				X
Key Controls and Assurance	Reasonable	Reasonable	Reasonable	Substantial	Reasonable	X
Fundamental Financial Systems						
Accounts Receivable	Substantial		Reasonable		Substantial	
Income / Remittances	Reasonable		Substantial		Reasonable	
Accountancy Services	Substantial		Substantial		Substantial	
Housing and Council Tax Benefit*	Reasonable	Reasonable	Reasonable	Reasonable	Reasonable	X
Council Tax*	Reasonable	Reasonable	Reasonable	Reasonable	Reasonable	X
National Non-Domestic Rates*	Reasonable	Reasonable	Reasonable	Limited	Reasonable	X
Overpayments*					Reasonable	X
ARP Enforcement*					Reasonable	X
Accounts Payable		Good		Substantial		X
Payroll / HR		Limited		Reasonable		X
Service Area Audits						
Breckland Bridge				Substantial		X
Economic Development	Substantial					X
Asset Management		Reasonable		Substantial		
Delivery Unit Team						X
Development Management / Planning	Limited		Reasonable		Reasonable	
Building Control			Limited		Reasonable	
CAPITA Performance Information			Limited			

	Previous Contract		Current Contract			
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Housing needs, allocation, homelessness, housing register and PSH	Limited			Limited		
Disabled Facilities Grants and discretionary improvement grants		Reasonable				
Private Sector Housing - Empty Homes, HMOs, Enforcement					Limited	X
Strategic Housing includes New Homes Bonus, Affordable Housing Initiatives, Home Options		Limited		Reasonable		
Marketing / Communications	Reasonable					
Branding				Reasonable		
Democratic Services			Substantial		CF to 2018/19	X
Elections and Electoral Registration	Reasonable				Reasonable	
Data Protection, FoI, Complaints		Substantial				
Environmental Services (contaminated waste 1617)			Substantial	Reasonable	Reasonable	
Licensing and Business Support				Reasonable		
Corporate Health & Safety				Reasonable		
Community Safety			Reasonable		Substantial	
Localism and Communities		Reasonable				
Leisure and Facilities		Deferred to 2015/16	Substantial			
Environmental Protection					Limited	X
Food, Health and Safety						X
ICT Audits						
Business Continuity	Reasonable					
Firewalls	Reasonable					
Telecoms / VOIP	Reasonable					
Disaster Recovery, Back Up and Data Centre	Limited		Limited			
Virtualisation		Reasonable				
BACS Transfer system		Reasonable				
Payroll / Human Resources iTrent System		Reasonable				
Software Licence Management			Limited			

	Previous Contract		Current Contract			
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Starters, Leavers & Movers			Reasonable			
Patch and Change Management			Limited			
Network Security and Infrastructure			Reasonable			
ISO:27001:2013 Gap Analysis				n/a		
Content Management				Limited		
IT Project Delivery					Reasonable	
Cybersecurity					Limited	
IT audits tbc						X

APPENDIX 3 – LIMITATIONS AND RESPONSIBILITIES

Limitations inherent to the Internal Auditor's work

The Internal Audit Annual Report has been prepared and TIAA Ltd (the Internal Audit Services contractor) were engaged to undertake the agreed programme of work as approved by management and the Governance and Audit Committee, subject to the limitations outlined below.

Opinions

The opinions expressed are based solely on the work undertaken in delivering the approved 2017/18 Annual Internal Audit Plan. The work addressed the risks and control objectives agreed for each individual planned assignment as set out in the corresponding audit planning memorandums (terms of reference) and reports.

Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate the risk of failure to achieve corporate/service policies, aims and objectives: it can therefore only provide reasonable and not absolute assurance of effectiveness. Internal control systems essentially rely on an ongoing process of identifying and prioritising the risks to the achievement of the organisation's policies, aims and objectives, evaluating the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. That said, internal control systems, no matter how well they have been constructed and operated, are affected by inherent limitations. These include the possibility of poor judgement 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

Internal Audit's assessment of controls relating to Breckland District Council is for the year ended 31 March 2018. 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 the operating environment, law, regulation or other matters; or,
- The degree of compliance with policies and procedures may deteriorate.

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.

The Head of Internal Audit, has sought to plan Internal Audit work, so that there is a reasonable expectation of detecting significant control weaknesses and, if detected, additional work will then be carried out which is 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 and TIAA's examinations as the Council's internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.