

Eastern Internal Audit Services



Breckland District Council

Progress Report on Internal Audit Activity

Period Covered: 2 May 2018 to 4 December 2018

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1. INTRODUCTION

- 1.1 This report is issued to assist the Authority in discharging its responsibilities in relation to the internal audit activity.
- 1.2 The Public Sector Internal Audit Standards also require the Chief Audit Executive to report to the Audit Committee on the performance of internal audit relative to its plan, including any significant risk exposures and control issues. The frequency of reporting and the specific content are for the Authority to determine.
- 1.3 To comply with the above this report includes:
- Any significant changes to the approved Audit Plan;
 - Progress made in delivering the agreed audits for the year;
 - Any significant outcomes arising from those audits; and
 - Performance Indicator outcomes to date.

2. SIGNIFICANT CHANGES TO THE APPROVED INTERNAL AUDIT PLAN

- 2.1 At the meeting on 16 February 2018 the Annual Internal Audit Plan for the year was approved, identifying the specific audits to be delivered. Since then, the following changes have been made to the plan;

Audit description	Nature of the change
Transformation Programme	The programme has come to natural end of the four-year life span, the remaining efficiencies are part of the ongoing programme of work, therefore the internal audit is no longer required.
Environmental Protection	This audit has been deferred to 2019/20 to allow the team to work on the implementation of new software.
Housing Needs, Allocations, Homelessness and Housing	An additional two days has been allocated from the transformation programme review to accommodate additional testing over funding arrangements, system access rights and following up on previously raised recommendations.
Office 365 changed to Project Programme Audit	This review was scheduled in for quarter four of 2018/19, however the Office 365 project has not yet been completed. We will therefore provide assurance on the governance and management arrangements of IT projects.

3. PROGRESS MADE IN DELIVERING THE AGREED AUDIT WORK

- 3.1 The current position in completing audits to date within the financial year is shown in **Appendix 1** and progress to date is in line with expectations.
- 3.2 In summary 84 days of programmed work has been completed, equating to 46% of the revised Audit Plan for 2018/19.

4. THE OUTCOMES ARISING FROM OUR WORK

4.1 On completion of each individual audit an assurance level is awarded using the following definitions:

Substantial Assurance: Based upon the issues identified there is a robust series of suitably designed internal 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 review were being consistently applied.

Reasonable Assurance: Based upon the issues identified there is a series of internal controls in place, however these could be strengthened to facilitate the organisation's 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.

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 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.

4.2 Recommendations made on completion of audit work are prioritised using the following definitions:

Urgent (priority one): Fundamental control issue on which action to implement should be taken within 1 month.

Important (priority two): Control issue on which action to implement should be taken within 3 months.

Needs attention (priority three): Control issue on which action to implement should be taken within 6 months.

4.3 In addition, on completion of audit work "Operational Effectiveness Matters" are proposed, these set out matters identified during the assignment where there may be opportunities for service enhancements to be made to increase both the operational efficiency and enhance the delivery of value for money services. These are for management to consider and are not part of the follow up process.

4.4 During the period covered by the report Internal Audit Services have issued four final reports:

Audit	Assurance	P1	P2	P3
Food Health and Safety	Reasonable	0	1	1
ARP Governance	Reasonable	0	2	3
Democratic Services	Reasonable	0	3	3
Accounts Payable	Substantial	0	0	0

The Executive Summary of these reports are attached at **Appendix 2**, full copies of these reports can be requested by Members.

- 4.5 As can be seen in the table above as a result of these audits 13 recommendations have been raised.

All 13 recommendations have been agreed by management. In addition, two Operational Effectiveness Matters have been proposed to management for consideration.

- 4.6 It is also pleasing to note that all audits concluded in a positive opinion being awarded, indicating a strong and stable control environment to date, with no issues that would need to be considered at year end and included in the Annual Governance Statement.

5. PERFORMANCE MEASURES

- 5.1 The Internal Audit Services contract includes a suite of key performance measures against which the contractor will be reviewed on a quarterly basis. There is a total of 11 indicators, over 4 areas.

- 5.2 There are individual requirements for performance in relation to each measure; however, performance will be assessed on an overall basis as follows:

- 9-11 KPIs have met target = Green Status.
- 5-8 KPIs have met target = Amber Status.
- 4 or below have met target = Red Status.

Where performance is amber or red a Performance Improvement Plan will be developed by the contractor and agreed with the Internal Audit Consortium Manager to ensure that appropriate action is taken.

- 5.3 The second quarters work has now been concluded, with draft reports having been issued in all apart from one case. This audit relates to Economic Development and all information has now been collated to complete the draft report and issue this to the client. Quarterly reports on the performance measures continue to be provided to the Internal Audit Manager.

- 5.4 In addition to these quarterly reports from the Contractors Audit Director, ongoing weekly updates are provided to ensure that delivery of the audit plan for the current financial year is on track, and where there are issues an action plan is agreed.

APPENDIX 1 – PROGRESS IN COMPLETING THE AGREED AUDIT WORK

Audit Area	Audit Ref	No. of days	Revised Days	Days Delivered	Status	Assurance Level	Recommendations				Date to Committee	Comments
							P1 Urgent	P2 Important	P3 Needs Attention	Op		
Quarter 1												
TOTAL		0	0	0								
Quarter 2												
Procurement and Contract Management	BRK1901	8	8	7	Draft Report issued - awaiting management response							Joint
Economic Development - Snetterton project	BRK1902	10	10	8	Draft Report imminent							
ARP Governance	BRK1903	8	8	8	Final report issued 02 November 2018	Reasonable	0	2	3	2	December 2018	
Food, Health and Safety	BRK1904	8	8	8	Final report issued 04 October 2018	Reasonable	0	1	1	0	December 2018	Joint
Democratic Services	BRK1905	8	8	8	Final report issued 21 November 2018	Reasonable	0	3	3	0	December 2018	Joint
TOTAL		42	42	39								
Quarter 3												
Corporate Governance	BRK1907	4	4	2	Audit underway Draft report expected January 2019							Joint
Accounts Payable	BRK1908	12	12	12	Final report issued 26 November 2018	Substantial	0	0	0	0	December 2018	
Housing Needs, Allocations, Homelessness & Housing Register	BRK1906	10	12	3	Audit underway Draft report expected by 14 January 2019							2 days used from Transformation Programme
Payroll and Human Resources	BRK1909	15	15	5	Audit underway Draft report expected January 2019							Joint
Delivery Unit Team	BRK1910	6	6	2	Audit underway Draft report expected January 2019							Joint
TOTAL		47	49	24								
Quarter 4												
Key Controls and Assurance	BRK1911	10	10	1	Start date 14 Feb 2019 Draft report expected 8 February 2019							
Transformation Programme - benefits realisation	BRK1912	6	0	0	Audit cancelled.							Joint
Breckland Bridge	BRK1913	10	10	0								
Environmental Protection	BRK1914	8	0	0	Audit deferred to 2019/20.							Audit deferred to 2019/20
TOTAL		34	20	1								

Audit Area	Audit Ref	No. of days	Revised Days	Days Delivered	Status	Assurance Level	Recommendations				Date to Committee	Comments
							P1 Urgent	P2 Important	P3 Needs Attention	Op		
IT Audits												
Office 365	BRK1915	25	5	0								Joint
IT Programme and Project Management												
Cyber Security	BRK1916		10	0								
Network Management	BRK1917		5	0								Joint
Software Licensing	BRK1918		5	2	Audit underway Draft report expected by 17 December 2018							Joint
TOTAL		25	25	2								
Follow Up												
Follow Up	NA	12	12	8								
TOTAL		12	12	6								
TOTAL		160	148	72			0	6	7	2		
Percentage of plan completed				49%								
Audit delivered by West Suffolk Internal Audit Services												
ARP Audits		35	35	12								
Council Tax & Overpayments					Audit Start 16/07/2018							
National Non-Domestic Rates					Audit start Sept 2018							
Benefits					Audit start 16/07/2018							
ARP Enforcement					Audit start 01/09/2018							
		35	35	12								
				34%								
OVERALL TOTAL		195	183	84								
				46%								

APPENDIX 2 – AUDIT REPORT EXECUTIVE SUMMARIES

Assurance Review of Food, Health and Safety

Executive Summary

OVERALL ASSURANCE ASSESSMENT



ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Policies and procedures	0	0	1	0
Food safety – registration	0	1	0	0
Food safety – hygiene inspections	0	1	0	0
Food safety – complaints	0	0	1	0
Total	0	2	2	0

No recommendations have been raised in respect of infectious diseases or health and safety.

SCOPE

The objective of the audit was to review the adequacy, effectiveness and efficiency of the systems and controls in place over Food, Health and Safety.

RATIONALE

- The systems and processes of internal control are, overall, deemed 'Reasonable' in managing the risks associated with the audit. The assurance opinion has been derived as a result of two 'important' and two 'needs attention' recommendations being raised upon the conclusion of our work.
- The areas under scope have not been subject to previous audit scrutiny by TIAA at either authority, hence no direction of travel is provided with the overall assurance opinion.

POSITIVE FINDINGS

We found that the Council has demonstrated the following points of good practice as identified in this review and we will be sharing details of these operational provisions with other member authorities in the Consortium:

- South Holland District Council has taken over the lead from Boston Borough Council in developing the local Safety Advisory Group, which is a network of various organisations including Lincolnshire County Council, police, fire and ambulance services, with the purpose being to consult and advise on safety issues relating to major events taking place in the district. As a result of the changes made, the number of meetings has been significantly reduced to ensure that the group is organised efficiently and to reduce time commitments for all parties involved.

It is acknowledged there are areas where sound controls are in place and operating consistently:

- The Councils use alternative inspection questionnaires for low risk premises to reduce the number of inspections required, thereby maximising officer time on higher risk cases.
- South Holland District Council works closely with the Fresh Produce Consortium (FPC), which represents businesses, in developing a process for responding to incidents of clandestine travellers in shipments of food. This allows for a consistent response which is acceptable to all parties and provides the Council with greater confidence in the controls in place and in the businesses dealing with these incidents.
- Proactive health and safety work is conducted via projects looking at identified high risk areas, to ensure that the greatest risks are still addressed.

ISSUES TO BE ADDRESSED

The audit has also highlighted the following areas where two 'important' recommendations have been made.

Food hygiene – registration

- Checks are made for all new food business registrations to ensure that the business owner has not been prohibited from operating a food business. This will reduce the risk of such persons operating a food business in the district, thereby posing a health risk to the public. (South Holland)

Food hygiene – inspections

- All food hygiene inspections, including initial inspections of new businesses and routine inspections, and responses to complaints are conducted in accordance with target timescales, to reduce the risk of poor food hygiene practices being followed and consequent reputational damage to the Councils. (Both Councils)

The audit has also highlighted the following areas where two 'needs attention' recommendations have been made.

Policies and procedures

- Procedures and work instructions are reviewed and updated as required, to reduce the risk of outdated working practices being followed. (Both Councils)

Food hygiene – complaints

- All evidence relating to food complaint cases and publicly funded funerals to be retained electronically and linked to a central database, to reduce the risk of it being unavailable when required. (South Holland)

Operational Effectiveness Matters

There are no operational effectiveness matters for management to consider.

Previous audit recommendations

The areas under scope have not been subject to previous audit scrutiny by TIAA at either authority.

Other issues noted

During the audit it was noted that the approved version of the Councils' joint Corporate Enforcement Policy was not available on the South Holland District Council website. This issue was addressed during the audit and therefore a recommendation has not been raised.

Assurance Review of the ARP Governance Arrangements

Executive Summary

OVERALL ASSURANCE ASSESSMENT



ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Strategic Governance	0	0	2	0
Internal Governance Arrangements and Operational delivery	0	2	1	2
Total	0	2	3	2

SCOPE

The objective of the audit was to review the systems and controls in place within ARP Governance, to help confirm that these are operating adequately, effectively and efficiently.

RATIONALE

- The systems and processes of internal control are, overall, deemed 'Reasonable Assurance' in managing the risks associated with the audit. The assurance opinion has been derived as a result of two 'important' and three 'needs attention' recommendations being raised upon the conclusion of our work.
- The audit has also raised two 'operational effectiveness matters', which sets out matters identified during the assignment where there may be opportunities for service enhancements to be made to increase both the operational efficiency and enhance the delivery of value for money services.

POSITIVE FINDINGS

It is acknowledged there are areas where sound controls are in place and operating consistently:

- Controls are in place which contribute to consistent processes being applied to all seven authorities. These include procedures and process maps for revenues and benefits processes; one uniform central document management system; quality control system; and operational performance measures. This therefore assists in mitigating the risk that inconsistent practices are applied to the different authorities which can result in partnership inefficiencies.
- Performance indicators for key areas, e.g. council tax and NNDR collection rates, are produced from data derived from one uniform computer system thereby ensuring a like for like comparison between all authorities.

ISSUES TO BE ADDRESSED

The audit has also highlighted the following areas where two 'important' recommendations have been made.

Internal Governance Arrangements and Operational delivery

- The Council ARP Finance team to agree a standard set of reporting, including frequency, which assists in mitigating the risk that inconsistent practices are adopted, resulting in inefficiencies within the ARP.
- The JC and OIB report template is updated to instruct authors to include details on officers consulted with, in relation to the financial, legal and HR implications section of the report. This will ensure that key decisions are made by the correct officers.

The audit has also highlighted the following areas where three 'needs attention' recommendations have been made.

Strategic Governance

- The review of the risk management approach at the ARP is concluded and processes and documentation are updated accordingly. This helps to reduce the risk that risks are not reviewed and reported on in a timely manner and therefore not sufficiently mitigated.
- Balance scorecard performance indicators, in respect of Customer Satisfaction and Performance Management, are provided with supporting data. This helps in mitigating the risk that performance is un-evidenced and incorrectly stated.

Internal Governance Arrangements and Operational delivery

- The OIB to stipulate items which they require feeding back to the relevant groups and these items to be recorded formally within the minutes. This helps mitigate the risk that key issues/items raised by the OIB are not communicated with the Finance Group leading to inadequate financial management and decisions.

Operational Effectiveness Matters

The operational effectiveness matters, for management to consider relate to the following:

Internal Governance Arrangements and Operational delivery

- Consideration is given to the ARP using a document management and collaboration tool, such as Microsoft SharePoint, as a way to manage and share information such as minutes and discussions within the ARP.
- Consideration is given to including '% of audit recommendations completed' as an indicator in the ARP balance scorecard.

Previous audit recommendations

The audit reviewed the previous internal audit recommendations, of which none remain outstanding.

Other points noted

- The Service Level Agreement (SLA) for the Provision of Internal Audit Services of the revenue and benefit services delivered by the ARP states that 'Follow Up progress to be provided on agreed recommendations on a quarterly basis to all Parties' Audit Managers' which is the responsibility of the Internal Audit Team. Progress on agreed recommendations is being followed up by the Breckland Head of Internal Audit albeit some information is not received in a timely manner.
It was also agreed, at the OIB, that recommendations will be reported every quarter to the individual partners audit teams and a completion timeframe agreed, which the internal Audit Team has confirmed is the same action as that included in the SLA.

The SLA for the Provision of Internal Audit Services is due to be reviewed in November 2018 for the 2019/20 financial year and therefore at this point, a review of the recommendations progress and subsequent reporting process, and what the Internal Audit Team provide, will be undertaken.

Assurance Review of Democratic Services Arrangements

Executive Summary

OVERALL ASSURANCE ASSESSMENT



ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Training	0	3	1	1
Members' Allowances	0	0	1	1
Members' Expenses	0	3	3	0
Total	0	6	5	2

SCOPE

The objective of the audit was to review the adequacy, effectiveness and efficiency of the systems and controls in place over Democratic Services.

RATIONALE

- The systems and processes of internal control are, overall, deemed "Reasonable" in managing the risks associated with the audit. The assurance opinion has been derived as a result of six 'important' and five 'needs attention' recommendations being raised upon the conclusion of our work.
- The audit has also raised two 'operational effectiveness matters', which sets out matters identified during the assignment where there may be opportunities for service enhancements to be made to increase both the operational efficiency and enhance the delivery of value for money services.
- A review of Democratic Services (BRK/16/06) was completed as part of the 2015/16 audit plan for Breckland DC, with the final report being issued in October 2015. The audit concluded in a 'Substantial' assurance opinion, with no recommendations being raised. Hence there has been a deterioration since the previous review.
- This area has not been subject to previous audit scrutiny at South Holland by TIAA. As such, no direction of travel is applicable.

POSITIVE FINDINGS

We found that the Council has demonstrated the following points of good practice as identified in this review and we will be sharing details of these operational provisions with other member authorities in the Consortium:

- Breckland is introducing payment for Members' expenses via iTrent, which is currently at trial and modification stage, with training to be set up for users of the system. This will reduce the need to submit manual claim forms and is accessible out of business hours.

It is acknowledged there are areas where sound controls are in place and operating consistently:

- Current Members' allowances have been approved and published by both Councils, having considered outcomes of reviews by Independent Remuneration Panels. This is in accordance with the requirements of Statute, in particular, Local Government, England - The Local Authorities (Members' Allowances) (England) Regulations 2003.
- Checks are applied to confirm that members have attended the required number of Committee meetings to receive the basic rate allowance and special responsibility allowances. This demonstrates that only valid allowances are paid.

ISSUES TO BE ADDRESSED

The audit has highlighted the following areas where six 'important' recommendations have been made.

Training

- Members to attend relevant training included in the Councillor Training Programme, thereby reducing the risk of not discharging their duties in a manner expected of them and not delivering on their personal development plans.(Breckland)
- There is a need to produce an annual Member training programme that allows Members to know and plan for training opportunities which could otherwise be missed, thereby adversely impacting on the ability to discharge their duties more effectively. (South Holland)
- Members from both Councils to complete the GDPR training via e-learning and for GDPR training to be included in Members' induction training as standard. This is to reduce the risk that key principles will be overlooked, leading to reputational damage to the Members and the Council. (Both Councils)

Members' Expenses

- For Members to submit VAT receipts with their claims for reimbursement of fuel costs, thereby allowing the Council to claim VAT from the Inland Revenue. This is to reduce the risk of financial losses through not claiming or being able to justify claiming the VAT element. (Breckland)
- There is a need to document checks applied to Members' expense claim forms, so as to reduce the risk of inaccurate or unjustified expenses being paid, ultimately resulting in financial loss to the Council. (South Holland)
- There is a need for an improved audit trail in the submission and processing of Members expenses, to avoid the risk on non-compliance with the requirements of the Constitution and concerns with late payment of expenses, possibly resulting in late or incorrect and or fraudulent claims being paid. (South Holland)

The audit has also highlighted the following areas where five 'needs attention' recommendations have been made.

Training

- For training on Governance and Standards and Code of Conduct to be included in annual Member Training Programmes and for such training to be mandatory, in order to reduce the risk of criticism for not acknowledging / complying with such requirements. (Both Councils).

Members' Expenses

- To publish details of travel and subsistence allowable to Members on the Council's website, to reduce the risk of incorrect claims being submitted and reputational risk over the lack of transparency. (Breckland)

Members' Allowances

- There is a need for the Council to publish allowances paid to its Members for 2017/18, in order to reduce the risk of non-compliance with the Local Authorities (Members' Allowances) (England) Regulations 2003 and the risk of reputational damage for the lack of transparency. (South Holland)

Members' Expenses (and Training)

- The Council to use one style of claim form for claiming Member expenses and that all forms show details of the authorising officer, thereby reducing the risk of claims not being authorised potentially resulting in claims being processed that do not meet the correct criteria. (South Holland)
- There is a need to schedule in formal training for Members on using iTrent for claiming expenses, so as to reduce the risk of delays or errors with Members' expenses. (Breckland)

Operational Effectiveness Matters

The operational effectiveness matters, for management to consider relate to the following:

- To consider updating the published scheme of Members' Allowances to provide more detail over allowances applicable for each category of Member responsibility, in particular, those receiving Special Responsibility Allowance. (South Holland)
- To consider the use of iTrent for claiming Members' expenses, to reduce manual processes and align with the Council's digital agenda. (South Holland)

Previous audit recommendations

This area has not been subject to previous audit scrutiny at South Holland by TIAA. A review of Democratic Services (BRK/16/06) was completed as part of the 2015/16 audit plan for Breckland DC, with the final report being issued in October 2015. The audit concluded in a 'Substantial' assurance opinion, with no recommendations being raised.

Assurance Review of the Accounts Payable Arrangements

Executive Summary

OVERALL ASSURANCE ASSESSMENT



ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational

No recommendations have been raised.

SCOPE

The objective of the audit was to review the systems and controls in place within accounts payable, to help confirm that these are operating adequately, effectively and efficiently. The audit covered: policy, procedure and systems; ordering; and creditors.

RATIONALE

- The systems and processes of internal control are, overall, deemed 'Substantial' in managing the risks associated with the audit.
- Whilst no formal recommendations have been raised, a weakness around confirming the authenticity of requests for changes to existing suppliers was evident during quarter one. This was recognised and rectified by management during quarter two with the outcomes of audit testing confirming this. A 'needs attention' recommendation was also made in the previous service audit (BRK/17/13 issued in April 2017) to address this issue, which is essentially to reduce the potential risk of fraud. This had been confirmed as implemented with no further issues found as part of the previous review of Key Controls (BRK/1817), completed as part of the 2017/18 audit plan. Further testing of this area will be undertaken during the Key Controls and Assurance (BRK/19/11) review scheduled in quarter four.
- The conclusions of this audit indicate that the substantial assurance for accounts payable remains, however it is recognised that the controls in relation to changes to existing suppliers must be maintained and application of this should be consistent.

POSITIVE FINDINGS

It is acknowledged there are areas where sound controls are in place and operating consistently:

Policy, Procedure and Systems

- Policies and procedures are in place and reflective of current arrangements.

Ordering

- Segregation of duties exist between the raising of purchase orders and approval of invoices for payment, with access levels aligned to officer's delegated levels of responsibility.
- Supplier Set Up forms are completed and authorised before new suppliers are set up on the system.
- Confirmation is obtained of goods/services received and purchase orders are independently authorised.
- The council has a policy of no 'Purchase Order No PAY'. Controls to prevent any invalid exceptions are operated within the Finance department.

Creditors

- A performance measure to monitor the payment of invoices within 30 days is in place and regularly reported on. Currently the council is meeting its target.
- Access to create and amend new suppliers within the system is restricted to staff within Finance.

- Invoices are registered, independently authorised, processed and confirmed for payment within Integra with all system records updated to indicate payment.
- System controls are in place to prevent duplicate invoices being registered and paid.

ISSUES TO BE ADDRESSED

The audit has not highlighted any areas requiring formal recommendations.

Operational Effectiveness Matters

There are no operational effectiveness matters for management to consider.

Other Points to Note

It was noted within the sample of invoices tested that the Shared Executive Director – Strategy and Governance, had not been included in the Authorised Signatory List. This was rectified during the course of the audit and therefore no recommendation has been made.

Previous audit recommendations

The audit reviewed the previous internal audit recommendations which included two 'needs attention' recommendations. We obtained evidence of completion through our follow up process, however as a result of this review it has become apparent that one of the control weaknesses has reoccurred, as reported above in the rationale.