

Eastern Internal Audit Services



SOUTH NORFOLK COUNCIL

Annual Report and Opinion 2021/22

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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 (PSIAS) - require the Head of Internal Audit to provide a written report to those charged with governance (known in this context as the Finance, Resources, Audit and Governance Committee (FRAG) 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 2021/22, together with reasons if the opinion is unfavourable;
 - A summary of the internal audit work carried 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 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 AGS, but there are also a number of other important sources to which the FRAG 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 5**.

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 Managing Director 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 the Corporate Management and Leadership Team and key stakeholders and then approved by FRAG Committee.

The Internal Audit plan was approved at the meeting held on 25 June 2021.

This opinion does not imply that internal audit has reviewed all risks and assurances, but it is one component to be considered during the preparation of the AGS.

FRAG 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 South Norfolk Council is **reasonable**.

It is encouraging to note that of the 13 assurance audits completed within the year, nine have resulted in a positive assurance grading.

Substantial assurance was concluded in the following areas:

- Corporate Health and Safety
- Annual Governance Statement

A total of three assurance reports (Disaster Recovery, Counter Fraud and Corruption and Accounts Receivable) have received a Limited assurance grading.

We recommend that the urgent and important priority findings raised within these reports are referenced within the Council's Annual Governance Statement, until such time that verification work to demonstrate improvements are embedded is undertaken. A summary of those actions is provided in section 3.5 of this report.

The work for Cyber Security is now complete however the report is currently undergoing quality assurance processes. Four draft reports (Food Safety and Licencing, Key Controls and Assurance and Income, Accounts Receivable) have been issued in draft and require finalisation however their opinions as indicated have been relied upon for the purposes of this opinion.

Two position statement have been completed, one for Council Tax Discounts and Exemptions, and one for Big Sky which is currently in the final stages of completion, this work will suggest improvement actions for management consideration.

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 have been taken into account.

The opinion has been discussed with the Corporate Management and Leadership Team 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**

A total of 152 days were originally included within the 2021/22 internal audit plan. A position statement on Council Tax Discounts and Exemptions was added to the plan taking the total to 158 delivered to date. Two reports (Cyber Security and Big Sky) are currently in their final stages.

The 2021/22 plan has resulted in a total of 13 assurance reviews and two position statements being carried out. Nine of the 13 assurance reviews have received a positive assurance grading, a total of three have received a limited assurance grading.

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

3.4 **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 39 recommendations agreed so far for 2021/22, 11 have been completed; three are outstanding; 25 are within deadline; and two have been rejected by management.

Two 'needs attention' recommendations are outstanding from 2019/20; and a total of five (two 'important' and three 'needs attention') recommendations are outstanding from 2020/21.

Please refer to **Appendix 3**, which shows the details of the progress made to date in relation to the implementation of the agreed recommendations, and **Appendix 4**, which provides an update from management regarding important outstanding recommendations.

3.5 **Issues for inclusion in the Annual Governance Statement**

As stated in the opinion itself, three assurance reports have resulted in 'Limited' assurance (Disaster Recovery, Counter Fraud and Corruption and Accounts Receivable). We therefore recommend that the recommendations (four urgent and 12 important) raised in these reports are referenced within the Annual Governance Statement until such time that they can be verified as complete. The recommendations are summarised as follows:

Disaster Recovery (DR) - Urgent

1. DR provision be considered for new systems.
2. Council DR Plans be reviewed, updated, communicated and tested.
3. Regular DR tests be scheduled and undertaken.

Disaster Recovery (DR) - Important

1. A formal IT risk management process be developed to assess potential DR scenarios.
2. Increasing the DR resilience at both Broadland and South Norfolk Councils by sharing DR services be formalised.
3. Ensure that appropriate staff have DR responsibilities and skills/knowledge is refreshed.

4. Recovery time objectives be reviewed for existing systems and defined for new systems.

Counter Fraud and Corruption – Important (please note the two urgent recommendations raised have now been reported as complete)

1. A Counter Fraud and Corruption Strategy be devised, applying to all aspects of the Councils' business.
2. Proactive work be undertaken to raise awareness of potential fraud.
3. A programme of work be introduced to improve staff awareness and responsiveness to fraud across the Council.
4. An annual fraud plan be devised, agreed by committee and reflect resources mapped to risks and arrangements for reporting outcomes.
5. The Councils to introduce an official programme to publicise fraud and corruption cases internally and externally.
6. A fraud and corruption response plan should be devised to cover all areas of counter fraud work.

Accounts Receivable - Urgent

1. Sundry Debt reports to be run and reviewed regularly, with action taken as appropriate. Additionally, a plan should be developed to address the backlog of aged debts that has accrued with progress against the plan monitored.

Accounts Receivable – Important

2. Review of system controls to be completed to verify if there is a means of preventing duplicate Invoice/Credit Note document numbers being raised automatically.
3. The council take all steps to recover outstanding debts, including legal action, with documented decisions and rationale maintained for individual debts.

4. THIRD PARTY ASSURANCES

- 4.1 In arriving at the overall opinion reliance has not been placed on any third-party assurances.

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 2021/22. 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.

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 and the next is due for October 2022.

The external assessment was undertaken by the Institute of Internal Auditors in 2017 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.

5.2 Performance Indicator outcomes

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

Area / Indicator	Frequency	Target	Actual	Comments
<u>Audit Committee / Senior Management</u>				
1. Audit Committee Satisfaction – measured annually	Annual	Adequate	TBC	Requested
2. Chief Finance Officer Satisfaction – measured quarterly	Annual	Good	Good	Achieved
<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%	7%	Not achieved. One report issued within target.
4. Quarterly assurance reports to the Contract Manager within 15 working days of the end of each quarter	Quarterly	100%	0%	Not achieved
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	None raised
<u>Clients</u>				
8. Average feedback score received from key clients (auditees)		Adequate	Adequate	Achieved
9. Percentage of recommendations accepted by management		90%	95%	Exceeded
<u>Innovations and Capabilities</u>				
10. Percentage of qualified (including experienced) staff working on the contract each quarter		60%	88%	Exceeded
11. Number of training hours per member of staff completed per quarter		1 day	1 day	Achieved

5.2.2 Performance has not been in line within the boundaries of our agreed targets in some areas during 2021/22 such as the issuing of draft reports 10 day after quarter end and performance reports being provided within a 15 working day window after quarter end.

As reported to FRAG throughout the year, Internal Audit performance has continued to be impacted in 2021/22 by the Covid-19 pandemic. The development and approval of the 2021/22 internal audit plan in quarter two had an impact on the profiling and resourcing of the internal audit plan. A period of adjustment was also required in response to prolonged remote working practices. Contractor resourcing and sickness were also a key challenge throughout the year.

This performance result has been experienced across the internal audit consortium in 2021/22. Resourcing levels did settle in time to ensure the 2021/22 plan of work could be completed.

In response to the challenges faced this year, the Head of Internal Audit has enhanced communication and monitoring arrangements. The contractor has also committed to reviewing resource planning processes by allocating resources and booking in audits well in advance of the proposed start date.

The 2021/22 procurement exercise has now concluded which will see the current contractor continue to provide the Internal Audit service. The Head of Internal Audit has used this opportunity strengthen the key performance measures around timeliness included within the contract.

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 Director of Resources for independent scrutiny and verification.

6. PROPOSAL

6.1 The Finance, Resources, Audit and Governance Committee, in maintaining an overview as to the quality of systems of internal control in operation at the Council, is being requested to note this report, and the reasonable assurance opinion awarded, and confirms that key information provided is carried across to the Council's Annual Governance Statement, which is also considered on the agenda.

7. RECOMMENDATIONS

- 7.1
- a) Receive and consider the contents of the Annual Report and Opinion of the Head of Internal Audit.
 - b) Note that a reasonable audit opinion has been given in relation to the overall adequacy and effectiveness of the Council's framework of governance, risk management and control for the year ended 31 March 2022.
 - c) Note that the opinions expressed together with any significant matters arising from internal audit work and contained within this report should be given due consideration, when developing and reviewing the Council's Annual Governance Statement for 2021/22.
 - d) Note the conclusions of the Review of the Effectiveness of Internal Audit.

APPENDIX 1 – AUDIT WORK UNDERTAKEN DURING 2021/22

Audit Area	Assurance	No of Recs	Resolved	Urgent OS	Important OS	Needs Attention OS	Not yet due
Annual Opinion Audits							
Key Controls and Assurance (DRAFT)	Reasonable	7	0	0	0	0	7
Performance Management, Business Planning	Reasonable	3	2	0	0	1	0
Annual Governance Statement	Substantial	3	2	0	0	0	1
Big Sky	Position Statement						
Corporate Health and Safety	Substantial	3	0	0	0	0	3
Counter Fraud and Corruption	Limited	11	5	0	0	0	6
Accounts Receivable (DRAFT)	Limited	5	0	0	0	0	5
Income (DRAFT)	Reasonable	6	0	0	0	0	6
Accountancy Services	Reasonable	3	0	0	0	0	3
Covid-19 Business Grants	Reasonable	3	2	0	0	1	0
Homelessness & Housing Options	Reasonable	5	0	0	0	0	5
Food Safety and Licencing (DRAFT)	Reasonable	4	0	0	0	0	4
IT audits							
Cyber Security	TBC						
Disaster Recovery	Limited	8	0	1	0	0	7
Total		61	11	1	0	2	47

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.	2
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 improvements are required to improve the adequacy and effectiveness of the controls to mitigate these risks.	3
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

APPENDIX 2 - ASSURANCE CHART

	2017-18	2018-19	2019-20	2020/21	2021/22	2022/23
Annual Opinion Audits						
Corporate Governance	Reasonable		Reasonable	Reasonable		
Risk Management			Maturity Assessment			X
Corporate Governance - Big Sky			Reasonable		Position Statement	
Key Controls and Assurance	Reasonable	Reasonable	Reasonable	Reasonable	Reasonable	X
Annual Governance Statement					Substantial	
Counter Fraud and Corruption					Limited	
Procurement and Contract Management		Reasonable		Position Statement		X
Business Continuity and Emergency Planning						X
Performance Management, Business Planning	Reasonable				Reasonable	
Corporate Health and Safety	Reasonable				Substantial	
Fundamental Financial Systems						
Local Council Tax Support and Housing Benefit		Reasonable		Reasonable		X
Council Tax and National Non Domestic Rates		Reasonable		Reasonable		X
Accounts Receivable	Reasonable		Reasonable		Limited	

	2017-18	2018-19	2019-20	2020/21	2021/22	2022/23
Fundamental Financial Systems						
Accountancy Services	Reasonable		Reasonable		Reasonable	
Budgetary Control						
Accounts Payable		Reasonable		Reasonable		X
Income / Remittances	Reasonable				Reasonable	
Payroll and Human Resources		Substantial		Reasonable		X
Service Area Reviews						
Economic Development				Position Statement		X
FOI and Data Protection						
Committee Services						
Elections		Substantial				X
GDPR		Reasonable				
Leisure	Reasonable		Reasonable			X
Building Control		Reasonable				
Housing Strategy and Affordable Housing						X
Home Options						
Car Parks		Reasonable				
Waste Management			Reasonable			
Food Safety and Licencing					Reasonable	

	2017-18	2018-19	2019-20	2020/21	2021/22	2022/23
Service Area Reviews						
Housing Standards including Disabled Facilities Grants & Discretionary grants	Reasonable		Reasonable			
Early Help Hub						
Development Management			Reasonable			
Homelessness and Housing Options	Reasonable		Reasonable		Reasonable	
Community Activity						X
Community Assets						X
IT Audits						
Network Security and Infrastructure Management						X
Cyber Security		Limited			TBC	
Remote Access (Supplier and User)		Reasonable		Reasonable		
Disaster Recovery	Reasonable		Limited		Limited	
Cash Receipting Application	Reasonable					
Data Centre			Position Statement			
Post-implementation Finance System						X
Service Desk	Limited			Reasonable		X

APPENDIX 3 – STATUS OF AGREED INTERNAL AUDIT RECOMMENDATIONS

			Completed bt 15 March 2022 and 31 March 2022			Previously reported to Committee as outstanding			(New) Outstanding			Total Outstanding	Not Yet Due for implementation		
			Priority 1	Priority 2	Priority 3	Priority 1	Priority 2	Priority 3	Priority 1	Priority 2	Priority 3		Priority 1	Priority 2	Priority 3
Audit Ref	Audit Area	Assurance Level													
2019/20 Internal Audit Reviews															
SNC2006	Corporate Governance	Reasonable						1				1			
SNC2009	Income	Reasonable						1				1			
2020/21 Internal Audit Reviews															
SNC2102	Corporate Governance	Reasonable						1				1			
SNC2108	Key Controls and Assurance	Reasonable						1				1			
SNC2105	Housing Benefit and Ctax Support	Reasonable			1							0			
SNC2104	HR and Payroll	Reasonable						1				1			
SNC2106	Council Tax and NNDR	Reasonable		1								0			
SNC2112	Remote Access	Reasonable						1	1			2			
2021/22 Internal Audit Reviews															
SNC2206	Counter Fraud and Corruption	Limited	2									0		6	
SNC2203	Annual Governance Statement	Substantial			1							0			1
SNC2209	Accountancy Services	Reasonable										0		2	1
SNC2202	Performance Management, Business Planning	Reasonable		2				1				1			
SNC2214	Disaster Recovery	Limited							1			1	2	4	1
SNC2211	Homelessness and Housing Options	Reasonable										0	0	4	1
SNC2205	Corporate Health and Safety	Substantial										0			3
SNC2210	Covid-19 Business Grants	Reasonable			1			1				1			
TOTALS			2	3	3	0	2	7	1	0	0	10	2	16	7

APPENDIX 4 – OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS

2020/21

Job	Recommendation	Priority	Responsible Officer	Due Date	Revised Due Date	Number of times revised	Status	Latest Response
SNC2104 HR and Payroll	Recommendation 3: The audit trail in the payroll system be improved so that it is possible to view the authorisation details for all claims submitted, including the authorising officer and the dates submitted and authorised.	2	Chief of Staff	30/06/2021	31/12/2022	3	Outstanding	The Oracle implementation has been delayed by Suffolk County Council. It is now looking like the move over will take place in the autumn, although a firm date is still to be confirmed. With this in mind, it is requested that this recommendation is extended to December 2022.
SNC2112 Remote Access	Recommendation 1: The newly developed ICT & Digital Change Management Policy be adopted into the wider SPARK Transformation Programme as a basis for Corporate change management.	2	Assistant Director of ICT/Digital and Transformation	01/10/2021	30/09/2022	3	Outstanding	Our approach to governing transformation has changed and although SPARK brand still exists we have moved to a portfolio approach of governing projects and programmes. As we recruit to the vacant posts this will become one of their key objectives to implement as part of the new approach and the project framework. Based on the above a revised due date of end of Q3 is requested.

2021/22

Job	Recommendation	Priority	Responsible Officer	Due Date	Revised Due Date	Number of times revised	Status	Latest Response
SNC2214 Disaster Recovery	Recommendation 3. Regular DR tests be scheduled and undertaken.	Urgent	AD Transformation, Innovation and IT	01/02/2022	30/09/2022	1	Outstanding	New Infrastructure project is ongoing with a completion timeline anticipated for July 2022. The implementation of the new infrastructure will provide the platform for this can only be completed in line with the delivery and closure of this project. Recommend revised due date of end of Q2 to allow for any unforeseen potential project slippage.

APPENDIX 5 – 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 Audit Committee, subject to the limitations outlined below.

Opinions

The opinions expressed are based solely on the work undertaken in delivering the approved 2021/22 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 Council is for the year ended 31 March 2022. 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.