

Internal Audit Report 2017/2018

***London Borough of
Brent***

FINAL

November 2017

Pension Fund Administration

▶ Click to launch



Contents

Executive summary

1

Background and scope

2

Current year findings

3

Appendices

- A. Basis of our classifications
- B. Limitations and responsibilities

Distribution list

For action:

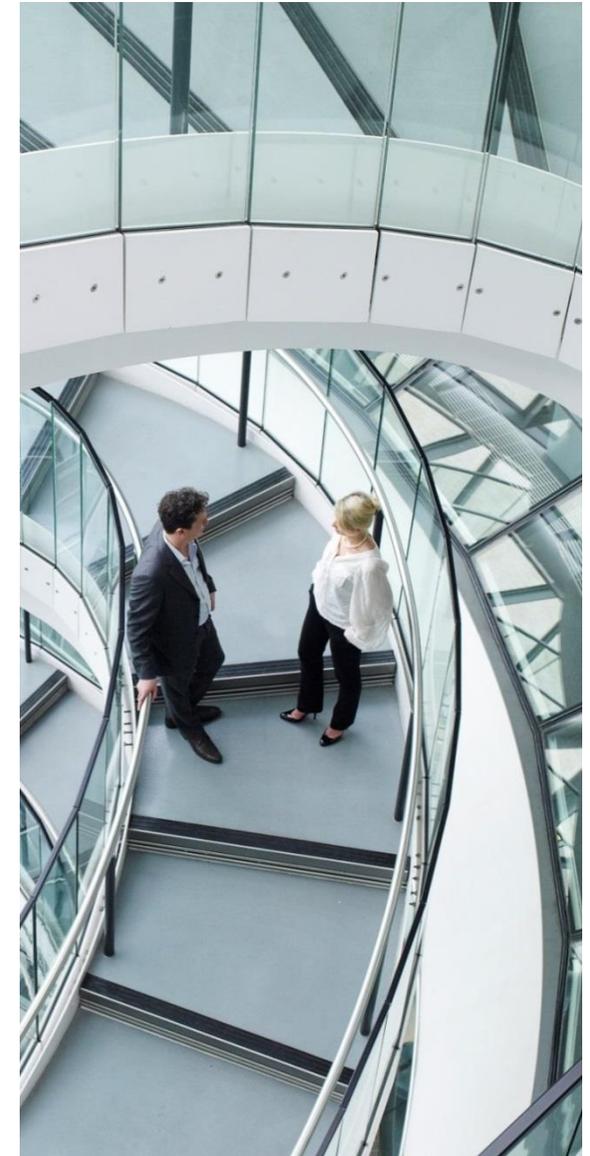
Senior Pension Officer
Payroll Pensions Recruitment & MI Manager
Payroll Manager
Account to Reporting Team, Resources

For information:

HR Director
Strategic Director Resources
Head of Finance, Resources Department
Chief Finance Officer
Head of Employee Services
Head of Finance, Resources Department

Head of Internal Audit
Audit Manager

Internal Audit Report 2017/18



Executive summary (1 of 4)

Report classification



Limited

Total number of findings

	Critical	High	Medium	Low	Advisory
Control design	-	2*	1*	-	-
Operating effectiveness	-	2	-	1	-
Total	-	4	1	1	-

**Note two controls are both Control Design and Operating Effectiveness. They have been included in Control Design for the purposes of the table to avoid duplication.*

Key:

- Control Design Issue (D) – There is no control in place or the design of the control in place is not sufficient to mitigate the potential risks in this area.
- Operating Effectiveness Issue (OE) – Control design is adequate, however the control is not operating as intended resulting in potential risks arising in this area.

Executive summary (2 of 4)

Headlines

The objective of this review was to identify and test the design and operating effectiveness of key controls in relation to the administration of the pension fund, including starters, retirements, annual data collection and reconciliations.

We found that there are examples of where good practice has been implemented, for example the automated new joiners process ensures that the correct contribution rate is used based on the salary details entered into the payroll system; there is a process to identify deceased individuals and halt their payments in a timely manner; and the pensions officer meets with Capita regularly to ensure that there is communication between the two parties.

Although examples of good practice have been noted, a number of areas for further improvement have been identified. We noted 4 high, 1 medium and 1 low risk finding as part of this review. The key areas of improvement relate to payment of benefits, data submissions from third party providers, and management of the contract with Capita. Our other findings relate to areas where procedures could be improved to make the control environment more efficient and effective.

Summary of findings

Our *high risk* findings are:

- Retiree payments (Finding 1):
 - For 9/20 (45%) retirees we were unable to agree the final pay salary figure used by Capita in their calculation back to final salary information from Oracle to ensure the correct figures are used in the calculation of pension benefits. In one of these cases, Capita confirmed that they had underpaid the member as the benefits were not recalculated to take into account 6 days of pay in January 2017.
- Pension changing to standing data (Finding 2):
 - Pensioners payroll is mainly dealt with by one person in the payroll team and they are responsible for changing bank details -albeit other members of the payroll team could process the change as well if required. There is a lack of segregation of duties in the process. It is worth noting, however, that there is an audit trail that states who made the change. There is no routine monitoring or review of this audit trail to check changes have been made by appropriate staff
- Data submissions (Finding 3):
 - The Council collects end of year pensions data from third party employers and payroll providers to enable them to issue the annual benefits statements. In 16/20 (80%) cases sampled, no evidence could be provided of the end of year data being collected by the third party nor of the subsequent checks performed by Capita on the data. At the time of the audit the benefit statements had not been produced to cover employees with these third parties and so there is a risk that the regulatory deadline will be breached. For 3/4 (75%) third parties where evidence could be provided, Capita sent the email following up on exceptions or issues they had identified more than 14 working days after they had received the end of year data from the employer.

Executive summary (3 of 4)

- We also noted that although there is a control sheet noting whether Capita have received the initial submission from the third party, it does not include further details of the status of each; i.e. checks in progress, queries back out with the third party, or any issues noted and ready for upload.
- Contract Management (Finding 4):
 - Although there are monthly contract meetings where performance is an item on the agenda, there is a lack of any record to demonstrate how Capita are being challenged and held to account for any areas of underperformance. For example, areas of underperformance identified in the two months sampled included: timely notification of deceased individuals and timely submission of transfer values to a new pension scheme - there is no record that that these were challenged at the relevant meetings.
 - Capita provide the Council with a monthly performance report that reports on the 68 performance indicators outlined in the contract. 1/20 (5%) indicators sampled from the contract between the Council and Capita were not included in the monthly performance report. This indicator related to the 'Monthly Performance and Statistics Report' which is to be completed by Capita 'within 5 working days of the end of the contract month in question'. For the two months we sampled this indicator would have failed.
 - We noted that validation of the performance data submitted by Capita is currently not undertaken by the Council.

Our *medium risk* finding is:

- Reconciliations (Finding 3):
 - The Council currently do not reconcile between Hartlink (the pensions system) and Oracle (the Council's payroll system) during the year. Instead a reconciliation of active members only is performed as part of the end of year process.
 - 2/2 (100%) reconciliations between the pensions bank account and the general ledger included £280k of reconciling items that were over three months old.

Executive summary (4 of 4)

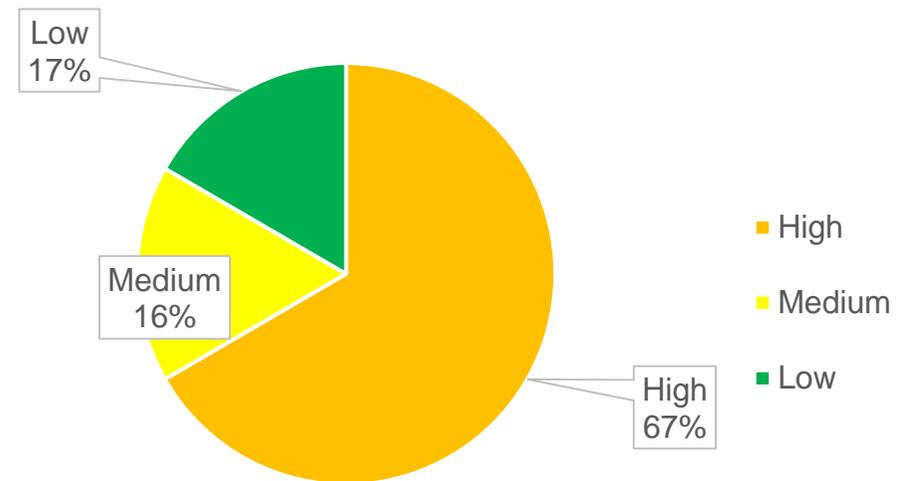
1	<i>Retiree payments</i>	High
2	<i>Changes to standing data</i>	High
3	<i>Data submissions</i>	High
4	<i>Contract Management</i>	High
5	<i>Reconciliations</i>	Medium
6	<i>Timeliness</i>	Low

Rating definitions – see appendix A

Summary of findings by areas of scope:

Area of scope	Number of findings					Finding reference
	Critical	High	Medium	Low	Advisory	
New Joiners	-	-	-	-	-	-
Payment of benefits	-	2	-	1	-	1, 2, 6
Data collection	-	1	-	-	-	3
Reconciliations	-	-	1	-	-	5
Contract Management	-	1	-	-	-	4

Audit findings by risk rating



Background and scope (1 of 2)

Background

The Council is responsible for the administration of a defined benefit pension fund under the Local Government Pension Scheme (LGPS) Regulations 1998 (as amended in 2007). As fund administrators, the Council is responsible for:

1. The collection of contributions; both directly from the Council and its employees.
2. The investment of funds in accordance with LGPS regulations,
3. The payment of monies to retired scheme members, and
4. Administering the fund for other employers.

The Council outsources the key administrative day to day processes to Capita (a business process outsourcing company), including the processes for starters, leavers, transfers and retirements. The contract with Capita is due to expire at the end of September 2017.

Employers of scheme members who are not employed by the Council are required to submit data about these employees annually. Capita is also responsible for collection of the annual data submission from the employers, reviewing the submission and processing any required changes. The output of the data collection feeds into the annual benefits statement. The deadline for the annual data submissions was May 2017.

The objective of this review was to identify and test the design and operating effectiveness of key controls associated with the following control objectives:

- Contributions made to the fund by employers and employees are accurate, timely and complete for all new joiners.
- Accurate and timely pension payments are made to retired scheme members.
- Data recorded on the pensions system (Hartlink) is accurate.
- The financial information held by the Council is up-to-date and accurate.
- The council's objectives in pensions administration are delivered efficiently, effectively and economically by the contractor and in line with contract.

Background and scope (2 of 2)

Limitations of scope

Our work was limited to the sub-processes and control objectives outlined in Terms of Reference. Our internal audit testing was performed on a judgemental sample basis and focussed on key controls mitigating risks. Our testing is designed to assess the adequacy and effectiveness of key controls in operation at the time of the audit.

Please note that in relation to the scope per the Terms of Reference, whilst our internal audit assessed the efficiency and effectiveness of key controls from an operational perspective, it is not within our remit as internal auditors to assess the efficiency and effectiveness of policy decisions.

As detailed in the Terms of Reference, this review does not provide assurance over the completeness or accuracy of the pension fund balance as at the date of audit work. The review did not consider either the management of the pensions fund or the investment of surplus funds and the appropriateness of such decisions.

For the “data collection” sub-process we assessed control design and operating effectiveness of the processes to ensure that the data submission is captured, reviewed and actions are logged.

This audit did not include a review of the contract with Capita. For the “contract management” sub-process we considered performance monitoring controls only. The audit did not include a review of the overall contract management governance, contract ownership, payment mechanism and formal review of risk management.

Current year findings (1 of 6)

Retiree payments

Operating effectiveness

1

Finding rating

Rating

High

Finding and root cause

Capita are responsible for calculating the pension payments. It is therefore important that they use the correct final salary information in the calculation of pension benefits to retirees to ensure the correct amounts are paid. Capita take the final salary information directly from Oracle for those on the Council's payroll service. For retirees with a third party payroll service, Capita obtain the final salary figure from the relevant payroll service. The pensions calculation is prepared and reviewed by two separate senior pension administrators. We found:

- For 9/20 (45%) retirees we were unable to agree the final pay salary figure used by Capita back to final salary information from Oracle to ensure the correct figures are used in the calculation of pension benefits. In one of these cases, Capita confirmed that they had underpaid the member as the benefits were not recalculated to take into account six days of pay in January 2017. As a result of the audit, benefits were being uplifted. For the other eight cases the appropriate information was not provided.

Risk

Incorrect final salary information may mean calculation of pension benefits to retirees is inaccurate leading to over- or underpayment.

Recommendations

- We will request Capita investigate the exceptions to understand whether incorrect final salary information is being used by Capita.*
- Subsequent action should be determined by management based on the level of inaccuracies identified in the calculations investigated.*

Current year findings (1 of 6)

Retiree payments

Operating effectiveness

1

Finding rating

Rating

High

Management responses

Accepted, management will instruct Capita to investigate the remaining eight cases for which the accuracy of the final salary data used was unable to be confirmed as part of the audit.

Based on the level of issues noted, management will review the current control processes and consider the need to implement further additional checks and controls to mitigate the risk of incorrect final salary information being used.

Responsible person/title:

- a) Senior Pensions Officer
- b) Payroll Pensions Recruitment & MI Manager

Target date:

- a) 31 October 2017
- b) 30 November 2017

Reference number:

1718PFA-1

Current year findings (2 of 6)

Pension changing to standing data

Control Design

2

Finding rating

Rating

High

Finding and root cause

All requests for changes to pension bank details must be received in writing via a signed letter. When correspondence is received from a pensioner it is allocated to, and actioned by, a payroll officer. We note:

- Pensioners payroll is mainly dealt with by one person in the payroll team and they are responsible for changing their bank details, albeit other members of the payroll team could as well. There is a lack of segregation of duties in the process. It is worth noting, however, that there is an audit trail that states who made the change. There is no routine monitoring or review of this audit trail to check changes have been made by appropriate staff.

Management explained that they believe the control to be sufficient because it would soon become apparent if a pensioner does not receive their payment. However, this would not be the case if the pensioner was deceased.

Risk

Pension bank details could be amended fraudulently resulting in a financial loss to the Council.

Recommendations

- Changes to bank account details will need to be processed by one staff member and reviewed by another to ensure segregation of duties.*
- On a weekly basis, management will review all changes to pension bank accounts that have occurred in the week so they can monitor changes and ensure they are appropriate. The list of changes to bank accounts will be compared to the list of deceased individuals in the period to ensure that bank accounts of deceased have not been fraudulently changed.*

Current year findings (2 of 6)

Pension changing to standing data

Control Design

2

Finding rating

Rating

High

Management responses

- a) *Accepted.*
- b) *Not accepted, management feel that with the implementation of the segregation of duties within recommendation (a) in addition to the existing mortality screening and the 'tell us once' information from the DWP that is due to be introduced, the risk is sufficiently mitigated and therefore there is no need to utilise additional resource to undertake a periodic review of the changes applied.*

Responsible person/title:

Payroll Manager

Target date:

1 November 2017

Reference number:

1718PFA-2

Current year findings (3 of 6)

Data submissions

Operating effectiveness

3

Finding rating

Rating

High

Finding and root cause

The Council is responsible for producing annual benefits statements to all active members (employed by the Council or third parties) and to those with deferred benefits for whom Capita have an address. Active members could have third party employers or third party payroll providers. It is important that there are controls in place to ensure that accurate and complete end of year data is collected from third parties in a timely manner to ensure that the Capita is able to issue the annual benefits statements prior to the statutory deadline.

Capita sent out a request to third parties for their pension data in March and this included a submission template, guidance and deadlines. Once returns are received Capita match the returned information against the records they hold on their system. They also perform a check to confirm if the full time equivalent salary is more than minimum wage for the hours worked.

To ensure this is performed promptly, there is a performance indicator within the contract (indicator reference 13.7.4) that states that employee and employer pension contributions are to be reconciled to the main accounts of the Contracting Bodies within 14 working days from receipt of the third parties end of year file. For a sample of 20 third parties we carried out checks to confirm whether Capita had received the data and that they had followed up the issues identified from the checks with the third party within 14 working days. We found:

- In 16/20 (80%) cases, no evidence could be provided of the data being submitted by the third party and of the subsequent checks and follow up performed by Capita on the data.
- For 3/4 (75%) third parties where evidence could be provided, Capita sent the email following up on exceptions or issues they had identified more than 14 working days after they had received the end of year data from the employer. The follow up emails were sent 39, 40 and 45 working days after the submission was received.
- We noted that a tracker is not maintained to monitor the status of each submission. Although there is a control sheet that noted whether the data has been received, it would also be useful for this control sheet to include the status of each request; i.e. whether there were queries back out with the third party, that the checks had been performed and no issues were noted, or that Capita were in the process of performing the checks.

Current year findings (3 of 6)

Data submissions

Operating effectiveness

3

Finding rating

Rating

High

Risk

Incomplete or inaccurate data submitted by the third parties is not escalated to the Council in a timely manner resulting in the Council's inability to file the annual benefits statement prior to the statutory deadline.

Recommendations

- a) We will ask Capita to investigate the exceptions noted in this report and going forward will ensure an audit trail of each of the third parties submissions is retained.
- b) We will ask Capita to use a more detailed monitoring tracker that not only shows the status of each submission but also the status of the request with each employer and key dates to enable timeliness of data checks to be monitored.

Management responses

Accepted. Recommendation (b) has already been requested of Capita and was initially promised to be delivered by 6 October 2017, this has subsequently been chased on 19 October 2017 and as at the date of reporting remains an outstanding request.

Responsible person/title:

Senior Pensions Officer

Target date:

- a) 31 October 2017
- b) Complete

Reference number:

1718PFA-3

Current year findings (4 of 6)

Contract Management Control Design and Operating effectiveness

4

Finding rating

Rating

High

Finding and root cause

The Council receives a monthly performance report, which is used to monitor Capita's performance. The report outlines performance against each of the key indicators in the contract. For a sample of 20 performance indicators from the contract we checked if they had been included in the sample of 2 monthly performance reports. We found:

- 1/20 (5%) contract performance indicators were not included in the monthly performance reports of both months tested. This indicator related to the 'Monthly Performance and Statistics Report' which is to be completed by Capita 'within 5 working days of the end of the contract month in question'.
- Validation of the reported results is currently not undertaken by the Council. A system report is provided by Capita along with the indicators so it is possible to recalculate the indicator based on the source data. Management explained that this was stopped because of the time constraints and because if there were performance issues these would be brought to their attention via complaints.
- We performed detailed testing to assess timeliness of processing of retirees and new joiners and compared our sample findings (see finding #6) to the performance statistics for work in progress from the monthly performance reports. We noted that the reported statistics do not correlate to our findings. This could be contributed to sampling risk or could be highlighting potential issues around the performance data integrity. Management stated that there may also be cases where the reported timescales can differ based on technical definition of the KPI, for example when a case gets closed and re-opened if it is transferred to a different team.

The performance report is discussed in monthly contract monitoring meetings attended by Capita and the Council. An action log is used to document the key points and agreed actions from each meeting. We reviewed the report and the meeting action log for a sample of two months. We found:

- For 2/2 monthly meetings it was not clear whether underperformance was discussed in detail with Capita and whether they are being held to account for underperformance. A number of indicators in the performance reports (8 in April; 6 in May) were below the 90% threshold defined as underperformance and it is not clear whether these were discussed.

Management explained that this was because the performance reports in both April and May were delivered a day before the scheduled contract meeting. As a result of this, it was not possible for the Council to review the report in depth before the meeting. The delay in sending this performance report represents a failure of the performance indicator described above ('Monthly Performance and Statistics Report'), which was not included in the report. Management explained that the delay was due to a change in staff at Capita, but this issue has now been rectified. The report in June was provided with more time to review prior to the meeting.

Current year findings (4 of 6)

Contract Management Control Design and Operating effectiveness

4

Finding rating

Rating

High

Finding and root cause

In addition, the key points and actions that had been recorded were very similar for the two meetings, suggesting that the minutes were not updated or actions were not tracked in an effective manner.

- For 2/2 meetings only the Senior Pension Administrator attended on behalf of the Council and Head of Employee Services was not in attendance. Although it is not essential for senior management to attend, lack of senior management involvement would make it more difficult to escalate and resolve issues.

Risk

The contractor may not be challenged over poor performance leading to error, fraud and poor value for money for the Council.

Recommendations

1. We will escalate to Capita the indicator omitted from the performance report (Monthly Performance Report to be completed by Capita within 5 working days of the end of the contract month') and emphasise the importance of meeting this KPI to ensure the Council has time to review the report before the contract meeting.
2. We will check the completeness of the performance reports monthly to ensure indicators are not omitted from reporting.
3. We will implement a spot checking procedure to check the result reported agrees to the underlying performance data for a defined sample of indicators each month.
4. We will record specific key points and actions concerning underperformance discussed in the contract monitoring meetings, so it is clear where Capita are underperforming and what actions they are taking to address this. Progress against these actions can then be followed up at the subsequent meetings.
5. We will define a validation activity plan to ensure that assurance is obtained across all performance areas over time. We will perform a risk mapping exercise to ensure that validation plans are focussed on key risks and all sources/methods of assurance are identified and utilised. This will ensure that independent assurance is targeted at key risk areas.

Current year findings (4 of 6)

Contract Management

Control Design and Operating effectiveness

4

Finding rating

Rating

High

Management responses

1. *Accepted.*
2. *Accepted.*
3. *Accepted. Given the level of resource at the disposal of management, while some spot checking of the presented indicator figures to the underlying performance report provided by Capita will be introduced, this will initially be limited to a small number of indicators and will only be expanded if inaccuracies which imply there may be issues in the integrity of the indicators are noted. These checks will not include tracing back to source data on the Council's system.*
4. *Accepted.*
5. *Accepted. As noted above initial validation of the presented indicators will be limited to a small number of indicators which relate to particular areas of management concern. This review programme will only be expanded if inaccuracies which imply there may be issues in the integrity of the indicators are noted. These checks will not include tracing back to source data on the Council's system.*

In addition to the recommendations raised by the audit regarding the performance data, management are also concerned with the level of 'third party – on hold' cases which represent cases that are on hold due to Capita waiting on outstanding information. These cases are not currently presented as part of the performance data and therefore management is concerned that Capita is not incentivised to progress such cases. Management will therefore also request that data relating to the level of on hold cases is provided by Capita for discussion at the monthly contract management meetings.

Responsible person/title:

Senior Pensions Officer

Target date:

30 November 2017

Reference number:

1718PFA-4

Current year findings (5 of 6)

Reconciliations

Control design and operating effectiveness

5

Finding rating

Rating

Medium

Finding and root cause

Hartlink reconciliation

The Council currently do not reconcile discrepancies between Hartlink (the pensions system) and Oracle (the Council's payroll system) during the year. A reconciliation of active members is performed as part of the end of year process in August, which checks completeness and accuracy of changes made during the year. This year end reconciliation only includes active members.

The Contract contains a performance indicator that states that Capita are responsible for a "Data matching exercise between the Provider's system and the Payroll system" and that this is to take place quarterly. This is currently not being performed. Council management stated that performing this quarterly would be impractical given the time it takes to perform the reconciliation. However the contract has not been revised to reflect this.

In testing a sample of new joiners we found 2/20 (10%) new joiners had two active records and both were two full time jobs. Starter forms were viewed to confirm that they were actual starters at Brent Council. Their previous employers' pension funds were also administered by the Council and the pension records had not been updated when they left that job. Management explained that this will get picked up as part of the year end reconciliation process to ensure that records are accurate when producing the annual benefits statement. The record start date was 26/03/2017.

Pensions Bank Account Reconciliation

Finance performs a monthly reconciliation between the pensions bank account and the general ledger and investigates any discrepancies. We checked the two reconciliations had been prepared and approved by two separate people. We also checked if there were reconciling items older than three months. We found:

- 2/2 (100%) reconciliations included £280k of reconciling items that were over three months old. The oldest transaction was dated 19/08/2016. These items are for LGPS contributions coming from schools and have arisen as the Council have not been provided with the correct information. Management explained that previously both the Payroll department and Finance were involved in following up discrepancies and it was not clear who was taking ownership of investigating them. Since June 2017 Finance have been responsible for this process and are required to communicate directly with the schools in order to clear the items promptly.
- We also noted that the bank reconciliation guidance document for staff is dated September 2015. Although we recognise that most of the guidance provisions are likely to still be relevant, it is recommended that the policies and procedures are reviewed annually to ensure they are updated to reflect any changes to the process.

Current year findings (5 of 6)

Reconciliations

Control design and operating effectiveness

5

Finding rating

Rating

Medium

Risk

Discrepancies between the pensions bank account and the general ledger may not be identified and investigated on a timely basis resulting in inaccuracies in pensions information in the ledger and making it more difficult to resolve at a later date.

Discrepancies between the payroll system and the pensions system may not be identified and investigated on a timely basis leading to incorrect reporting of pensions. These may also be more difficult to resolve at a later date.

Recommendations

- a) *We will ensure that Capita performs a reconciliation of pension data between Hartlink and Oracle to investigate discrepancies on a quarterly basis in line with the contract. The reconciliation will include non-active and active members. The reconciliation will be prepared and authorised by two separate individuals. The reconciliation will be reviewed by a member of the Council.*
- b) *To help enable the reconciliation to be carried out efficiently we will encourage other payroll providers / employers to provide a correct Pensions Contribution List.*
- c) *Finance will investigate the items which are older than three months and query these with the other payroll providers or employers. Going forward, Finance will be responsible for resolving reconciling items with payroll providers or employers within a timely manner.*
- d) *Finance will review and update the bank reconciliation policies and procedures annually to ensure they are updated to reflect any changes to the process.*

Current year findings (5 of 6)

Reconciliations

Control design and operating effectiveness

5

Finding rating

Rating

Medium

Management responses

- Accepted. Management will request that Capita undertake more frequent reconciliations, however the completion of any such reconciliations will be reliant on Capita.
- Accepted. Management have already requested all other payroll providers / employers to provide a correct Pensions Contribution List.
- Accepted. Note that the outstanding reconciling items are made up of previous period amounts (pre-April 2017), for which the transactions will be cleared, and current year amounts, for which the Head of Finance for Children and Young People will email the schools to seek the correct information.
- Accepted.

Responsible person/title:

Senior Pension Officer (actions a and b)

Team Leader – Account to Reporting Team, Resources (actions c and d)

Target date:

a) 31 October 2017

b) Complete

c) 30 November 2017

d) 30 November 2017

Reference number:

1718PFA-5

Current year findings (6 of 6)

Timeliness of processing of pension requests

Operating effectiveness

6

Finding rating

Rating

Low

Finding and root cause

Capita should send any employee who has applied to retire a form outlining their pension entitlement. This should be sent within three working days. This target was not met for 15/20 (75%) retirees sampled; they took on average 17 working days.

For new joiners, Capita should set up the new joiner in the system within 10 working days of the date the Council provide them with the new joiner details. We found 1/20 new joiners were processed by Capita in more than 10 working days.

Risk

Pension requests may not be processed on a timely basis, leading to complaints from scheme members and/or inaccuracies in the financial records maintained by the Council.

Recommendations

- a) We will review the contractor's procedures for monitoring of outstanding requests.
- b) We will assess the magnitude of delays in 2016/17 and assess if they can result in deductions being applied in line with the contract.

Management responses

Agreed. Performance against the contract will be closely monitored going forward to ensure that the council receives the services that it is paying for. Contract monitoring meetings will always be supported by a head of finance, in addition to the pensions administration staff, and the chief finance officer will also personally attend meetings and/or hold separate discussions with Directors or more senior managers within Capita to ensure satisfactory contract performance"

Responsible person/title:

Payroll Pensions Recruitment & MI Manager

Target date:

31 December 2017.

Reference number:

1718PFA-6

Appendix A: Basis of our classifications

Individual finding ratings

Critical

A finding that could have a:

- **Critical** impact on operational performance; or
- **Critical** monetary or financial statement impact; or
- **Critical** breach in laws and regulations that could result in material fines or consequences; or
- **Critical** impact on the reputation or brand of the organisation which could threaten its future viability.

High

A finding that could have a:

- **Significant** impact on operational performance; or
- **Significant** monetary or financial statement impact; or
- **Significant** breach in laws and regulations resulting in significant fines and consequences; or
- **Significant** impact on the reputation or brand of the organisation.

Medium

A finding that could have a:

- **Moderate** impact on operational; or
- **Moderate** monetary or financial statement impact; or
- **Moderate** breach in laws and regulations resulting in fines and consequences; or
- **Moderate** impact on the reputation or brand of the organisation.

Appendix A: Basis of our classifications

Individual finding ratings

Low

A finding that could have a:

- **Minor** impact on the organisation’s operational performance; or
- **Minor** monetary or financial statement impact; or
- **Minor** breach in laws and regulations with limited consequences; or
- **Minor** impact on the reputation of the organisation.

Advisory

A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Report classifications

Report classification	Level of assurance	Description
	Substantial	There is a sound system of internal control designed to achieve the client’s objectives. The control processes tested are being consistently applied.
	Reasonable	While there is a basically sound system of internal control, there are weaknesses, which put some of the client’s objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client’s objectives at risk.
	Limited	Weaknesses in the system of internal controls are such as to put the client’s objectives at risk. The level of non-compliance puts the client’s objectives at risk.
	No	Control processes are generally weak leaving the processes / services open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes / services open to error or abuse.

Appendix B: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken this review subject to the limitations outlined below:

Internal control

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

Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes; 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.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.