



West Lindsey District Council

Internal Audit Annual Report – 2017/18



What we do best...

Innovative assurance services

Specialists at internal audit

Comprehensive risk management

Experts in countering fraud

...and what sets us apart

Unrivalled best value to our customers

Existing strong regional public sector partnership

Auditors with the knowledge and expertise to get the job done

Already working extensively with the not-for-profit and third sector

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The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual audit engagements or were not brought to our attention. The opinion is based solely the work undertaken as part of the agreed internal audit plan.

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Distribution List

Head of Paid Service
Directors
External Audit



Management Summary

Purpose of Annual Report

1. The purpose of the Annual Internal Audit Report is to meet the Head of Internal Audit annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015. In particular:-
 - Include an independent opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework and therefore the extent to which the Council can rely on it;
 - Inform how the plan was discharged and the overall outcomes of the work undertaken that supports the opinion;

- A statement on conformance with the PSIAS and the results of the internal audit quality assurance and improvement programme (QAIP);
- Draw attention to any issues particularly relevant to the Annual Governance Statement.

Annual Opinion

2. For the twelve months ended 31 March 2018, based on the work we have undertaken and information from other sources of assurance, my opinion on the adequacy and effectiveness of West Lindsey's arrangements for governance, risk management and control is shown in **Figure 1**.

Figure 1 – Head of Internal Audit Opinion



Performing Well – Some improvements identified over the Council's governance, risk and control framework or to manage medium risks across the Council

Performing Well – No concerns that significantly affect the risk management framework and successful delivery of the Council priorities

Performing Well – Some improvements identified over the Council's control framework or to manage medium risks across the Council

Performing Well – No concerns that significantly affect the governance, risk and control framework and successful delivery of the Council priorities

How we came to our opinion

Governance

3. Good Governance can mean different things to people – in the public sector it means:

*"Achieving the Intended Outcomes While Acting
in the Public Interest at all Times"*

4. It is comprises of systems, processes and culture and values, by which the Council is directed and controlled and through which they account to, engage with, and where appropriate, lead their communities.

5. Each year the Council is required to reflect on how its governance arrangements have worked – identifying any significant¹ governance issues that it feels should be drawn to the attention of the public – in the interests of accountability and transparency. The significant governance issues identified by the Council in the 2016/17 statement were:

- **Implementation of General Data Protection Regulations**
- **Political Governance** to maintain and reinforce the current high levels of behaviour.
- **Value for Money** – to complete value for money assessments across service areas and develop appropriate improvement plans.
- **Partnerships** – to critically evaluate and maintain the effectiveness of the Council's key strategic partnerships money
- **Delivery of key commercial and Community based projects**
- **Resilience and capacity** – to balance the Council's capacity to deliver programmes with staff responsibilities.
- **Selective Licensing** – for members to review the effectiveness and implantation of the scheme.

- **Development Management** - For members to maintain oversight and scrutiny on the actions identified from an audit in this area.

6. The Governance and Audit Committee helps to ensure that these arrangements are working effectively. They regularly review the governance framework and consider the draft and final versions of the Annual Governance Statement.
7. In April 2016, CIPFA / SOLACE published an updated 'Delivering Good Governance in Local Government – Framework and Guidance'. This sets out the latest good practice operating in the current public sector environment. It defines seven core principals by which a Council can test out their governance arrangements. In February 2017 the Council reviewed and assessed its arrangements and confirmed that the Council conforms with the Framework – with governance arrangements in place that are up to date and relevant to the environment it operates in.
8. It is crucial to the Council's success that its governance arrangements are applied in a way that demonstrates the sprit and ethos of good governance – this cannot be achieved by rules and procedures alone – the Council is expected to have a culture that places the public and integrity at the heart of its business. One key area of the new governance guidance is demonstrating the 'ethical mind set' in how decisions are made.
9. The draft Annual Governance Statement has identified an area of oversight around 'political governance' and the internal audit plan included an 'Ethical Audit' – looking below the surface and seeing how these arrangements work in practice.

¹ Significance = The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact.

This will be completed during 2018/19 and reported to management and the G&A committee.

10. During 2017/18 there was a senior management restructure. The Council has worked hard to ensure this has provided clear reporting lines and clarity to all staff on the Council's key objectives and corporate aims. This has been received positively by managers and has supported progress on key projects. Including the crematorium, Leisure contract and Growth projects. The Council continues to operate effectively in the challenging and complex public sector environment
11. Taking the above information into account we have assessed the governance framework as **Green / Amber** - performing well.

Risk and Internal Control

12. We took account of the outcome of our internal audit work during the year. There was one area of low assurance and this was for the **Commercial Plans Delivery**. We will complete a follow up audit during 2018/19.
13. Our work identified three areas where we gave a 'limited' assurance opinion on an activity. These are:
 - **Sales and Invoicing Financial systems** – we recommended improvements for the debtors' service and around the capability of the finance system to support commercial needs.
 - **Payment Card Industry Data Security Standards Follow Up** – a follow up audit to an earlier limited assurance review found that the Council is not compliant with PCI DSS.

- **Planning Enforcement** – we recommended that extra resource and a review of priority work is undertaken.

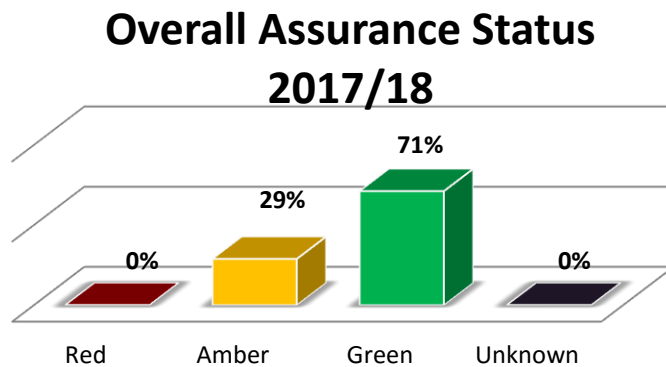
Combined Assurance Status Report

14. The Council produced its Combined Assurance report in March 2018. **Figure 2** provides the summary of the overall assurance status on the Council's critical activities.¹ Overall it shows a satisfactory level of assurance - giving predominately a medium (amber) or high (green) level of assurance. There were no assurance gaps. This shows good assurance arrangements – reducing the likelihood of unknown risks / surprises occurring.
15. The assurance report has highlighted some areas where the Corporate Leadership Team is maintaining a 'watching' brief over emerging risks. These relate to:
 - **Review of Statutory Returns** – The Council is required to submit to various government bodies, a wide range of statistical and performance related information. The management oversight on this is being developed.
 - **Oversight of Third Party Arrangements** – The Council is involved in a number of joint venture arrangements and is also a joint shareholder in two companies. It is key that the Council's governance arrangements incorporate appropriate oversight and scrutiny of the business plans and operations of these bodies.
 - **Enforcement Related Services** - The effectiveness of the new team arrangements has to remain in focus to provide assurance that the anticipated improvements in service delivery are realised.

- **Implementation of the Wellbeing Service** - Following a procurement and tendering exercise, the Council has been successful in being chosen to deliver a strand of the service to support vulnerable adults. The Council must ensure its implementation is closely monitored, partnership working arrangements are effective and the intended outcomes for users of the service are achieved.

16. A review of the Council's risk register also identified two high risk areas, one around the commercial approach the Council has developed in order to be non grant dependent by 2020. Two Information Governance – linked to Cyber Security, data loss and business continuity. Management actions are in place or in progress to manage these risks.
17. Taking all of the above information into account we have assessed the internal control environment as **Green / Amber** - performing well.

Figure 2 – Overall Assurance Status on Critical Activities¹



¹ Those identified by senior management as having significant impact on the successful delivery of Council priorities or whose failure could result in significant damage to reputation, financial loss or

Risk Management

18. There is an established framework in place for the Council to manage the key risks facing services and successful delivery of priorities with regular reporting to management and members.
19. The Governance and Audit Committee continues to receive regular updates on how the Council manages its risks.
20. We benchmarked the Council's risk management arrangements in 2017. Our assessment has been based on our knowledge of West Lindsey's risk management arrangements and accepted good practice.
21. Our overall assessment is that the Council has reached Level 3 in terms of risk management maturity – with many areas reaching Level 4.

Level 3 - Working	Risk management is working for the organisation
Level 4 - Embedded & working	Risk management is embedded and integrated within the organisation

22. On this basis we have assessed risk management as **Green** – performing well.

Financial Control

23. Our work provides an important assurance element to support the External Auditor's opinion on the Council's Statement of Accounts. During the year we reviewed:
 - Council Tax – key controls
 - Property Plant & Equipment – key controls
 - Treasury Management – key controls
 - Sales and Invoicing
 - Corporate Fraud – key controls
24. The Council has good financial management processes in place – that generally work well. We are pleased to report that we were able to provide 'substantial' assurance opinions on the areas we reviewed. On this basis we have assessed financial control as **Green** – performing well.
25. During 2017/18 we become aware of an instance where procurement processes have not been fully complied with. This relates to the recruitment and contract management of a consultant without following contract procedure rules. Our internal audit of Procurement during 2017/18 followed this up and found this is an issue for the Council. Our report recommends findings to address this weakness in procurement and consultant recruitment.

Roles and Responsibilities

26. The Council is responsible for establishing and maintaining risk management processes, control systems and governance arrangements. Internal Audit plays a vital role in providing *independent risk based and objective assurance* and *insight* on how these arrangements are working. Internal Audit forms part of the Council's assurance framework.
 27. Where Internal Audit work has identified improvements, we have worked with management to agree appropriate corrective actions and a timescale for improvement. It is the responsibility of management to implement the agreed actions.
 28. We are pleased to report that management have implemented all of the recommendations due for reports issued during 2017/18.
- PCI DSS – Compliance with Data Security Standards
 - Planning Enforcement

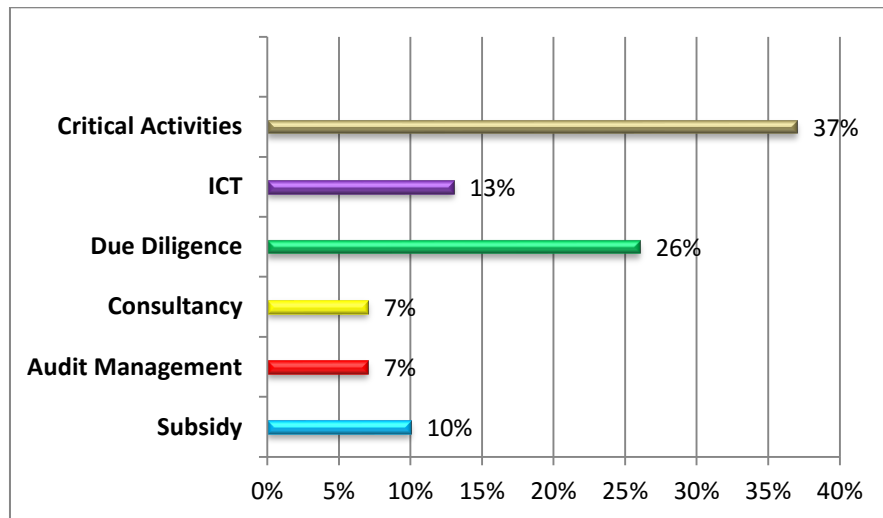
Annual Governance Statement

29. The Council is responsible for developing and publishing an Annual Governance Statement – reporting how they have monitored the effectiveness of their governance arrangements during the year – providing information on any significant governance issues.
30. The Annual Internal Audit Report should inform the Annual Governance Statement - we recommend that the following areas be considered for inclusion:
 - Procurement – use of consultants
 - Commercialism

Scope of Work

31. Our risk based internal audit plan was prepared taking into account the critical activities and key risks to support the basis of my annual opinion. It has remained flexible to enable us to respond to emerging risks and maintain effective focus.
32. The Governance and Audit Committee approved the 2017/18 original audit plan of 222 days in March 2017. We have delivered 174 days (including housing benefit subsidy) compared to the revised plan of 197 days (approved by the Governance and Audit Committee on the 17th April 2018) and 20 review areas – 88% of the revised plan by the end of the year. **Figure 3** shows the audit areas we covered during the year.

Figure 3 – Audit Areas covered in 2017/18 Plan



Restrictions on Scope / Changes to plan

33. The management team have supported us in scheduling and finalising audits – there has been an improvement from previous years in managing and delivering the agreed audits.
34. The key changes made to the plan were:

Growth (10 days) – this audit was originally planned for 2017/18 when we undertook some preliminary scoping work. This audit has been postponed to the first quarter of 2018/19. We will be following up on the 2016/17 audit of Growth to give continued independent assurance on the progress of the Growth Programme as part of the 2018/19 internal audit plan.

Contingency (10 days) – unallocated.

35. We have been working with the Director of Resources and Management Board to schedule our work plans. All audits for 2017/18 have been scheduled. The clearance of terms of reference and audit reports through the Corporate Leadership Team has improved. The Governance and Audit Committee will also seek explanations as to the reason and rationale for any changes to the approved plan. These steps seek to improve the audit process and should ensure that the plan is delivered as agreed.
36. These changes to have had an adverse effect on the delivery of my overall opinion but it has impacted upon my ability to provide the Council with independent assurance over some of its key risks and critical business systems.
37. We have not experienced any impairment to our independence or objectivity during the conduct and delivery of the Internal Audit Plan.

38. The charts in **Figure 4** shows the assurance opinions given in 2017/18 compared to those in 2016/17. Our audit plan includes different activities each year – it is therefore not unexpected that these vary; however, the assurance levels do give an insight on the application of the Council's control environment. We can see that overall assurance levels have remained broadly the same during 2017/18. The detail of audit reviews completed during 2017/18 is shown in Appendix 1.
39. The charts in **Figure 5** show the comparison of internal audit recommendations made 2016/17 and 2017/18. Details of systems reviewed can be found in Appendix 1.
40. We track the implementation of agreed management actions. Over the past year management have implemented 98% of recommendations due by the 31st March 2018. Details of outstanding recommendations are shown in Appendix 2 - .

Figure 4 – Comparison of Assurances

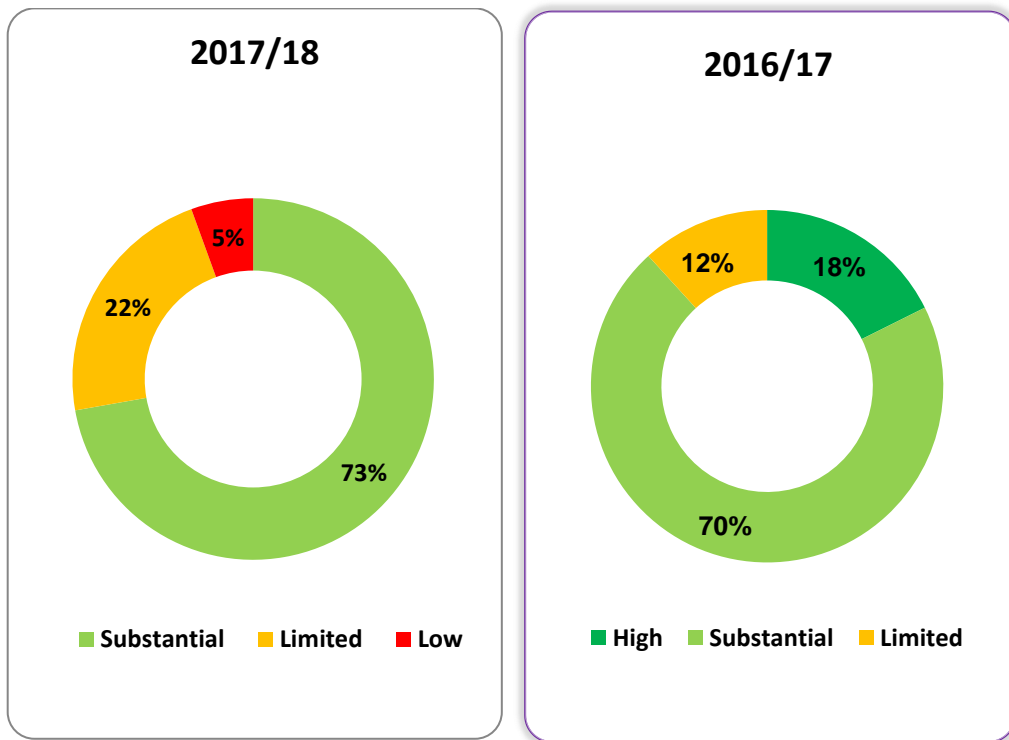
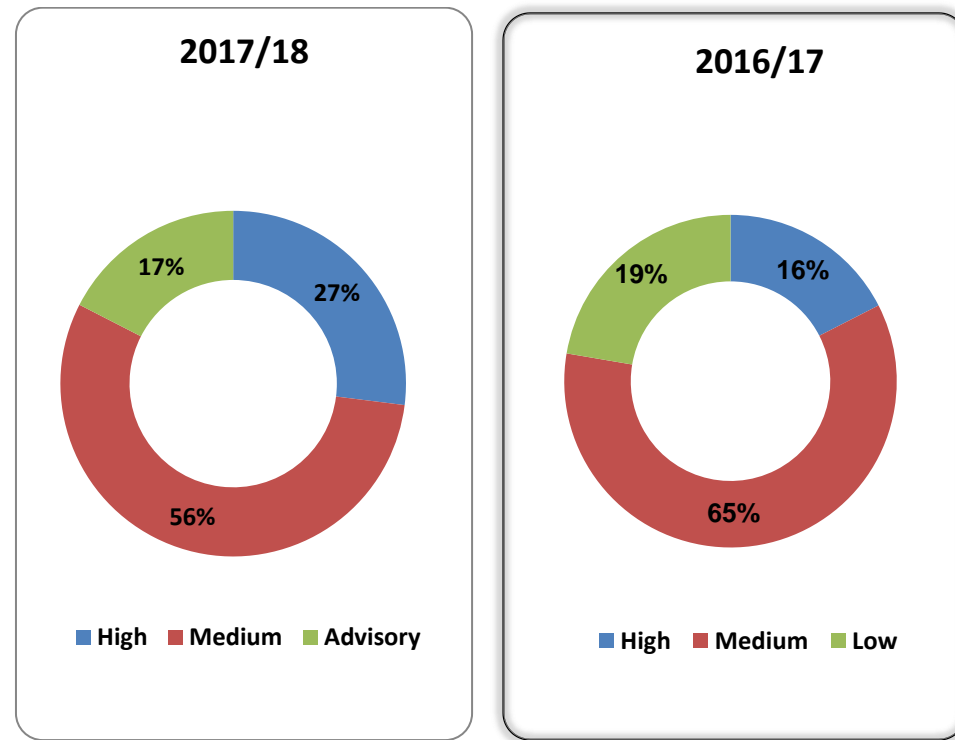


Figure 5 – Recommendations Made by Priority



Other Significant Work

Counter Fraud

41. Assurance Lincolnshire co-ordinates the Lincolnshire Counter Fraud Partnership whose key aim is to 'Fight Fraud Locally' and co-ordinate counter fraud resources effectively.
42. WLDC are rolling out the fraud E- Learning developed by Lincolnshire Counter Fraud Partnership (LCFP) to WLDC staff. The LCFP is an important part of fraud management and regular fraud liaison sessions have been held with WLDC and jointly with all members of the partnership. WLDC have confirmed continued engagement with LCFP for 2018/2019 which will ensure there is continued engagement at both a district and county level.

Delivery of internal audit plan 2017/18

43. Internal Audit's performance is measured against a range of indicators. The table in Figure 6 shows our performance on key indicators at the end of the year. We are pleased to report generally a good level of achievement against the performance indicators. A key improvement area is the performance for completing work in two months. This is due to audits being more complex and requiring longer to finish. There were no significant delays and we are satisfied that all reports are contemporary.
44. We will continue to work Senior Management to help improve the audit process – including:
- engagement and agreement of the audit schedule
 - clearance of audit reports through the Corporate Leadership Team
 - swift escalation of issues affecting progress and delivery eg resources and access to information

Figure 6 Performance on key indicators

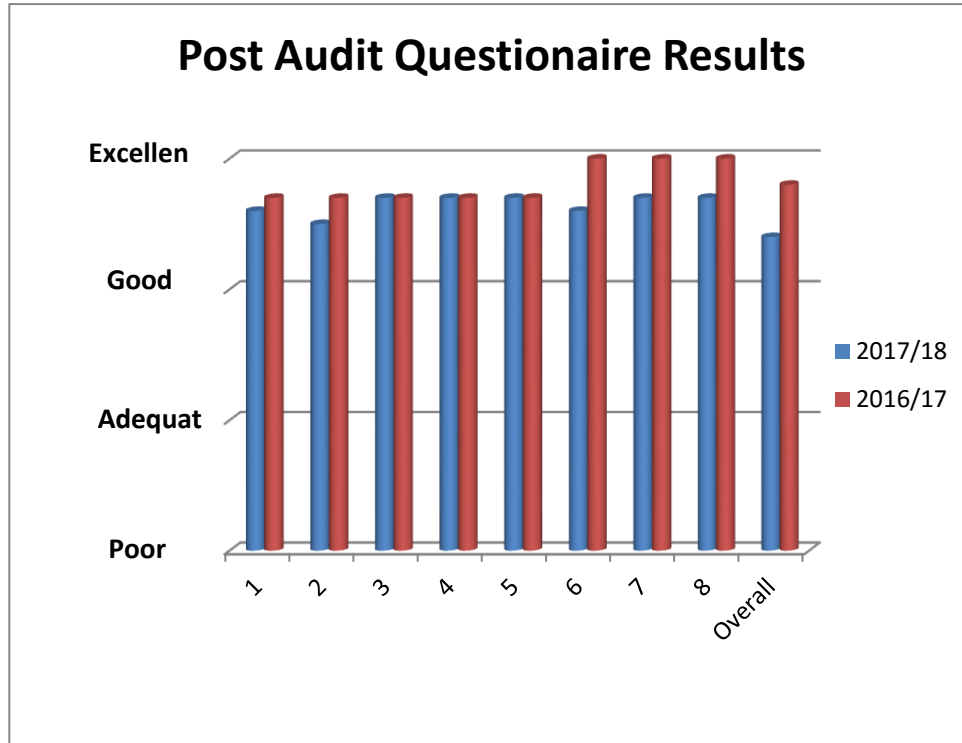
Performance Indicator	Target	Actual @ 30 th April 2018
Percentage of plan completed.	100%	90%
Percentage of key financial	100%	85%
Percentage of recommendations agreed.	100%	100%
Percentage of recommendations due implemented.	100% or escalated	100%
Timescales: Draft report issued within 10 working days of completing audit	100%	88%
Final report issued within 5 working days of closure meeting / receipt of management responses.	100%	100%
Period taken to complete audit within 2 months from fieldwork	80%	40%
Client Feedback on Audit	Good to Excellent	Excellent

Effectiveness of Internal Audit

46. We regularly canvass opinions on audit planning, report and communication from management responsible for activities under review. They score the effectiveness of our service as excellent,

good, adequate or poor.

Figure 7 – Client feedback



47. The table in Figure 7 outlines the responses by management on our service. For 2017/18 there was a 77% return rate of the questionnaire – with an overall average rating for the service of excellent.

Questions:

Audit Planning

1. Consultation on audit coverage
2. Fulfilment of scope and objectives

Audit Report

3. Quality of report
4. Accuracy of findings
5. Value of report

Communication

6. Feedback during the audit
7. Helpfulness of auditor (s)
8. Prompt delivery of report

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Quality Assurance

48. We recognise the importance of meeting customer expectations as well as conforming to the UK Public Sector Internal Audit Standards (PSIAS). We continually focus on delivering high quality audit to our clients – seeking opportunities to improve where we can.
49. Our commitment to quality begins with ensuring that we recruit develop and assign appropriately skilled and experienced people to undertake your audits.
50. Our audit practice includes ongoing quality reviews for all our assignments. These reviews examine all areas of the work undertaken, from initial planning through to completion and reporting. Key targets have been specified - that the assignment has been completed on time, within budget and to the required quality standard.
51. Our Quality Assurance Framework (**Appendix 3**) includes all aspects of the Internal Audit Activity – including governance, professional practice and communication. We are able to evidence the quality of our audits through performance and delivery of audits, feedback from our clients and an annual self-assessment.
52. There is a financial commitment for training and developing staff. Training provision is continually reviewed through the appraisal process and regular one to one meetings. A training programme has been developed to ensure that staff are kept up to date with the latest technical / professional information and to ensure that they are equipped with the appropriate skills to perform their role.
53. Assurance Lincolnshire conforms to the UK Public Sector Internal Audit Standards. An External Quality Assessment was undertaken in September 2016. No areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity was identified. One area of partial non-compliance on the lack of a specific audit of ethics and values was identified. This area has been included in the 2017/18 plan.
54. Our quality assurance framework helps us maintain a continuous improvement plan, which includes the following:
- Update Internal Audit Charter and practice manual following revision of PSIAS in April 2017
 - Undertake planned Ethical Audits at each client
 - Working with management improve progress and delivery monitoring / audit scheduling
 - Continuing professional development around new and emerging practice guidance.
- A copy of the detailed action plan can be found in **Appendix 4**.
55. Although internal and external auditors carry out their work different objectives in mind, many of the processes are similar and it is good professional practice that they should work together closely. Wherever possible, External Audit will place reliance and assurance upon internal audit work where it is appropriate.

Appendix 1

Internal Audit Assurances Given 2017/18

Audit Area	Assurance	Total Recs	High	Medium	Advisory
Combined Assurance	Not applicable	Status report issued March 2018			
Commercial Plans Delivery Phase 2	Low	10	4	5	1
Development Management Phase 2 - Planning	Substantial	3	2	1	0
Development Management Phase 2 - S106	Substantial	2	0	2	0
Dev Management Phase 2 - Planning Enforcement	Limited	4	2	2	0
Quality of decision making	Consultancy	2	0	2	0
Bank Rec	Substantial	1	1	0	0
Licensing	Substantial	6	0	5	1
NK Partnerships	Substantial	6	2	3	1
Sales & Invoicing - Finance system	Limited	5	3	2	0
Sales & Invoicing - Finance Invoicing	Substantial	4	1	3	0
Housing Benefit Subsidy Testing	Substantial	5	0	5	0
Patch Management	WIP	-	-	-	-
Audit Management	N/A	0	0	0	0
Choice Based Lettings Follow Up	Substantial	0	0	0	0
Good Governance	Due 2018/19	0	0	0	0
Progress & Delivery Follow Up	Substantial	1	0	1	0
Local Land Charges Follow Up	Substantial	0	0	0	0
Procurement - Use of Consultants	Limited	-	-	-	-
Procurement -	Substantial	3	-	-	3
Key Control Testing	Indicative High / Substantial WIP	-	-	-	-
Portfolio Board	Substantial	5	1	3	1
GDPR	Substantial	4	1	1	2
ARCUS -Consultancy	N/A	-	-	-	-
PCI DSS Follow Up	Limited	12	4	6	2
Overall Total		73	21	41	11

Appendix 2 – Outstanding Recommendations

Data is for audits completed 2017/18 where recommendations were due to be implemented by 31.03.2018

Activity	Issue date	Assurance	Total Recommendations	Recommendations Implemented	Priority of Recommendations			Recommendations not Due
					High	Medium	Low	
*Bank Rec	Oct 2017	Substantial	1	0	1			
Overall Total			1	0	1	0	0	0

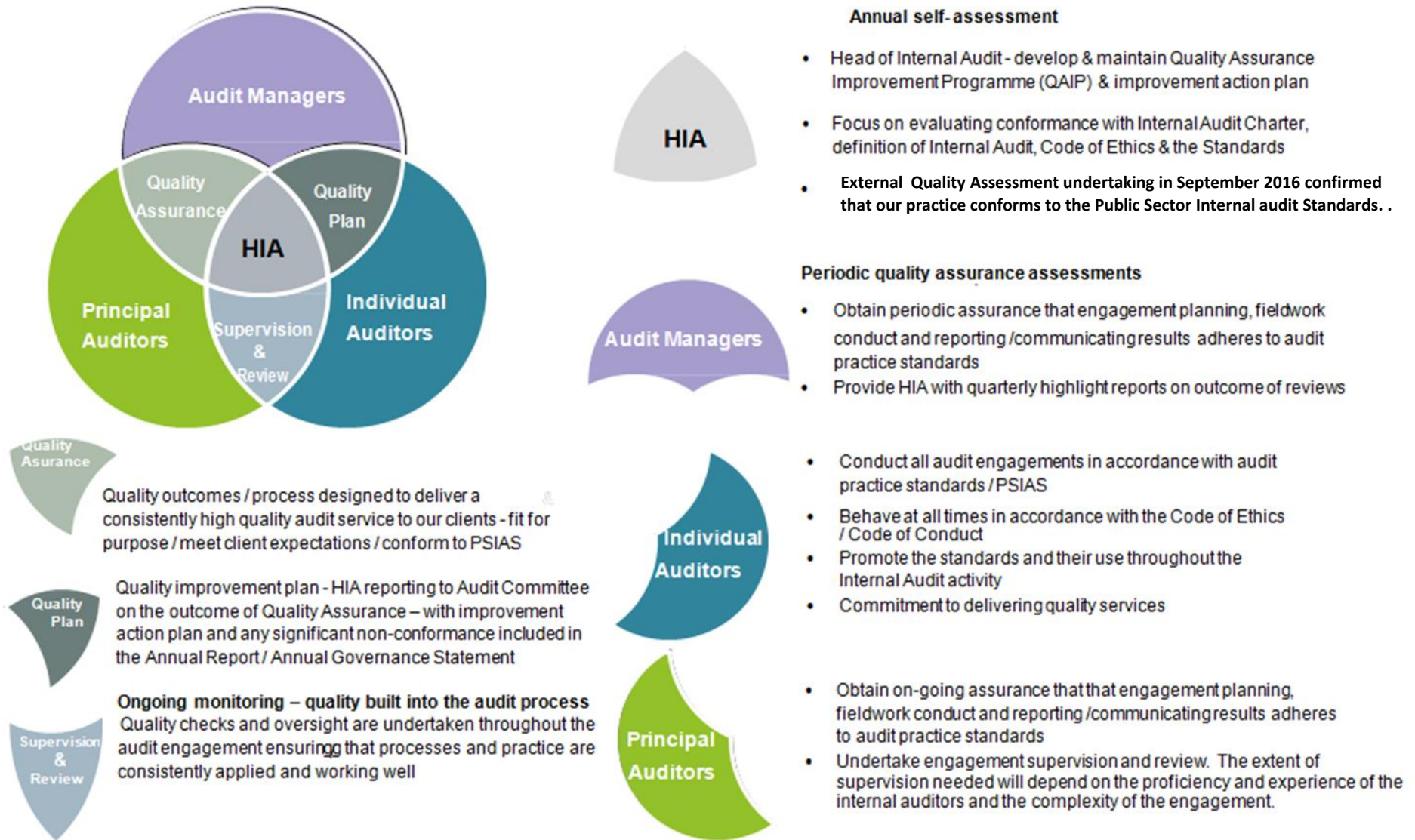
*The latest audit recommendations tracker report which ran up to the 31.03.2017 showed there was one overdue actions from 2017/18 audits. We received a new management response and completion date of the 30.06.2018.

This data is for previous years completed audits where recommendations were due to be implemented by 31.03.2018

Activity	Issue date	Assurance	Total Recommendations	Recommendations Implemented	Priority of Recommendations			Recommendations not Due
					High	Medium	Low	
ICT Infrastructure	2012/13	Limited	15	14	1*	0	0	0
Overall Total			15	14	1	0	0	0

*Original date 31.12.2013 - Revised date 31.03.2018

Appendix 3 - Quality Assurance Framework



Appendix 4 – Continuous Improvement Plan

Opportunities for Improvement		Actions	Timescale for tasks to be achieved	Person Responsible	Status
Governance					
1.	Ethical Audits	Complete phase 2 of the ethical audit at LCC	Phase 2 – March 2017	Head of Audit	Phase 2 – draft terms of reference to CMB November 2016 – scheduled May 2017
		Undertake governance audit at each client and discuss value and timing of an ethical audit – are the governance arrangements working well	March 2016 2016/17 audit plan	Head of Audit / Team leaders	Phase 1 completed at LCC – phase 2 scheduled.
2.	PSIAS	Regular practice discussions at team meetings – including: <ul style="list-style-type: none"> • Code of ethics • Audit process • Communicating results • Hot topic 	Ongoing	Management Team	Audit process covered through Pentana training
3.	Progress and Delivery Reporting	Improve in year reporting on the outcome of internal audit work and performance (as necessary)	Immediate	Head of Audit / Team Leaders	Progress reports will be shared with Management Teams
Practice					
4.	Practice notes	Review and update: <ul style="list-style-type: none"> • Charter • Audit Process • Health Check and VfM practice note 	September 2017	Head of Audit	Not Due

Opportunities for Improvement		Actions	Timescale for tasks to be achieved	Person Responsible	Status
		– review and sign off			
Communication					
5.	Contemporary reporting	Improve timescales for delivery of audit and investigations from time fieldwork commences to issue of draft and final reports	Monitored through progress reports	Team Leaders	Revised targets and scheduling approaches agreed. An area where a watching brief is required.
6.	LCC only Managing client relationship	Take the opportunity given by the Senior Management restructure to rebuild relationship with IT service manager.	November 2016	Head of Audit	In progress

Appendix 4 – Continuous Improvement Plan

Continuing Professional Development (Service / Team)				
	Area / Activity	Outcome	Date Planned	Status
I.	IT Audit Awareness / Training General	Greater understanding of Computer Aided Auditing Techniques – benefits and use in determining testing strategies / analysing data	October 2017	Further guidance on CAAT's required after IdEA upgrade
II.	Internal Audit Update: <ul style="list-style-type: none"> • Horizon Scanning • Practice updates 		CIPFA Audit Conference – May 2017 CIPFA Audit Update – November 2017 Team briefings: <ul style="list-style-type: none"> • PSIAS 2017 • Ethical Audits • Thinking about Risk • Added Value and Insight • Good Governance – 2016 • Effective Audit Committees • Counter Fraud • Improving customer experience / the politics of Internal Audit 	Scheduled throughout the year

Appendix 5 - Glossary of Terms

<p>High</p>	<p>Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.</p> <p>The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.</p>
<p>Substantial</p>	<p>Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.</p>
<p>Limited</p>	<p>Our critical review or assessment on the activity gives us a The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.</p>
<p>Low</p>	<p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.</p>

Assurance Definitions Significance

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Head of Internal Audit Annual Opinion

The rating, conclusion and/or other description of results provided by the Head of Internal Audit addressing, at a broad level, governance, risk management and/or control processes of the organisation. An overall opinion is the professional judgement of the Head of Internal Audit based on the results of a number of individual engagements and other activities for a specific time interval.

Governance

Comprises the arrangements (including political, economic, social, environmental, administrative, legal and other arrangements) put in place to ensure that the outcomes for intended stakeholders are defined and achieved.

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Control

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management - plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.