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## Chelmsford City Council Audit and Risk Committee

**21<sup>st</sup> June 2023**

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### Internal Audit Annual Report 2022/23

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#### Report by:

Audit Services Manager

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#### Officer Contact:

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#### Purpose

This report summarises the work that Internal Audit has undertaken during the financial year 2022/23, identifies the key themes that we have identified across the Council and also highlights how responsive management have been in implementing recommendations.

#### Recommendations

Committee are requested to note the content of the 2022/23 Annual Report, including the Annual Opinion and the basis on which this opinion is based.

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#### 1. Introduction

- 1.1. The provision of a continuous internal audit service assists the Council in providing assurance on the control environment that support the delivery of the Council's strategy.
- 1.2. The Internal Audit Annual Plan for 2022/23 was approved by Audit and Risk Committee in March 2022. This report summarises the work that Internal Audit has undertaken during the financial year 2022/23, identifies the key themes that we have identified across the Council and also highlights how responsive management have been in implementing recommendations. We have also undertaken a review of the effectiveness of Internal Audit and provided an update on progress against our IA Strategy.
- 1.3. The Public Sector Internal Audit Standards (PSIAS) require that the Audit Services Manager provides an annual audit opinion and report that can be used by the organisation to inform its governance statement in respect of the adequacy and effectiveness of the organisation's framework of internal control, risk management and governance.

## 2. Conclusion

The Internal Audit Annual Report 2022/23 is attached for Audit & Risk Committee to note.

### List of appendices:

Appendix 1 - Internal Audit Annual Report 2022/23

Background papers: None

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## Corporate Implications

### **Legal/Constitutional:**

The Council has a duty to maintain an effective internal provision to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance (Regulation 5 (Part 1) of the Accounts and Audit Regulations 2015). As well as Public Sector Internal Audit Standards (PSIAS), the Internal Audit section will govern itself by adherence to mandatory elements of the Institute of Internal Auditors' International Professional Practices Framework (IPPF), including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing and the Definition of Internal Auditing. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of Internal Auditing and for evaluating the effectiveness of Internal Audit's performance.

### **Financial:**

Failure to have appropriate risk management arrangements puts the Council financial management in a weakened position and therefore increases the risk of failing to deliver Our Chelmsford Our Plan.

### **Potential impact on climate change and the environment:**

None

### **Contribution toward achieving a net zero carbon position by 2030:**

None

### **Personnel:**

None

### **Risk Management:**

The scope of Internal Audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit & Risk Committee, management and outside parties (e.g. External Audit) on the adequacy and

effectiveness of governance, risk management, and control process for Chelmsford City Council.

**Equality and Diversity:**

None

**Health and Safety:**

None

**Digital:**

None

**Other:**

None

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**Consultees:** Management Team received the Internal Audit Annual Report in May 2023.

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**Relevant Policies and Strategies:** None

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## **Internal Audit Annual Report 2022-23**

### **1. Introduction**

#### **1.1. Purpose of this report**

1.1.1. This report summarises the work that Internal Audit has undertaken during the financial year 2022-23 and provides details on the high risk and priority issues which could impact on the effectiveness of the internal control environment, risk management and governance arrangements across the Council.

#### **1.2. The Role of Internal Audit**

1.2.1. The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. The purpose of Chelmsford City Council's Internal Audit section is to provide independent, objective assurance and consulting services to the Council (via the Audit & Risk Committee, Chief Executive, Section 151 Officer, External Audit and senior managers), relating to these arrangements, which are designed to add value and improve the Council's operations. The Council's response to Internal Audit activity should lead to the strengthening of the control environment.

1.2.2. Each year, we seek to adapt and enhance our audit approach in order to take in to account the Council's risk profile and changes in the system of internal control. This ensures that our work remains focused on the areas of high risk and seeks to avoid duplication of effort, where there are other sources of assurance in operation, for example, External Audit.

1.2.3. Internal Audit remains free from all conditions that threaten the ability of the Council's Internal Auditors to carry out their responsibilities in an unbiased manner, including matter of audit selection, scope, procedures, frequency, timing and report content. If the Audit Services Manager determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties. This has not arisen for 2022/23. The Council's Internal Auditors also maintain an unbiased mental attitude that allows them to perform engagements objectively. Internal Auditors have had no direct operational responsibility or authority over any of the activities audited.

1.2.4. Our Internal Audit Charter was presented to Senior Management and Audit & Risk Committee in March 2023 and will continue to be updated and appended to the Internal Audit Plan each year.

#### **1.3. Overview of the Internal Audit Approach**

1.3.1. The Public Sector Internal Audit Standards (PSIAS) require that the Audit Services Manager provides an annual audit opinion and a report that can be used by the organisation to inform its governance statement in respect of the overall adequacy and effectiveness of the organisation's framework of governance, risk management and internal control.

1.3.2. This is achieved through a risk-based plan of work, agreed with management and approved by the Audit & Risk Committee, which should provide a reasonable level

of assurance, subject to the inherent limitations set out in Appendix C. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.

1.3.3. Internal audit work was performed in accordance with the Council's Internal Audit methodology which is in conformance with the PSIAS.

1.3.4. The audit plan for 2022/23 was approved by Audit and Risk Committee in March 2022. Internal Audit Team resource comprised of Audit Services Manager and 1.5 FTE Senior Auditor during 2022/23.

## 2. Internal Audit Opinion

2.1. Internal Audit is satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

2.2. In assessing the level of assurance to be given, the following has been considered:

- All audits undertaken in the year
- Any follow up action taken in respects of audits from previous periods
- The effects of any significant changes in the Council's systems or objectives
- Any limitations which may have been placed on the scope of internal audit
- The extent to which resource constraints may impact on the Audit Service's Manager ability to meet the needs of the organisation
- The results of work performed by other assurance providers, such as External Audit.

### OVERALL OPINION

**Moderate Assurance** – overall the Council's systems for control, risk and governance are generally adequate with some improvement required to address areas of weakness and non-compliance in the framework of governance, risk management and control which potentially put the achievement of objectives at risk. Please see our Summary of Findings in Section 4.

Internal Audit reached this conclusion because medium risk rated weaknesses identified in individual assignments are not significant in aggregate to the system of internal control, high risk rated weaknesses identified in individual assignments are isolated to specific system or processes, and none of the individual assignment reports have an overall classification of critical risk and/or no assurance. This opinion has been derived from consideration of the detail below. An explanation of the types of opinion that may be given can be found in Appendix A.

## 3. Other Sources of Assurance

### 3.1. Risk Management Framework

The Council's Risk Management Strategy recognises that risk management is an integral part of Council activities. Central to the risk framework is the identification and management of the Council's Principal Risks, aligned to Our Chelmsford, Our Plan objectives, each assigned to a Directorate lead. Reporting to Management Team and Audit and Risk Committee ensures arrangements are working effectively.

Risk and Internal Audit discuss and exchange risk information, including progress updates on development of the risk framework and any emerging issues. Risk consequence criteria have been aligned to ensure that management and Services receive broadly consistent messages to enable them to prioritise their risks. Internal Audit also use the Principal Risk Register, and other risks identified through the risk management framework, to inform the annual risk-based Internal Audit plan and to inform audit planning for individual audit assignments.

### 3.2. Internal Audit View on Managing the Risk of Fraud

The Council's approach to counter-fraud was revised and refreshed in 2022, with responsibility moving to the Audit Services Manager, including the production of a new Counter Fraud Strategy to ensure it is in line with best practice, CIPFA's guidance on Managing the Risk of Fraud and Fighting Fraud and Corruption Locally.

The 2022 Counter Fraud Strategy encompasses key principles such as acknowledging the responsibility for countering fraud and corruption, identification of fraud and corruption risks, provision of resources to implement the strategy and the action to be taken in response to fraud and corruption. Actions required to deliver and implement the Strategy were set out in a corresponding action plan, which included updating the Council's Fraud Risk Register, development of new Fraud Response Plan and plans for developing and rolling out Council wide counter fraud training during 2023.

Internal Audit also align their Internal Audit Plan and individual assignments with the Fraud Risk Assessment to independently assess anti-fraud controls in place. Where instances of fraud are identified, Internal Audit undertake a review of the circumstances, including lessons learned and recommendations to assist with the design of controls.

The Council also participates in mandatory NFI exercises, of which the latest bi-annual main exercise was November 2022.

## 4. Summary of Findings

### 4.1. High Priority Findings

Report Title	Key Issues Arising
<b>Procurement Cards</b> <i>(Limited Assurance)</i>	Three high priority findings were identified relating to usage, supporting documentation and effectiveness and timeliness of approval. A further four medium priority findings were identified. Though individual transactions have small value, the overall annual spend on procurements card is circa £0.5m a year.
<b>Project Management</b> <i>(Management Letter)</i>	Internal Audit undertook an advisory cross-Council high-level review of the Council's approach to Project Management. Overall, Internal Audit discussion highlighted examples of good practice and successful approaches within individual projects, however a lack of corporate oversight of projects may lead to inconsistencies across the Council when managing projects, potentially resulting in delivery delays, increased costs and ability to demonstrate value for money.
<b>Housing Rent Deposit Scheme</b>	Two high priority findings were identified relating to Assessment of Client Eligibility and Property/Landlord Checks.

Report Title	Key Issues Arising
<i>(Management Letter)</i>	
<b>Procurement &amp; Contract Management</b> <i>(Moderate Assurance)</i>	One high priority finding was identified relating to the Council's approach to contract management whereby it is recommended that a formal contract management policy/ procedure is implemented to ensure a consistent approach across the Council.
<b>Leisure Centres</b> <i>(Moderate Assurance)</i>	One high priority recommendation was identified relating to the ongoing development of a new bank reconciliation.
<b>Temporary Accommodation</b>	<i>Internal Audit were due to undertake a review of Temporary Accommodation during 2022/23, however following discussion with management the review had to be postponed due to limited housing resource. Internal Audit are aware that Housing remains a Principal Risk to the Council and will undertake this review in Summer 2023.</i>

#### 4.2. Key Financial Systems (KFS) 2022/23

The KFS programme is a key indicator of the overall strength of the underlying control environment and each year Internal Audit carries out reviews of the Council's fundamental financial systems. For 2022/23, this included a full review of Procurement Cards (see above) and a key control review of Business Rates and Council Tax. This latter review is due to be completed by 30<sup>th</sup> June 2023.

#### 4.3. Grants Sign Off

During 2022/23, Internal Audit were required to carry out audit testing and review to ensure that the conditions attached to the Government COMF Test and Trace and TTSP (Test and Trace Support Payments) were complied with. No issues were noted.

#### 4.4. Results of Individual Assignments (listed in order of priority of findings)

Report Title	Link to PRR	Assurance Rating	High	Med	Low
Procurement Cards	005 Fraud / 017 Procurement & Contract Management	Limited	3	4	0
Project Management Governance	017 Procurement & Contract Management / 019 Income & Financial Position	n/a management letter but findings identified should be considered high priority			
Housing Rent Deposit Scheme	006 Homelessness	n/a management letter	2	2	0
Procurement & Contract Management	017 Procurement & Contract Management	Moderate	1	2	1

Report Title	Link to PRR	Assurance Rating	High	Med	Low
Leisure Centres	019 Income and Financial Position / 005 Fraud	Moderate	1	1	0
Car Parks	005 Fraud	Moderate	0	4	1
On Street Parking and Enforcement	005 Fraud	Moderate	0	4	1
Council Tax Base	019 Income and Financial Position	Substantial	0	1	0
Environmental Health	005 Fraud	Substantial	0	2	2
Payroll	005 Fraud	n/a management letter	n/a	n/a	n/a
Chelmsford Museum	005 Fraud	n/a management letter	n/a	n/a	n/a
Cheques Advice	005 Fraud	n/a management letter	n/a	n/a	n/a
Key Financial Systems 2022/23	019 Income and Financial Position / 005 Fraud	TBC	TBC	TBC	TBC
Theatres	Phased control design and assurance work timed as appropriate around re-opening, reviewing the processes for Theatre income collection and expenditure.				

Internal Audit have also continued to provide ad hoc advice and guidance during 2022/23, including to HR, Finance and Digital Services and in relation to the Community Governance Review.

#### 4.5. Management's Response to Implementing Audit Recommendations

A key measure of success and a strong internal control environment is timely implementation of recommendations. All planned audit work undertaken is subject to a formal follow up to ensure that all agreed actions have been implemented. Performance relating to the implementation of recommendations during 2022/23 is tabled below.

Audit Title	Original Assurance Rating	Key Findings
Housing Allocations	Moderate	In the previous report, two medium recommendations were made. Based on the evidence presented, our follow up audit revealed that one recommendation had been partially implemented; and one recommendation has not been implemented. The outstanding recommendation relates to management information.
Mayor's Office	Moderate	In the previous report, two medium priority recommendations were made and accepted by management. Based on the evidence presented, our follow up audit revealed that one recommendation relating to cash handling had been partially implemented. The



Audit Title	Original Assurance Rating	Key Findings
		remaining recommendation is no longer applicable.
CiL/S106 Contributions	Moderate	In the previous report, one medium priority recommendation was made. Based on the evidence presented, our follow up review revealed that the agreed action was completed, and the recommendation has been fully implemented.
Health and Safety	Moderate	In the previous report, two medium priority recommendations were made and accepted by management. Based on the evidence presented, our follow up audit revealed that both had been fully implemented.
Planning	Substantial	In the previous report, one medium priority recommendation was made relating to the inclusion of the Bribery Act in staff training and awareness. This will be implemented when planned wider corporate anti-bribery training is rolled out during 2023.
Waste and Recycling	Substantial	In the previous report, one medium priority recommendation was made relating to the inclusion of the Bribery Act in staff training and awareness. This will be implemented when planned wider corporate anti-bribery training is rolled out during 2023.
Community Funding Scheme	Substantial	Work in Progress, due for completion Summer 2023.

## 5. Review of the Effectiveness of Internal Audit

5.1. Our performance against Key Performance Indicators (KPIs) used to demonstrate the effectiveness of the internal audit function during 2022/23 is shown in the table below.

KPI	Target	Result 2022/23	Comments
Audit Plan delivered to Draft Report Stage by 31st March:	90%	<b>82%</b>	Missed by 1 report, subsequently issued 06/04/23
Audit Plan delivered to final report stage by 30 <sup>th</sup> April:	100%	<b>67%</b>	All reports due to be finalised by 30th June.
Overall customer satisfaction score for the year to meet or exceed acceptable level (i.e. very good or good) for at least 90% of completed surveys	90%	<b>100%</b>	

## 6. Update on Progress of Internal Audit Strategy 2020-22

The Internal Audit Strategy 2020-22 was approved by Audit and Risk Committee in September 2020. Progress is documented below.

A new Strategy was produced for 2023/24 which was approved by Audit and Risk Committee in December 2022.

Original Strategy Goal	2021/22 Progress
<p>Develop a planning process which identifies the Council's most significant internal and external risks and deliver an Annual Internal Audit Plan focussing on these key risks, and which meets stakeholder needs.</p>	<p>The 2022/23 Internal Audit Plan was developed using a prioritisation of the audit universe using a risk-based methodology, including input from the Council's 'Our Chelmsford Our Plan', Principal Risk Register, as well as discussions with Council staff, senior management, plus consideration of local and national issues and risks. The plan was discussed and agreed by Senior Managers, Management Team and Audit and Risk Committee. A contingency was also included in the plan to cover requests from management for ad hoc, advisory type work on risk identification and subsequent control design (as well as urgent, unplanned reviews arising during the year).</p>
<p>To contribute to the Council's delivery of its governance and assurance framework</p>	<p>Risk and Internal Audit discuss and exchange risk information, including progress updates on development of the risk framework and any emerging issues. Risk consequence criteria have been aligned to ensure that management and Services receive broadly consistent messages to enable them to prioritise their risks. Internal Audit also use the Principal Risk Register, and other risks identified through the risk management framework, to inform the annual risk-based Internal Audit plan and to inform audit planning for individual audit assignments. Internal Audit will bring any serious, emerging issues to the attention of Risk.</p> <p>A Corporate Governance Group, which the Audit Services Manager attends, was formed in 2020. The purpose of the CGG is to oversee, co-ordinate and advise on the effective development and consistent operation of corporate governance arrangements in the Council.</p>
<p>To be a trusted advisor to Senior Managers and the Audit and Risk Committee</p>	<p>As demonstrated through the Internal Audit Annual Report and organisation feedback.</p>
<p>To monitor the critical skills and resource blend required to ensure Internal Audit deliver their mission and objectives.</p>	<p>In-house team training needs are monitored and co-sourced arrangement utilised with an external provider where alternative delivery/additional skills are required.</p>

## 7. Quality assurance and improvement programme

PSIAS require that Internal Audit develops and maintains a quality assurance and improvement programme that covers all aspects of the internal audit activity. Periodic reviews of the quality of internal audit work completed internally and the Audit Services Manger reviews all draft and final reports. Planning and delivery of the Service (including this Annual Report) has been done in conformance with the requirements of the PSIAS.

## Annual Opinion Categories

The table below sets out the four types of annual opinion that Internal Audit use, along with the types of findings that may determine the annual opinion given. The Audit Services Manager will apply their judgement when determining the appropriate annual opinion, so the guide given below is indicative rather definitive.

Type of Annual Opinion	When to use this type of annual opinion
Substantial	<ul style="list-style-type: none"> <li>• Generally, only low risk rated weaknesses found in individual assignments; and</li> <li>• None of the individual assignment report have an overall report classification of either high or critical risk</li> </ul>
Moderate	<ul style="list-style-type: none"> <li>• Medium risk rated weaknesses identified in individual assignments that are <i>not significant in aggregate</i> to the system of internal control; and/or</li> <li>• High risk rated weaknesses identified in individual assignments that are <i>isolated</i> to specific systems or processes; and</li> <li>• None of the individual assignment reports have an overall classification of critical risk</li> </ul>
Limited	<ul style="list-style-type: none"> <li>• Medium risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete</i> parts of the system of internal control remain unaffected; and/or</li> <li>• High risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete</i> parts of the system of internal control remain unaffected; and/or</li> <li>• Critical risk rated weaknesses identified in individual assignment that are <i>not pervasive</i> to the system of internal control; and</li> <li>• A <i>minority</i> of the individual assignment reports may have an overall report classification of either high or critical risk.</li> </ul>
No	<ul style="list-style-type: none"> <li>• High risk rated weaknesses identified in individual assignments that <i>in aggregate are pervasive</i> to the system of internal control; and/or</li> <li>• Critical risk rated weaknesses identified in individual assignments that are <i>pervasive</i> to the system of internal control; and/or</li> <li>• <i>More than a minority</i> of the individual assignment reports have an overall report classification of either high or critical risk.</li> </ul>

**Key to Assurance Levels in Individual Reports**

<b>No Assurance</b>	There are fundamental weaknesses in the control environment which jeopardise the achievement of key service objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered.
<b>Limited</b>	There are a number of significant control weaknesses which could put the achievement of key service objectives at risk and result in error, fraud, loss or reputational damage. There are High recommendations indicating significant failings. Any Critical recommendations would need to be mitigated by significant strengths elsewhere.
<b>Moderate</b>	An adequate control framework is in place but there are weaknesses which may put some service objectives at risk. There are Medium priority recommendations indicating weaknesses, but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any High recommendations would need to be mitigated by significant strengths elsewhere.
<b>Substantial</b>	There is a sound control environment with risks to key service objectives being reasonably managed. Any deficiencies identified are not cause for major concern. Recommendations will normally only be advice and best practice.

**Key to Risk Ratings for Individual Findings in Reports**

<b>Critical</b>	Financial: Severe financial loss; Operational: Cessation of core activities; People: Life threatening or multiple serious injuries to staff or service users or prolonged workplace stress. Severe impact on morale & service performance. Mass strike actions etc; Reputational: Critical impact on the reputation of the Council which could threaten its future viability. Intense political and media scrutiny i.e. front-page headlines, TV; Legal and Regulatory: Possible criminal, or high-profile civil action against the Council, members or officers. Statutory intervention triggered impacting the whole Council. Critical breach in laws and regulations that could result in material fines or consequences; Projects: Failure of major Projects and/or politically unacceptable increase on project budget/cost. Elected Members required to intervene.
<b>High</b>	Financial: Major financial loss. Service budgets exceeded; Operational: Major disruption of core activities. Some services compromised. Management Team action required to overcome medium-term difficulties; People: Serious injuries or stressful experience (for staff member or service user) requiring medical attention/ many workdays lost. Major impact on morale and performance of staff; Reputational: Major impact on the reputation of the Council. Unfavourable media coverage. Noticeable impact on public opinion; Legal and Regulatory: Major breach in laws and regulations resulting in significant fines and consequences. Scrutiny required by external agencies; Projects: Key targets missed. Major increase on project budget/cost. Major reduction to project scope or quality.
<b>Medium</b>	Financial: Moderate financial loss. Handled within the team; Operational: Significant short-term disruption of non-core activities. Standing Orders occasionally not complied with, or services do not fully meet needs. Service Manager action will be required; People: Injuries (to staff member or service user) or stress levels requiring some medical treatment, potentially some workdays lost. Some impact on morale and performance of staff; Reputational: Moderate impact on the reputation or brand of the organisation. Limited unfavourable media coverage; Legal and Regulatory: Moderate breach in laws and regulations resulting in fines and consequences. Scrutiny required by internal committees or internal audit to prevent escalation; Projects: Delays may impact project scope or quality (or overall project must be re-scheduled). Small increase on project budget/cost. Handled within the project team.
<b>Low</b>	Financial: Minor financial loss; Operational: Minor errors in systems/operations or processes requiring Service Manager or Team Leader action. Little or no impact on service users; People: Minor injuries or stress with no workdays lost or minimal medical treatment. No impact on staff morale; Reputational: Minor impact on the reputation of the organisation; Legal and Regulatory: Minor breach in laws and regulations with limited consequences; Projects: Minor delay without impact on overall schedule. Minimal effect on project budget/cost or quality.

## Limitations and Responsibilities

### 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. Internal Audit shall endeavour to plan its work so that there is a reasonable expectation of detecting significant control weaknesses and, if detected, Internal Audit shall 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, the examinations of Internal Audit should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless Internal Audit is requested to carry out a special investigation for such activities in a particular area.

### Limitations inherent to the internal auditor's work

Internal Audit work has been performed subject to the limitations outlined below:

- **Opinion**

The opinion is based solely on the work undertaken as part of the agreed internal audit plan. There might be weaknesses in the system of internal control that Internal Audit are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence, management and the Audit & Risk Committee should be aware that the opinion may have differed if the programme of work or scope for individual reviews was extended or other relevant matters were brought to Internal Audit's attention.

- **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**

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 operating environment, law, regulation or other; or
- The degree of compliance with policies and procedures may deteriorate