
The Corporation of the City of Windsor - CHC - Asset Management Housing Portfolio

*FINAL Internal
Audit Report*

June 19, 2019

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Limitations & Responsibilities

This Report was developed in accordance with our engagement letter dated June 2016 and is subject to the terms and conditions included therein. Our work was limited to the specific procedures and analysis described herein and was based only on the information made available at the time we prepared the report. Accordingly, changes in circumstances after the date of this Report could affect the findings outlined herein. We are providing no opinion, attestation or other form of assurance with respect to our work and we did not verify or audit any information provided to us. This information has been prepared solely for the use and benefit of and pursuant to a client relationship exclusively with the Corporation of the City of Windsor. PwC disclaims any responsibility to others based on its use and accordingly this information may not be relied upon by anyone other than the Corporation of the City of Windsor.



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Internal audit context

Background information

The Windsor Essex Community Housing Corporation (CHC) - Asset Management Housing Portfolio Review is part of the risk-based 2018-2019 City of Windsor Internal Audit Risk Assessment and Plan approved by the Executive Committee of Council on June 4, 2018. Internal Audit had been tasked to perform a review of the controls over the CHC's Asset Management Strategic Planning and Reporting & Asset Lifecycle Costing to provide further insights into the process.

CHC is an independent local housing corporation, with a Board of Directors (Board) appointed by the City of Windsor (City) and includes City and County of Essex (County) Councillor representation, members at large from the local community and tenant representatives.

The City has a dual role with respect to the social housing portfolio and the delivery of social housing programs. The City is the designated Service Manager and is required to administer, deliver and in some cases fund housing programs in the City and County. In addition, the City is the sole shareholder of CHC.

The City of Windsor, as designated Service Manager, and through the Housing Services department is responsible for the administration and funding of Social Housing Programs in the City and County as prescribed by the Housing Services Act, 2011 and provincial rules and regulations. CHC maintains three housing portfolios including Non-Profit Seniors (NPS), Non-Profit Family (NPF), and Public Housing (PH) portfolios and each of these portfolios can have different combination of funding sources.

In 2013, CHC submitted a letter to the City to provide an overview of the state of asset management at CHC and documented initiatives CHC planned to undertake. One of the major accomplishments was the realignment of roles by adding a role of Chief Development and Regeneration Officer (CDRO).

The CEO and the Board are responsible for the oversight and strategic direction of CHC. The Executive Management Team (EMT) develops, reviews and seeks approval from the Board for the capital budget of CHC, and is also responsible for making financial and asset planning decisions on the strategic management of assets. The Director of Asset Management (DAM) reports to the EMT and the Board on asset management.

In June 2017, an Asset Management report was issued to the CHC board of directors about the Facility Condition Assessment (FCA) methodology, stated that the projected total needs are in excess of \$141 million over a period of 10 years. Also the rationale for CHC's selection of its targeted Facility Condition Index (FCI) is described in this report and how the 10% FCI target was determined to evaluate the performance/outcomes of the regeneration report and asset planning/management processes. The following figures are extracted from the 2017 report with comparative 2019 estimates provided by management:

Metric	2017	2019
Total Current Annual Capital Funding (as per the approved budget)	\$3.5 million	\$3.6 million
Expected Annual Capital Needs based on 10% FCI	\$14.2 million	\$17.3 million
Total Net Annual Capital Funding Surplus/Deficit	\$14.2 million- \$3.5 million = \$10.7 million.	\$13.7 million

The following is the break down of the annual potential unfunded capital (capital deficit) on the basis of 60% funding by City and 40% of public housing funding from the County of Essex:

Portion attributed to City of Windsor	2017	2019
Unfunded capital deficit	\$10.7 * 60% = \$6.4 million (approximately)	\$13.7 * 60% = \$8.2 million (approximately)
Current capital funding	\$3.5 - \$0.4 NPS = \$3.1 * 60% = \$1.86 million (approximately)	\$3.6 - \$0.5 NPS = \$3.1 * 60% = \$1.86 million (approximately)

The above capital budget of CHC (\$3.1 million for PH+NPF) is currently funded from the City's Operating Budget. With operating funds the City does not prioritize specific projects. CHC receives a lump-sum budget and prioritizes projects based on its capital needs. CHC has also come forth more recently to seek additional funding in the City's annual Capital Budget. While City Council has approved and allocated some capital funding for this purpose within the 7 year Capital Budget Plan, the funding levels still remain well below the desired funding levels of CHC given the City's finite financial resources and the significant and competing capital budget demands placed on the City. The Phase 2 regeneration plan that will be presented to the Council will outline the timelines and priorities before significant investments are considered.

An external consultant was retained by CHC in 2017 to complete a regeneration study to achieve the following objectives:

- Determine CHC's asset needs over the next 5, 10, and 15 year periods and determine how these needs can be most appropriately satisfied;
- Achieve long term sustainability of CHC
- Determine the best and most appropriate way to utilize equity and any available capital; and
- Position CHC to be able to make a business case for its regeneration needs.

The regeneration study, also covered the portfolio rating and assessment that evaluated every property in the CHC portfolio and sorted them into five broad asset classifications based on each property's current performance and appropriate go-forward strategy.

CHC has deployed an online asset management and database tool known as Asset Planner that holds the inventory of all CHC capital assets and their specific building components, to forecast the repair and replacement needs of each asset category in the Asset Planner Software.

Scope

The scope of this internal audit included an assessment of the controls in effect for the period January 1, 2018 to September 30, 2018 and for assets in service considered when developing the planning for the 2018 annual capital plans and reporting during 2018.

Internal audit objectives

Overall purpose of this internal audit project was to provide a current state assessment of the design effectiveness of controls management has implemented to achieve the following objectives related to CHC Asset Management Housing Portfolio:

1. Asset Management Strategic Planning and Reporting

- CHC has set an asset management strategy that incorporates the provincial/federal strategies/requirements and municipal service agreements or other housing initiatives (e.g. regeneration plan).
- CHC has established procedures to support long term capital needs/plans align with the asset management strategy or regeneration plan.

- c. CHC has established metrics including FCI targets for strategic objectives related to asset management and timely and relevant reporting to stakeholders.

2. Asset Lifecycle Costing

- a. CHC has established procedures to support necessary asset data that is captured within the Asset Planner Software and procedures to update and reconcile this data in a timely manner.
- b. CHC has established a work-flow for regular update and review of asset details and lifecycle costing assumptions (e.g. updates or changes to portfolio).
- c. CHC has established protocols to facilitate consistency in how asset management methodology is applied across various portfolios.

Specific scope exclusions

Given the nature of the work, risk considerations and budgeted effort, the following elements are explicitly excluded from the scope of this specific internal audit:

- The design, implementation and operation of the Information and Technology (IT) environment and IT general controls, end user computing controls, IT application controls, data integrity of reports used in IT dependent manual controls.
- Detailed transactional processes such as: Procurement/Spending controls, reporting to the City or budget approval by the City, debt/capital structure and funding or grant revenue or debt/other sources of revenue.

Summary of Internal Audit results

Report classification

During the course of the internal audit, specific controls were identified which generally address the control objectives of the internal audit; however, there are some controls which may be improved around documenting procedures regarding steps involved in adopting/revising an organization wide FCI. In addition, the asset management procedures and framework for lifecycle costing exist but strategic direction and mechanisms to measure and report against strategic goals/objectives in regular and repeatable manner are not developed in a Strategic Asset Management Plan (SAMP).

Quarterly meetings between CHC and the Service Manager are scheduled to discuss updates on operational activities. Regular Board meetings are held where the Board is updated on matters including capital expenditure, metrics including projected needs and unfunded liability, as well as other funding options.

A regeneration study was conducted by external consultants on behalf of CHC and subsequently a report including recommendations was submitted to CHC in August 2017. This report was initially reviewed by the EMT, the Board and the Service Manager. The Phase I recommendations provided a framework for CHC to pursue further regeneration activities. CHC has prepared an action plan to incorporate recommendations from Phase 1 which are used to guide the preparation of the Phase 2 regeneration report. The Phase 2 report will identify the detailed regeneration plan, related costs/revenue and detailed timing. The Phase 1 recommendations will be implemented once Phase 2 plan is approved. The Phase 2 Regeneration Report will be delivered to the Service Manager for review and subsequently to council for approval. The Phase 2 recommendations will build on the Phase 1 recommendations, and will be implemented subject to City Council approval, funding etc.

CHC has strategically established baseline FCI of 10%. This decision was based on considerations such as (1) the recommendation of external consultant that conducted the FCA's, and (2) CHC analysis and review as well as (3) discussion of options and final approval at the Board level. In addition, FCI was also determined by reviewing industry practices and benchmarking against private real-estate developers, non-profit developers and other non-profit housing providers. FCAs are conducted at least every seven to ten years.

CHC should establish procedures to define the basis for determining the organization's FCI target such as key considerations and minimum expectations when analysing and recommending FCI targets. Further, appropriate accountabilities for the review and approval should be defined. CHC should also perform sensitivity analysis using data from the Asset Planner Software to simulate or project condition ratings against forward looking expectations or level of service goals.

CHC has updated its Capital Plan for 2018 based on the assets identified for lifecycle updates through Asset Planner Software reports, and the FCI ratings identified considering its Long Term Asset Management Policy. CHC engages in capital planning annually by identifying the capital needs according to the following criteria:

- degree of urgency by building component
- availability of funding
- empirical data from Operations Department
- empirical data from Project Managers
- support the creation and execution of the SAMP

CHC has deployed an online asset management and database tool known as Asset Planner that holds the inventory of all CHC capital assets and their specific building components, to forecast the repair and replacement needs of each asset category in the Asset Planner Software.. The Asset Planner Software is able to track and log updates/changes made to asset details within the program. In addition, staff that have access to the Asset Planner Software are restricted from adding/deleting assets from the Asset Planner Software. Further, such staff do not have access to the Yardi system (property management software) which demonstrates appropriate segregation of duties.

Standard repeat intervals are built into the Asset Planner Software for replacement of assets/materials. "Appendix I" to the Asset Planner Software manual "Element Life Values and Standard Costs" includes list of replacement cycle which has not been updated to reflect results from the most recent FCA's. CHC should update the list within suitable time frame subsequent to receiving the FCA reports. In addition, the list should be reviewed and approved by the EMT. To facilitate effective reporting and oversight of asset performance and to enhance communication with the Service Manager, a summary of reports available from the Asset Planner Software should be shared.

Based on the controls identified and assessed, we have determined that there is reasonable evidence to indicate that:

	No or limited scope improvement	No major concerns noted	Cause for concern	Cause for considerable concern
For the objectives related to Asset Management Strategic Planning and Reporting				
Controls over the process are designed in such a manner that there are:				
Sample tests indicated that process controls were operating such that there are:				
For the objectives related to Asset Lifecycle Costing				
Controls over the process are designed in such a manner that there are:				
Sample tests indicated that process controls were operating such that there are:				

Management has provided comprehensive action plans, which we believe will address the deficiencies noted.

Summary of positive themes

Based on the discussion with CHC and documentation reviewed to date and conducted by Internal Audit, the following positive themes were noted:

1. Strategy Development

- a. CHC has shown its commitment to asset management and the impact of asset planning on core strategic objectives which have been enforced by the City and approved by the Board. This alignment gives the asset management team/program the necessary support to implement and operate processes and report on progress to assist CHC with more timely and evidence based decision making.
- b. An organization wide Strategic Plan has been developed (2015-2019) by CHC which covers five strategic priorities. This plan has been reviewed and approved by the CEO and the Board. The Strategic Plan includes objectives regarding asset management, maintenance, and regeneration of communities.
- c. A regeneration study was conducted by external consultants on behalf of CHC and subsequently a report was submitted in Aug 2017. This report highlights the current conditions, asset classification assessment, cost reduction and revenue generation strategies, development strategies, and regeneration plan.

2. Monitoring & Reporting

- a. Quarterly meetings are held between CHC and the Service Manager. This meeting includes discussion and updates on various operational activities including but not limited to funding opportunities, retention of surplus, rent increases, housing and homelessness master plan update etc.
- b. Metrics including projected needs and unfunded liability as well as other funding options are presented to the Board regularly. In addition, reports like: FCIs, Reserve Fund Study, and cumulative unfunded liability are also generated from the Asset Planner Software for the purposes of annual report preparation and update to Board.
- c. CHC Board has been updated about National Housing Strategy in 2018 via CEO report. This report demonstrates management's awareness and transparency with the Board. The Board meetings include detailed discussions on Asset Management Report by Director, Asset Management including updates on capital spending changes to the planned spending due to emergency projects.

3. Policies & Procedures

- a. CHC has developed a Long Term Asset Management Policy which aligns with the City's Asset Management Policy. The policy includes elements regarding Asset Management Governance and Framework as well as Capital Planning and Improvement Execution. The Capital plan for 2018 was drafted in consideration with the existing policy based on our testing.
- b. CHC has adopted a 10% FCI as an acceptable condition target on a consolidated basis. The target for a specific building's FCI may vary for strategic reasons.
- c. FCA's are carried out by third party consultant every 7-10 years who assess the condition and report on results. The purpose of the assessment is to review major capital components of the building to determine general conditions and to provide recommendations for repair/replacement, complete with budget estimates, over the next 30 year period. CHC conducts an updated interim assessment of critical and poor items identified in the FCA. The FCA or the interim assessment include update of the data contained in the Asset Planner Software and written reports on each development and a summary report.
- d. An online asset management and database tool known as Asset Planner Software is currently deployed at CHC. For user guidance, an Asset Planner Manual is prepared and made available to CHC staff. This manual was last updated on Apr 20, 2015. Asset Planner Software tracks and logs the updates/changes made to asset details within the software. In addition, staff having access to the Asset Planner Software do not have access to add/delete assets from the Asset Planner Software.

4. Lifecycle Costing

- a. The Capital Plan 2018 has been updated based on the assets identified for lifestyle updates through Asset Planner software reports and the FCI ratings identified in the regeneration report considering the CHC's Long Term Asset Management Policy.
- b. Asset management roles within CHC include a Chief Development and Regeneration Officer, Director of Asset Management, and the Project Manager assigned to update Asset Planner Software do not have access to the Yardi system (property management software).
- c. The repeat intervals for replacement of assets/materials are based on the standard repeat intervals built into the Asset Planner Software or revised by CHC management depending on the nature of replacement material/asset and usage. This was witnessed during our testing of replacement cycle set within Asset Planner Software. The "Appendix I" to the Asset Planner Manual "Element Life Values and Standard Costs" includes list of replacement cycles of assets.

Summary of findings

Finding #	Topic	Rating ¹			Management Action Plan
		Significant	Moderate	Low	
Asset Management Strategic Planning and Reporting					
1	Develop Strategic Asset Management Plan (SAMP) and establish clear accountability for achieving AM goals (design effectiveness)		X	-	Present phase 2 regeneration plan prior to assigning accountabilities for SAMP goals and objectives - Q4 2020
2	Document procedures regarding steps involved in adopting/revising an organization wide FCI (design effectiveness)	-	-	X	Update LTAM Policy with approved FCI target and outline requirements for review/ approval when changes are required to FCI into a procedure/guideline - Q1 2020
Asset Lifecycle Costing					
-	No findings were noted	-	-	-	
Total			1	1	

Management comments

CHC appreciates the review and feedback. Our detailed comments are noted below.

Name: Jim Steele, CEO

Date: June 19, 2019

¹ See Appendix A for Basis of Finding Rating and Report Classification

Detailed observations

1. Develop Strategic Asset Management Plan (SAMP) and establish clear accountability for achieving asset management goals (<i>design effectiveness</i>)			Overall Rating: Moderate
Impact:	Medium	Likelihood:	Likely
Observation Objectives related to asset management have been identified in the overall CHC Strategic Plan (2015-2019). In addition, a regeneration plan has been developed as a result of a study conducted by external consultants on behalf of CHC in 2017 to support AM objectives. As of the date of fieldwork, we noted that CHC has not developed a Strategic Asset Management Plan (SAMP) via a process to support alignment to the regeneration plan. During fieldwork management indicated plans were already established, or anticipated, to address the above finding elements in 2019. There is a process outlined in the existing Long Term Asset Management (LTAM) policy regarding SAMP. Once a SAMP is developed the process for oversight within the LTAM policy can be followed or applied.			
Implication In the absence of an integrated, strategy and plan the desired outcomes may not be achieved or inefficiencies may occur.			
Possible root cause Phase 2 study is in progress which will be a part of the planned SAMP.			
Recommendation Management should work on developing a Strategic Asset Management Plan (SAMP) via a process to support alignment to other provincial or federal programs/strategies. Objectives for key elements of the regeneration plan should be established before launching into Phase 2. Each of the 17 recommendations from the regeneration plan should be taken into consideration by establishing estimated cost and timeline for completion. In addition, the Executive Management Team should be involved in providing direction and/or overseeing quality and timelines of action plans.			
Management Action Plan			
Action Plan: CHC will finalize the Phase 2 Regeneration Study, which will examine the Phase I recommendations, and also provide CHC with a broader strategic framework for our SAMP. The SAMP is a planning tool to clarify intentions, priorities and practices to be adopted. It takes a long-term view and considers the combination of organization needs, stakeholder expectations and realities of existing assets and asset management capabilities. The Phase 2 Regeneration Study will be completed and presented to City Council in the fourth quarter of 2019. CHC is currently resource constrained in developing and executing a SAMP and will have to identify resources to implement the recommendation. Subject to obtaining the resources required, SAMP will be completed.	Responsible Party:		Chief Development and Regeneration Officer
	Due Date:		Q4 2020

2. Document procedures regarding steps involved in adopting/revising an organization wide FCI (design effectiveness)			Overall Rating: Low
Impact:	Low	Likelihood:	Likely
Observation We noted two procedural areas where governance standards were not clearly defined: 1. While the FCI target was reviewed, analysed and options presented to the Board for approval, the minimum expectations with regards to this analysis and review are people dependent and not clearly defined. 2. Within the Long Term Asset Management Policy, requirements for overseeing asset performance goals/targets, calculation of significant deficit and reliance on input from an external parties is not formally defined.			
Implication Requirements or responsibilities may not be known or understood by those involved in the process. Changes to FCI goals/targets may not be processed in a structured/reliable manner due to dependency/availability of third party benchmarking data/statistics.			
Possible root cause Guidance and oversight of the development of policy components is not defined			
Recommendation Management should establish procedures including but not limited to: • define minimum expectations and key considerations for determining the organization's FCI target. For example desired levels of service, key inputs, sources of data, options analysis, sensitivity analysis, etc. could be a basis for the determination. • define appropriate accountabilities for review and approval, including the role of Executive Management Team). • requirements to inform the Board of changes to unfunded liability and related risks to effectively managing asset portfolio in a timely manner. Management should also perform sensitivity analysis using data from the Asset Planner Software to simulate or project condition ratings against forward looking expectations or level of service goals.			
Management Action Plan			
Action Plan: Management agrees with the finding and would address the above recommendation by updating the Long Term Assets Management Policy and define appropriate accountabilities for the review and approval via a procedure or guideline.	Responsible Party:		Director of Asset Management
	Due Date:		Q1 2020

Considerations for improvement

1. Enhance the Long Term Asset Management Policy

Observation

Upon benchmarking CHC's Long Term Asset Management Policy (LTAMP) with the City of Windsor and other municipalities' LTAMP, it was noted that items including: use of Support Data Systems, consideration of Climate Change Impact, and provision indicating intention to strive beyond minimum legislative solutions were not taken into consideration in the CHC Long Term Asset Management Policy.

Considerations

Management should incorporate the use of data and business support resources as well as the climate change impact within its LTAMP. The update against climate change impacts can address potential risk impacts to existing operations as follows:

- Increase in demand to areas of operations when responding to an increase in severe storms (during and after)
- Implementation of development policies which were created in the absence of climate change considerations, which may increase vulnerability
- Increase in operating/maintenance demands to deal with climate extremes
- Increased chance of flooding to basements
- Increase in public health risks due to extreme heat

In addition, management should also incorporate a provision to indicate its intention to strive beyond the minimum legislative solutions to make assets more resilient to changing conditions.

2. Enhance Asset Planner to produce key information relevant for decision making

Observation

Currently, with regards to Asset Planner Software:

1. Does not include the following information:
 - a. substance management & remediation;
 - b. regulatory compliance;
 - c. future FCA costs;
 - d. building components improvements, and;
 - e. risk management components to support enhanced and effective decision making.
2. Properties within the Asset Planner Software are not classified by category as documented in the regeneration report.
3. Communication regarding the menu/dashboard of reports available from the Asset Planner Software to the Service Manager could be enhanced.

Considerations

Management should:

- Include substance management & remediation, regulatory compliance, future FCA costs, building components improvements, and risk management components within the Asset Planner Software to support enhanced and effective decision making.
- Properties within the Asset Planner Software should be classified by category as documented in the regeneration report to effectively review the assets by category
- Continue using the Asset Planner Software for forecasting and performing the sensitivity analysis to provide better and effective reporting to the Board and City.
- Continue incorporating energy retrofits beyond replacements within the Asset Planner Software to support enhanced and effective decision making.

Further, communication could be enhanced with the Service Manager if menu/dashboard of reports available from Asset Planner Software is shared. This will facilitate effective reporting and oversight of asset performance.

3. Establish procedure to update list of lifecycle assumptions and obtain approval for revisions

Observation

The Asset Planner manual is maintained at CHC which also includes an appendix that lists the lifecycle assumptions across different portfolios. It was noted that this list has not been updated to reflect results from the most recent FCAs.

Considerations

Management should establish procedures to update "Appendix I" to the Asset Planner manual "Element Life Values and Standard Costs" which includes list of replacement cycle. This list should be updated within a suitable time frame subsequent to receiving the FCA reports. In addition, the list should be reviewed and approved by the Executive Management Team.

Appendix A: Basis of findings rating and report classification

Findings rating matrix

Audit Findings Rating		Impact		
		Low	Medium	High
Likelihood	Highly Likely	Moderate	Significant	Significant
	Likely	Low	Moderate	Significant
	Unlikely	Low	Low	Moderate

Likelihood consideration

Rating	Description
Highly Likely	- History of regular occurrence of the event. - The event is expected to occur in most circumstances.
Likely	- History of occasional occurrence of the event. - The event could occur at some time.
Unlikely	- History of no or seldom occurrence of the event. - The event may occur only in exceptional circumstances.

Impact consideration

Rating	Basis	Description
HIGH	Dollar Value ²	Financial impact likely to exceed \$250,000 in terms of direct loss or opportunity cost.
	Judgemental Assessment	Internal Control Significant control weaknesses, which would lead to financial or fraud loss. An issue that requires a significant amount of senior management/Board effort to manage such as: · Failure to meet key strategic objectives/major impact on strategy and objectives. · Loss of ability to sustain ongoing operations. · Loss of key competitive advantage/opportunity. · Loss of supply of key process inputs. · A major reputational sensitivity e.g. Market share, earnings per share, credibility with stakeholders and brand name/reputation building. Legal/Regulatory Large scale action, major breach of legislation with very significant financial or reputational consequences.
MEDIUM	Dollar Value	Financial impact likely to be between \$75,000 to \$250,000 in terms of direct loss or opportunity cost.
	Judgemental Assessment	Internal Control Control weaknesses, which could result in potential loss resulting from inefficiencies, wastage, and cumbersome workflow procedures. An issue that requires some amount of senior management/Board effort to manage such as: · No material or moderate impact on strategy and objectives. · Disruption to normal operation with a limited effect on achievement of corporate strategy and objectives. · Moderate reputational sensitivity. Legal/Regulatory Regulatory breach with material financial consequences including fines.
LOW	Dollar Value	Financial impact likely to be less than \$75,000 in terms of direct loss or opportunity cost.
	Judgemental Assessment	Internal Control Control weaknesses, which could result in potential insignificant loss resulting from workflow and operational inefficiencies. An issue that requires no or minimal amount of senior management/Board effort to manage such as: · Minimal impact on strategy. · Disruption to normal operations with no effect on achievement of corporate strategy and objectives. · Minimal reputational sensitivity. Legal/Regulatory Regulatory breach with minimal consequences.

² Dollar value amounts are agreed with the client prior to execution of fieldwork.

Audit report classification

Report Classification	The internal audit identified one or more of the following:
Cause for considerable concern	• Significant control design improvements identified to ensure that risk of material loss is minimized and functional objectives are met. • An unacceptable number of controls (including a selection of both significant and minor) identified as not operating for which sufficient mitigating back-up controls could not be identified. • Material losses have occurred as a result of control environment deficiencies. • Instances of fraud or significant contravention of corporate policy detected. • No action taken on previous significant audit findings to resolve the item on a timely basis.
Cause for concern	• Control design improvements identified to ensure that risk of material loss is minimized and functional objectives are met. • A number of significant controls identified as not operating for which sufficient mitigating backup controls could not be identified. • Losses have occurred as a result of control environment deficiencies. • Little action taken on previous significant audit findings to resolve the item on a timely basis.
No major concerns noted	• Control design improvements identified, however, the risk of loss is immaterial. • Isolated or “one-off” significant controls identified as not operating for which sufficient mitigating back-up controls could not be identified. • Numerous instances of minor controls not operating for which sufficient mitigating back-up controls could not be identified. • Some previous significant audit action items have not been resolved on a timely basis.
No or limited scope for improvement	• No control design improvements identified. • Only minor instances of controls identified as not operating which have mitigating back-up controls, or the risk of loss is immaterial. • All previous significant audit action items have been closed.

Appendix B: Limitations and responsibilities

Limitations inherent to the Internal Auditor's work

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



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