

**Report to** Audit Committee  
11 June 2019  
**Report of** Chief Internal Auditor, LGSS  
**Subject** Annual audit report on internal audit and fraud 2018-19

**Item**

**6**

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**Purpose**

To inform members of the Chief Internal Auditor's annual audit opinion for 2018-19, and the supporting work of internal audit. The report and the audit opinion within it, form part of the evidence to support the council's Annual Governance Statement 2018-19.

**Recommendation**

To consider the annual Internal Audit report and opinion, noting the work of Internal Audit team for 2018-19.

**Corporate and service priorities**

The report helps to meet the corporate priority Value for money services

**Ward/s:** All wards

**Cabinet member:** Councillor Kendrick – Resources

**Contact officers**

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**Background documents**

None

# Report

## Background

1. Under the Accounts and Audit Regulations 2015, the council “*must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.*”
2. In 2012 (updated 2017) the relevant internal audit standard setters adopted a common set of standards across the public sector, the *Public Sector Internal Audit Standards* (PSIAS), which state “*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.*”
3. The Standards require that the Chief Internal Auditor presents an annual report to the Audit Committee, which in practice is timed to support the authority’s Annual Governance Statement. This is reflected in the ‘Terms of Reference’ of the Committee.
4. The annual report is a summary of all internal audit work carried out during the year. Each individual audit report is discussed at its draft stage and agreed action plans put in place. The annual report therefore represents in summary form a considerable degree of consultation with managers during the year.
5. Internal audit work is carried out to fulfil the audit plan, endorsed by the Committee and the Corporate Leadership Team. The plan is derived from corporate and service risk registers as well as any inherent risks such as a susceptibility to fraud associated with an individual system. Internal audit work seeks to provide assurance that the risks identified in the registers and within the systems risk matrix are mitigated by a sound system of internal control.
6. This annual report provides members of the Audit Committee with:
  - the Chief Internal Auditor’s opinion for 2018-19;
  - a review of the system of internal control;
  - a summary of the work undertaken by internal audit in 2018-19; and
  - an overview of the performance of internal audit.

# INTERNAL AUDIT SERVICE

## INTERNAL AUDIT ANNUAL REPORT 2018-19

DUNCAN WILKINSON, CHIEF INTERNAL AUDITOR

28 May 2019

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**LGSS Internal Audit & Risk Management  
Annual Report 2018-19**

*Norwich City Council*

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## **Section 1**

### **1. INTRODUCTION**

#### **1.1 The Annual Reporting Process**

- 1.1.1 The Public Sector Internal Audit Standards (PSIAS) (Performance Standard 2450) state that the Chief Audit Executive (CAE) must deliver an annual internal audit opinion and report that can be used by the organisation to inform its annual governance statement (AGS) that also forms part of the official Accounts for the Council. Norwich City Council's Chief Audit Executive is the LGSS Chief Internal Auditor.
- 1.1.2 The annual report is required to incorporate the opinion; a summary of the work that supports the opinion; and a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement plan.

## **Section 2**

### **2. CHIEF INTERNAL AUDITOR OPINION 2018-19**

#### **2.1 Chief Internal Auditor Opinion**

- 2.1.1 The CAE required Annual opinion must be based on an objective assessment of the framework of governance, risk management and control and include an evaluation of the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems.
- 2.1.2 My opinion is derived from an assessment of the range of individual opinions arising from assignments contained within the risk-based Internal Audit Plan. This assessment has taken account of the relative materiality of these areas, and management's progress in addressing control weaknesses.
- 2.1.3 PSIAS also requires the CAE to confirm that the Internal Audit service has operated with an adequate level of resource to deliver an annual audit opinion. Internal Audit operates independent of the organisation, and there have been no compromises of Internal Audit's independence in its operation this year. I confirm the above was compliant with PSIAS requirements.

*On the basis of the audit work undertaken during the 2018-19 financial year, an opinion of **good** assurance is awarded. The internal control environment, (including the key financial systems – excluding payroll,) risk and governance is well established and operating effectively in practice. In addition, there are no outstanding significant issues arising from the work undertaken by Internal Audit.*

*However, no systems of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.*

*I am pleased to report that the level of assurance therefore remains at a similar level from 2017-18.*

### **Section 3**

#### **3. REVIEW OF INTERNAL CONTROL**

##### **3.1 How Internal Control is reviewed**

- 3.1.1 In order to support the annual Internal Audit opinion on the internal control environment, each year Internal Audit develops a risk-based Audit Plan. This includes a comprehensive range of work to confirm that all assurances provided as part of the system of internal audit can be relied upon by stakeholders.
- 3.1.2 The changing public sector environment and emergence of new risks increasingly necessitates re-evaluation of the Audit Plan throughout the year. The plan - and subsequent revisions - is reported to the Audit Committee throughout the financial year.
- 3.1.3 Each Internal Audit review has three key elements. Firstly, the control environment is reviewed by identifying the objectives of the system and then assessing the controls in place mitigating the risk of those objectives not being achieved. Completion of this work enables Internal Audit to give an assurance on the control environment.
- 3.1.4 However, controls are not always complied with, which will in itself increase risk, so the second part of an audit is to ascertain the extent to which the controls are being complied with in practice. This enables Internal Audit to give an opinion on the extent to which the control environment, designed to mitigate risk, is being complied with.
- 3.1.5 Finally, where there are significant control environment weaknesses or where key controls are not being complied with, further substantive testing is

undertaken to ascertain the impact these control weaknesses are likely to have on the organisation's control environment as a whole.

- 3.1.6 Three assurance opinions are therefore given at the conclusion of each audit: control environment assurance, compliance assurance, and organisational impact. To ensure consistency in reporting, the following definitions of audit assurance are used:

<b>Control Environment Assurance</b>	
<b>Level</b>	<b>Definitions</b>
Substantial	There are minimal control weaknesses that present very low risk to the control environment.
Good	There are minor control weaknesses that present low risk to the control environment.
Satisfactory	There are some control weaknesses that present a medium risk to the control environment.
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

<b>Compliance Assurance</b>	
<b>Level</b>	<b>Definitions</b>
Substantial	The control environment has substantially operated as intended although some minor errors have been detected.
Good	The control environment has largely operated as intended although some errors have been detected.
Satisfactory	The control environment has mainly operated as intended although errors have been detected.
Limited	The control environment has not operated as intended. Significant errors have been detected.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse.

- 3.1.7 Organisational impact will be reported as major, moderate or minor (as defined below). All reports with major organisation impacts are reported to CLT, along with the agreed action plan.

<b>Organisational Impact</b>	
<b>Level</b>	<b>Definitions</b>
Major	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
Moderate	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
Minor	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

### 3.2 *The Basis of Assurance*

- 3.2.1 The findings and assurance levels provided by the reviews undertaken throughout 2018-19 by Internal Audit form the basis of the annual opinion on the adequacy and effectiveness of the control environment.
- 3.2.2 In 2018-19, the Audit Plan has been based on assurance blocks that each give an opinion on the key control environment elements, targeted towards in-year risks, rather than a more traditional cyclical approach that looks at each system over a number of years. The Audit Plan reflects the environment in which the public sector audit operates, recognising that this has changed considerably over the past few years with more focus on, for example, better assurance and governance.

## **Section 4**

### **4. INTERNAL AUDIT IN 2018-19**

#### *4.1 Overview and Key Findings*

- 4.1.1 This section provides information on the audit reviews carried out in 2018-19, by assurance block.
- 4.1.2 For the reviews undertaken during 2018-19, there were no areas identified where it was considered that, if the risks highlighted materialised, it would have a major impact on the organisation as a whole.



4.1.3 Where reviews identify opportunities for improvement, these are agreed with management as part of an action plan. The actions are prioritised according to the significance of the control weakness, and urgency of implementing the improved control. Actions are given a rating of essential, important or standard priority:

<b>E</b>	<b>Essential</b>  Failure to address the weakness has a high probability of leading to the occurrence or recurrence of an identified high-risk event that would have a serious impact on the achievement of service or organisational objectives, or may lead to significant financial/ reputational loss.  The improvement is critical to the system of internal control and action should be implemented as quickly as possible.	<b>I</b>	<b>Important</b>  Failure to respond to the finding may lead to the occurrence or recurrence of an identified risk event that would have a significant impact on achievement of service or organisational objectives, or may lead to material financial/ reputational loss.  The improvement will have a significant effect on the system of internal control and action should be prioritised appropriately.	<b>S</b>	<b>Standard</b>  The finding is important to maintain good control, provide better value for money or improve efficiency. Failure to take action may diminish the ability to achieve service objectives effectively and efficiently.  Management should implement promptly or formally agree to accept the risks.
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4.1.4 Essential and important priority actions are actively monitored by Internal Audit to ensure they are implemented promptly, and progress is reported to the Audit Committee during the year. An overview of essential and important recommendations made in 2018-19 is summarised in Table 1 below:

Table 1: Essential and important recommendations

<b>2018-19 Audit title</b>	<b>Essential priority recommendations</b>	<b>Important priority recommendations</b>
Commercial Rents	0	6
Corporate Key Performance Measures	0	3
Contract Extensions	0	1
Norwich Regeneration Limited	5	3
Housing Rents-Arrears	0	3
Council Tax	0	2
Treasury Management	0	3
Project Management	0	3
Procurement Compliance	0	2
Housing Benefits	0	1
<b>Total</b>	<b>5</b>	<b>27</b>

## 4.2 *Financial and Other Key Systems*

- 4.2.1 This is the 2018-19 suite of annual core systems reviews, undertaken to provide assurance to management and External Audit that expected controls are in place for key financial systems; that these controls are adequately designed and are routinely complied with in practice. The work is focused on the systems that have the highest financial risk; these are agreed in advance with External Audit and assist in providing assurance to External Audit that systems recording transactions within the 2018-19 financial year are free from material misstatement. These reviews also give an opinion as to the effectiveness of financial management procedures and the arrangements to ensure the integrity of accounts.
- 4.2.2 Audit coverage during the year has provided sufficient evidence to conclude that the key financial control systems are sound and that these controls continue to work well in practice although there are some minor areas where improvements have been recommended. The level of assurance provided for key financial systems reviews was good overall and all audits with previously satisfactory assurance have improved to good assurance. Table 2 below details the assurance levels of all key systems audits undertaken in 2018-19, compared to assurance levels in 2017-18.

Table 2: Key Financial Systems Audits 2018-19:

Key Financial Systems:	Audit Opinion 2018-19		Audit Opinion 2017-18	
	Environment	Compliance	Environment	Compliance
Accounts Receivable	Substantial	Substantial	Substantial	Substantial
Purchase to Pay	Substantial	Substantial	Substantial	Substantial
Payroll	In progress	In progress	Substantial	Substantial
Housing Rents & Arrears	Good	Good	Good	Good
Housing Benefits	Good	Good	Good	Satisfactory
Council Tax	Good	Good	Substantial	Good
NNDR	Substantial	Good	Substantial	Good
Treasury Management	Good	Good	Substantial	Substantial
Debt Recovery	Good	Good	Satisfactory	Satisfactory

- 4.2.3 At the time of writing this report, the opinion excludes the review of payroll due to resources in the HR team however, it is not anticipated that any substantial areas of weaknesses will be identified.
- 4.2.4 The housing rents and arrears review concluded that the control environment and compliance assurance was good. The important findings identified during the review relate to an independent review of rent accounts to verify

parameter inputs, the authorisation of refunds and write offs, as well as the secure recording of such.

- 4.2.5 The review of housing benefits concluded that there was good assurance over the control environment and satisfactory assurance for compliance. The compliance weakness identified from the audit review relates to the authorisation of writing off debts over £2,000 in line with corporate financial procedures. This weakness has been reoccurring from previous audits.
- 4.2.6 The review of council tax concluded that the control environment and compliance assurance was good. The main weakness identified relates to the review of discounts and exemptions. Testing identified one (small) group of discounts which has not been regularly reviewed. Internal audit has identified efficiency opportunities to cease completing excessive checks, the service has agreed to this
- 4.2.7 The review of national non-domestic rates (NNDR) concluded with substantial assurance over the control environment and good assurance for compliance. Compliance weaknesses were identified relating to annual checks of access levels to the NNDR system not being carried out.
- 4.2.8 The review of treasury management concluded that the control environment and compliance assurance was good. The review identified various inconsistencies within the Treasury Management Strategy which have been consequently rectified in the new strategy. Other issues found relate to the system hierarchy of authorising CHAPs payments to ensure that only a manager can complete the final authorisation; and the service not completing long deal forms prior to investments being made.
- 4.2.9 The debt recovery review concluded that control environment and compliance assurance was good. The important recommendations regarding this review relate to outstanding issues from the previous audit regarding the LGSS collection strategy and the aged debtor reports. Most of the outstanding issues link in to the implementation of the new financial system.

### 4.3 *Anti-fraud and corruption*

- 4.3.1 This is a high-risk area across the public sector. LGSS Internal Audit undertakes work on anti-fraud and corruption which includes both reactive and pro-active elements, along with a number of initiatives to raise awareness of the council's anti- fraud and corruption culture.
- 4.3.2 Internal audit investigated one referral under the Whistleblowing Policy relating to the Councils wholly owned housing company Norwich Regeneration Limited.

4.3.3 The Council fully participates in a national data matching exercise known as the National Fraud Initiative (NFI) which is run by the Cabinet Office to prevent and detect fraud. Data-matching, between public and private sector bodies, flags up inconsistencies in data that may indicate fraud and error and helps Councils to complete proactive investigations. Reports from the 2018-19 exercise were made available in February 2019. The results will be analysed in 2019-20.

#### 4.4 *Risk Management*

4.4.1 The council's management of risk is facilitated by the LGSS risk management team and work is underway to support Norwich City Council management in reviewing the content of the risk register. The Council has established a 2040 Norwich City Vision; this is supported by the council's new corporate plan which. In line with this plan there will also be a supporting corporate risk register which is currently in development.

4.4.2 An audit review concluded that good assurance over the control environment and good assurance over compliance to the controls. The Council has clear risk management policies and procedures and risk is managed appropriately across the majority of the Council.

#### 4.5 *Risk-based audits*

4.5.1 Risk-based reviews have been a key element of the assurance on the entire control environment of the authority in 2018/19. This assurance block includes reviews which have been targeted towards key areas of high risk, as identified through consultation with senior management, review of risk registers, and the Internal Audit risk assessment of the organisation.

4.5.2 The Plan for 2018-19 included audits in the following areas:

- Commercial Rents
- Project Management
- Norwich Regeneration Limited

4.5.3 The commercial rents review concluded that control environment and compliance assurance was satisfactory. Important issues found regarding rental income budget setting and monitoring; validation by the council of the provided performance results; reviews of rents, lease renewals and outstanding debts; and the formal contract documentation for properties not managed by NPSN.

- 4.5.4 The project management concluded that there was good assurance over the control environment and satisfactory assurance for compliance. Weaknesses were identified relating to outdated frameworks, guidance and templates; and not completed risk management training for project managers.
- 4.5.5 The review on the governance arrangements in place with the councils wholly owned housing company Norwich Regeneration Ltd (NRL) concluded that there was limited assurance over the control environment and satisfactory assurance for compliance. Weaknesses were identified relating to information presented to Cabinet, managing conflicts of interest and statutory officers. All recommendations were agreed by the Chief Executive.
- 4.6 *Policies and procedures*
- 4.6.1 Effective policies and procedures drive the culture and risk appetite of the organisation and ensure key control principles are captured. A number of policies and procedures were reviewed to ensure they were; up to date; fit for purpose; effectively communicated; routinely complied with across the organisation; monitored and routinely improved.
- 4.6.2 A review of the Safeguarding Policy concluded that the control environment was substantial. The audit review only identified minor weaknesses which have been discussed and agreed with management.
- 4.6.3 A review of the fees and charges policy identified areas for improvement in the control environment however good practice was being demonstrated in some service areas in reviewing the external environmental factors when proposing fees and charges.
- 4.7 *Compliance*
- 4.7.1 Compliance work is fundamental, as it provides assurance across all Directorates and therefore underpins the Head of Internal Audit opinion on the control environment. The audit coverage for compliance is underpinned by an assessment of the Council's framework of controls (often directed by policies and procedures) and includes a focus on those core areas where a high level of compliance is necessary for the organisation to carry out its functions properly. The work involves compliance checks across the organisation to provide assurance on whether key policies and procedures are being complied with in practice. As a part of this work, the existing controls are challenged to ensure that they are modern, effective and proportionate.
- 4.7.2 The Plan for 2018-19 included coverage of compliance in the following areas:

- Corporate key performance indicators
- Procurement compliance
- Contract extensions

4.7.3 The review of corporate key performance indicators concluded that there was satisfactory assurance over the control environment and good assurance for compliance. The review identified that there is currently no written performance management framework in place, no checks being carried out to confirm the accuracy of the calculations and commentary provided by the service. It was also identified that not all results have been reported each quarter to senior management and members.

4.7.4 The review of procurement compliance resulted in satisfactory assurance over compliance to the contract procedures. Recommendations were made regarding content within the procurement strategy, procedures and guidance to clarify what supporting documents are needed, definitions, process and requirements of obtaining waivers and exemptions.

4.7.5 The review of contract extensions concluded that there was satisfactory assurance over the control environment and good assurance for compliance. The review identified weaknesses relating to the corporate contract procedures which do currently not include any reference to extending contracts and their requirements.

#### 4.8 *ICT Audit*

4.8.1 Reviews undertaken this year include a review of GDPR and financial system (IT general controls). These audits are, at the time of the drafting the Annual Report, being finalised with client managers. These provide Satisfactory (GDPR) and Good (Finance IT Systems) assurances albeit those have yet to be formally agreed with the relevant clients. Some recommendations have been made that require agreement / implementation. Should those issues not be agreed that will be reflected within the final AGS if necessary, when submitted with the audited Accounts.

#### 4.9 *Other Work*

4.9.1 Internal Audit continues to provide advice and guidance to officers on a wide range of issues, including the interpretation of Council policies and procedures, risks and controls within systems or processes, and ad-hoc guidance on queries relating to projects or transformation. Internal Audit aims to provide clear advice and risk-based recommendations with a view to reducing bureaucracy whilst maintaining a robust control environment. Where appropriate, we also refer queries or concerns on to specialist services such as Information Governance or IT Security.

- 4.9.2 In addition to audit reviews, the Principal Auditor sat on the Corporate Information Assurance Group, which reviews network issues, data protection, information risk and assurance, security breaches and information management.
- 4.9.3 There were a number of data incidents which were reviewed by key employees, including the Principal Auditor, in accordance with the Council's incident response plan. Actions were put in place to reduce the risk of recurrence.
- 4.9.4 The head of internal audit has delivered various training sessions to Audit Committee members including topics on statement of accounts, risk management and the role of the audit committee within the organisation and local government as a tool for governance.
- 4.9.5 The Internal Audit team reviewed disabled facility grant capital expenditure. This enabled Council to provide a statement of assurance, to Norfolk County Council, that capital expenditure had been spent according to their grant conditions.
- 4.9.6 The Council is implementing a new Finance System for HR and Finance. Internal audit has been assisting the project team by proactively providing advice on governance, facilitating project risk register updates and appropriate internal controls. This will help to mitigate potential control weaknesses prior to system go-live.

#### 4.10 *Summary of Completed Reviews*

- 4.10.1 A summary of all audit reports issued in 2018/19 is attached at Appendix 1.

### **Section 5**

#### **5. INTERNAL AUDIT PERFORMANCE AND QUALITY ASSURANCE**

##### *5.1 Delivery of the 2018-19 Internal Audit Plan*

- 5.1.1 It is good practice to keep audit plans under review and update them to reflect emerging risks, revisions to corporate priorities, and resourcing factors which may affect the delivery of the audit plan. It was agreed that the final internal audit plan for Norwich City Council would deliver 471 days of audit activity and quarterly updates are provided to CLT and the Audit Committee every quarter.
- 5.1.2 Internal audit has complied with all of their LGSS performance measures for the duration of 2018-19.

## 5.2 *Customer Feedback*

5.2.1 When final reports are issued, Internal Audit issue Customer Feedback Questionnaires to all officers who receive the final report, and request feedback. Officers have the opportunity to score the Internal Audit team against a range of criteria on a scale of:

- Excellent
- Good
- Satisfactory
- Poor

Officers also have the option of providing more detailed feedback.

5.2.2 A total of 7 questionnaires were returned following audit reports issued in 2018/19, all responses received good feedback.

## 5.3 *Compliance with Public Sector Internal Audit Standards*

5.3.1 The internal audit service has operated in compliance Public Sector Internal Audit Standards throughout the year.



**APPENDIX 1**
**INTERNAL AUDIT**
**6.0 Summary of Completed Reviews 2018-19:**

The table below summarises the Internal Audit reviews that were completed during the 2018-19 financial year.

Audit title	Control assurance	Compliance assurance	Organisational impact
Anti-Fraud and Corruption			
National Fraud Initiative	*Embedded assurance		
Fraud Investigations	No level of opinion was allocated.		
Key Financial Systems			
Accounts Receivable	Substantial	Substantial	Minor
Purchase to Pay	Substantial	Substantial	Minor
Payroll	In progress		
Housing Rents & Arrears	Good	Good	Minor
Housing Benefits	Good	Good	Minor
Council Tax	Good	Good	Minor
NDR	Substantial	Good	Minor
Treasury Management	Good	Good	Minor
Debt Recovery	Good	Good	Minor
Risk Management			
Strategic Risk Management	*Embedded assurance		
Risk Management	Good	Good	Minor
Risk-based Audits			
Commercial Rents	Satisfactory	Satisfactory	Minor
Attend HR & Finance Meetings	*Embedded assurance		
Project management	Good	Satisfactory	Minor
Norwich Regeneration Limited	Limited	Satisfactory	Moderate
Policies & Procedures			
Fees and Charges	Satisfactory	Good	Minor
Key Policies & Procedures Review – Safeguarding policy	Substantial	N/A	Minor
Compliance			
Key Performance Indicators	Satisfactory	Good	Minor
Procurement Compliance	N/a	Satisfactory	Minor

Audit title	Control assurance	Compliance assurance	Organisational impact
Contract Extension	Satisfactory	Good	Minor
Total ICT and Information Governance			
Information Security and GDPR	In progress		
Financial Systems IT and General Computer Controls	In progress		
Grant assurance			
Disabled Facility Grant	*Embedded assurance		

\* Embedded assurance applies to projects / audits where auditors attended project boards or other working groups.