

By: The Head of Audit & Risk
To: Governance and Audit Committee – 02 December 2008
Subject: INTERNAL AUDIT PROGRESS REPORT
Classification: Unrestricted

Summary: This report summarises the outcomes of Internal Audit activity.

FOR INFORMATION AND DECISION

INTRODUCTION

1. This report contains the outcome of Internal Audit's work completed during September and October 2008. Assurances are provided in accordance with the definitions of Internal Audit assurance levels shown in Annexe H.

Six audits were completed in this period, which are listed in the table below together with a brief description of the audit.

IRREGULARITIES

2. Since the end of August 9 cases of suspected irregularity have been reported, each involving either KCC finances or business processes. Two irregularity investigations have been concluded during this period and details are shown at agenda item 9.

PROGRESS REPORT

5. The format is as follows:
 - The Internal Audit Plan showing the planned start, actual start, progress for each audit and audit assurance. This will enable Members to review Internal Audit's progress against the plan. Annex A
 - Other work carried out, for example pro active fraud work, National Fraud Initiative, fraud awareness training provided, advisory work. Annex B
 - Internal Audit consultancy work to drive continuous improvement – None to report
 - Summaries of reports for all completed audits. Annex C
 - Summaries of audits where control has been assessed as minimal, None to report.

- The directorates' progress against the implementation of recommendations made and agreed - Annex D
- Internal Audit's performance against its Performance Indicators - Annex E
- Information about how and where Internal Audit's time has been spent - Annex F
- Definitions of Internal Audit's Assurance Levels – Annex G

Other Matters – None to report

Recommendation

6. Members are asked to note this report.

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24 November 2008

Progress Against 2008-09 Audit Plan quarters 1, 2 and 3

Annex A

Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
07/08	Overtime Payments	To provide assurance that overtime payments are appropriately authorised and paid accurately and promptly	Q1	24 April 2008	23 May 2008			Brought forward form 07/08 plan. Outstanding final recommendations was agreed 21 November 2008
07/08	WAMS financial management	An audit of financial controls within the KHS procurement and ordering system (WAMS)	Q1	1 April 2008	15 May 2008			Brought forward form 07/08 plan. Final draft report awaiting comments.
AW05	Access to Information	A review of controls in place to ensure council wide compliance with access to information legislation, including freedom of information and environmental regulation requests.	Q1	6 May 2008	19 Aug 2008	19 Sep 2008	Substantial	
AW03	Governance of individual partnerships	Work to build on audit undertaken in 2007/08. Focus to include, follow up on progress made against previously agreed management actions. Assess level of compliance with policies and procedures in a sample of major/significant partnerships.	Q2	7 July 2008	13 Nov 2008			

Progress Against 2008-09 Audit Plan quarters 1, 2 and 3

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Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
AW04	Contract monitoring and tendering process	Review of tendering procedures and contract monitoring. Scope to include, processes for tender evaluation and selection of suppliers, review of processes to manage key contracts, quality assurance of suppliers processes. The individual contracts that are reviewed will include Building Schools for the Future (BSF) and Highways contracts.	Q2/3	Sep 2008				KHS work being delivered in conjunction with investigatory work being undertaken by PWC. BSF component to be taken forward separately.
AW09	<i>Business Continuity Planning</i>	<i>A review of Business Continuity Planning and Disaster Recovery arrangements.</i>	Q2/3	7 Oct 2008				<i>Fieldwork nearing completion.</i>
AW10	ICT Risk Assessment	To map risks and controls in the ICT environment	Q2/3	24 Sept 2008				Workshops now complete initial ICT risk registers have been circulated to Directorates for comment.
AW02	Risk Management	Work to build on the high level review undertaken in 2007/2008 to focus on the adequacy of corporate risk management arrangements and the linkages between; Business planning, Performance appraisal, Budgeting processes.	Q3					Postponed until Q4 to enable recommendations to be implemented.

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Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
AW07	Data Management Arrangements	Review and assurance over implementation of data quality policy council wide, with a focus on management arrangements of critical/sensitive data, including testing to validate controls in place and review of existing guidance available to staff on acceptable practice for data handling.	Q3	15 Oct 2008				
AW08	Third party ICT Provision	Review the contractual arrangements for the provision of ICT services by third parties to business-critical computer systems. Sample to be agreed with management prior to audit.	Q3					Scoping meeting held
AW11	PSA Certification	Certification of grant claim and verification of performance data	Q3	2 Oct 2008				
S01	Year End Accounting	Assurance that income and payments are accounted for in the correct financial year.	Q1	7 April 2008	9 May 2008	22 July 08	Substantial	
S03	Local Area Agreement Certification	Annual review to validate the completeness and accuracy of LAA spend.	Q1	21 May 2008		June 08	n/a	Review to validate the completeness and accuracy of LAA spend

Progress Against 2008-09 Audit Plan quarters 1, 2 and 3

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Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
S09	Insurance Fund	A review to provide assurance on the adequacy, efficiency and effectiveness of controls operating to mitigate the risks within the operation of the Insurance Fund.	Q1	16 June 2008	20 Aug 08	22 Sept 2008	High	
S05	Accounts Payable	A review to provide assurance that accurate timely payments are made which are only to bona fide creditors for goods and services received by the Council.	Q2	28 July 08	24 Oct 2008			
S10	Revenue Budget Monitoring	Directorate revenue budget monitoring in KASS. To provide assurance that revenue budgets are well controlled.	Q2	28 August 08	7 Nov 2008			<i>This audit to start in Q2 rather than Q3 as originally planned</i>
S02	Bank Reconciliations	Assurance that income and payments are accounted for in the correct financial year	Q3					Due to start in December
S06	Accounts Receivable	Systems based approach considering key risk exposures. Include mapping of key control areas and liaison with external audit requirements	Q3					ToR issued audit due to start in December.
S08 (a)	Payroll Allowances	Substantive "Cradle to Grave" approach, following through samples of payments for example, allowances paid to staff.	Q3	3 Nov 2008				

Progress Against 2008-09 Audit Plan quarters 1, 2 and 3

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Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
S09 (b)	Payroll Amendments	Substantive "Cradle to Grave" approach, following through samples of payments for example, permanent and temporary changes to pay.	Q3					ToR issued audit due to start in December.
S12	Follow up to Overtime Payments	Follow up to audit carried out in 2007/08.	Q3					Audit delayed until Q4
S07	Treasury Management	<i>Systems based approach considering key risk exposures including mapping of key control areas and liaison with external audit requirements.</i>	Q4	Oct 2008				<i>Audit started in Q3</i>
CED04	Kent Public Service Network (KPSN) Project Part 2	A review to assess the project management processes and procedures in place to manage system development activities to ensure the successful delivery of the new KPSN.	Q2	30 July 08	4 Nov 2008			
CED08	Members Code of Conduct – Locally Managed Framework	A review against the Standards Board checklist for the implementation of the locally managed framework of compliance with the Members Code of Conduct. Timing of this audit will depend on receipt of government regulations and SBE guidance.	Q1					<i>Audit delayed as timing depends on receipt and implementation of government regulations and SBE guidance. Likely to take place in Q4</i>

Progress Against 2008-09 Audit Plan quarters 1, 2 and 3

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Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
CE09	Rebate Income	A review of the process to ensure that all rebate income due has been correctly identified, collected and accounted for.	Q1	23 June 2008	11 Aug 08	4 Sept 2008	High	
CE02/CE03	Operating System Security (Windows XP)	Review of operating system security, administration, support and maintenance procedures (as extension of network security review 2007/08). This will be done as one audit	Q3					ToR issued
CE05	Oracle Application Security	Oracle application security controls covering Oracle system embedded controls configured in the system design within selected modules as identified from the previous 0708 Oracle Application Security audit.	Q3					ToR agreed
CFE01	Allocation of Cluster Funding	An audit of the processes in a sample of Clusters to provide assurance that the funding allocated to the Clusters is spent by them following an appropriate bidding and evaluation process linked to objectives and that records are maintained to enable management to monitor the expenditure and evaluate the results.	Q1	1 May 2008	9 July 08			Second draft report issued in response to comments received. Now awaiting directorate's comments before issuing final report.

Progress Against 2008-09 Audit Plan quarters 1, 2 and 3

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Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
CFE02	Family Group Conferencing	Assurance that controls achieve compliance with referral policy and that funding is adequate to provide accreditation training.	Q1	21 April 2008	17 July 08	7 Aug 08	Substantial	
CFE03	School Funding	A review of how funding for schools is determined and how it is distributed to meet the objective. Support the raising of educational achievement by ensuring that funding is allocated to support national and local initiatives allowing schools to focus on their responsibilities in the knowledge that all strategic support functions are similarly focused.	Q2	18 June 08	8 Oct 2008			Directorate responses received, report due to be issued as a final.
CFE04	School Meals	<i>Review of the support to schools to assist with the falling meal uptake rates which is presenting a risk to the meals subsidy.</i>	Q2					<i>Audit has been substituted for work carried out to assist directorate with various issues in relation to schools.</i>
CFE05	Student Awards	In preparation for the transfer of the student awards to the Student Loan Company a review of the adequacy of the transition plan.	Q2	3 Sep 2008				Debriefing now taken place, draft report due to be issued.

Progress Against 2008-09 Audit Plan quarters 1, 2 and 3

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Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
CFE09	Children Resource Centre Network	Assess whether are adequate project management arrangements in place for the delivery of the new Children Resource Centre Network.	Q2	22 Aug 2008				Review delayed as there is a 'stalemate' over the supplier that should be appointed to put a new system in.
CFE06	CRB checks	Assess adequacy of, and compliance with, procedures for identifying staff that require CRB checks due to having access to the records of vulnerable people. (Non schools staff)	Q3	22 Sep 2008				Audit still in progress
CFE07	Effectiveness of Financial Management	Confirmation that the Directorate is obtaining assurance on financial management in schools and by non delegated budget holders.	Q3					Some pre audit work taking place in preparation for the audit.
CMY01	<i>Adult Education Budget Management</i>	To provide assurance that budgets are set effectively with a clear link with spending and income sources. Variations are managed effectively (in particular when courses are running at a surplus or deficit) timed to inform the directorate budget planning process.	Q1	<i>Not yet started</i>				<i>Audit Owner has requested that this audit is substituted by CMY06 Use of Coroners' imprest accounts. This audit will now take place in Q4 but will be undertaken by Internal Audit, not as a joint piece of work as originally planned.</i>

Progress Against 2008-09 Audit Plan quarters 1, 2 and 3

Annex A

Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
CMY02	CRB checks for volunteers	A follow up on the findings of a 2007/08 audit, which gave minimal assurance that volunteers working with clients are appropriately checked.	Q2	22 Sep 2008				Audit still in progress
CMY05	Tribal EBS System	Review of operational, support and maintenance procedures system security and data integrity controls	Q2					<i>Directorate have requested delaying start to later in the year.</i>
CMY06	Use of Coroners' imprest accounts	To ensure payments made through the imprest account are properly authorised and appropriate.	Q2	17 Oct 2008	31 Oct 2008			This audit replaces (CMY01) Adult Education Budget Management
CMY03	Internet access in CMY establishments accessed by the public	To provide assurance that the Directorate is taking sufficient precautions to safeguard the users of the internet in their establishments accessed by the public	Q3	16 Oct 2008				Audit still in progress
KASS01	Capital Projects	To examine the planning of capital projects, contracts/estimates and how these are drawn up and the corresponding governance arrangements (i.e. is the authority clearly set out and understood by all parties).	Q1	Not yet started				<i>Revised ToR issued, audit to take place in Q3.</i>

Progress Against 2008-09 Audit Plan quarters 1, 2 and 3

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Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
KASS02	Public Involvement	Focus on the process to continually seek improvement in the methods used to engage the public and service users.	Q2	1 July 08	5 Sept 08			Responses from draft report received, final report to be issued.
KASS03	Financial Assessments	Evaluation for the system for undertaking financial assessments of clients and the role of the specialist finance teams.	Q2	15 Sep 2008				Audit still in progress
KASS05	Care Management Process	A follow up to the interim review that took place in 2007/08. A comprehensive audit to include eligibility assessment through to the delivery of care. Work to include progress against recommendations raised in interim report.	Q3	11 Aug 08	5 Nov 2008			<i>Audit commenced in Q2 at request of Directorate</i>
KASS10	Swift system Security	Follow up to audit carried out in 2007/08.	Q3					
ER01	Policies and Procedures for Health and Safety in Country Parks and Public Rights of Way	Review of the Councils mechanism for ensuring compliance with Health and Safety Legislation for Public Rights of Ways and Country Parks.	Q1	5 June 2008	12 Aug 08	29 Oct 2008	Substantial	

Progress Against 2008-09 Audit Plan quarters 1, 2 and 3

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Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
ER02	Kent Thameside	Review of how the engagement strategy is being applied in practice for the Kent Thameside project. Review also to assess the adequacy and effectiveness of the reporting and governance arrangements for the projects.	Q2	27 Aug 08				Directorate have requested that this audit is deferred until Q3
ER03	KHS – Review of costing process	To establish whether the work carried out and costed under the contract arrangements (KHS Alliance Contract) is a true reflection of the actual costs incurred.	Q2	18 Sep 2008				<i>Scope of the original audit has changed from review of the adequacy of governance arrangements in place following the restructure, as restructure is still ongoing.</i>
ER05	Household Waste Recycling Contracts	Evaluation of the control environment of the recently re-let contracts. Scope to include contract management and monitoring. Adequacy of the KPIs of quality of service. Ensuring that the Council is getting VFM from the service.	Q2	2 Oct 2008				Audit still in progress
ER10	Kent Downs AONB	Audit of financial controls	Q2/3	13 Nov 2008				

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Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
ER06	Securing adequate funding to deliver business objectives	A high-level review of the process within Environment and Regeneration for managing inward investment. The review will look to identify best practice and identify mechanisms to ensure that the directorate is identifying and maximising sources of funding.	Q3					
ER07	Allington Incinerator	Assurance as to the effectiveness of the systems to support the operation of the waste to energy plant	Q3					

Audits highlighted in bold indicate completed audits

Audits in italics indicates changes to the original plan

National Fraud Initiative

- Collation and submission of data sets to the Audit Commission as part of the National Fraud Initiative.

Advisory Work

- Joint working with CFE with regards a school with a potential deficit budget. Attendance at various working groups/forums, including, Procurement Forum; ICT Operations Board, Client Billing Group, Self Directed Support.
- Assisting in a management investigation.
- Providing advice and guidance over the security of property
- Support to review of treasury management practices.

Irregularities

- Working on a number of investigations. (See also the Irregularity report on concluded investigations).

Pro Active Fraud Work

- As part of Internal Audit's programme of pro active fraud work, fraud awareness training delivered to KASS and Communities teams during this period.

AW – Access to Information

Scope

The objective of the audit was to provide assurance that information held by KCC is properly recorded, held and controlled to ensure compliance with the Data Protection Act (DPA), Freedom of Information Act (FOI), Environmental Information Regulations (EIR) and Public Sector Information Regulations.

Overall Assurance - Substantial

The audit confirmed that Access to Information is co-ordinated in KCC both centrally and in the directorates. Detailed information relating to FOI and Data protection is available via KCC's web page for members of the public, and for members of staff on Knet and the Kent Trust Web.

Some requests had not always been dealt with within the statutory timescales and the requestor had not always been kept informed of the delay, however, reasons for the delay were valid.

KASS obtain approval within their directorate before any responses are sent out, however, they do not always obtain the approval of the Director of Law and Governance.

Recommendations have been made which have been accepted by management.

AW – ICT Governance Framework

Scope

The objective of the audit was to provide assurance that KCC has a framework for Information Communication Technology (ICT) that covers the structure, risk management processes and ICT controls.

Overall Assurance - Substantial

The audit confirmed that there are strong governance arrangements in place. The Authority's executive has clear responsibilities for ICT investments; has produced and endorsed a KCC ICT Strategy that is aligned to the Authority's corporate strategy and has set out and endorsed an ICT governance structure, involving cross directorate management and representatives that are required to co-ordinate the implementation of the Authority's ICT structure.

Key areas for improvement were identified including the need to ensure policies and guidelines are kept up to date and cover relevant high risk areas; the identification and documentation of ICT risks; and the need to ensure that strategic priorities are 'tracked' to monitor progress, implementation and that objectives are achieved.

Three recommendations have been made that management has accepted.

CED – Rebate Income

Scope

The objective of the audit was to ensure that there are processes in place to identify, record and invoice for rebate income.

Overall Assurance – High

Commercial Services earns rebate income from suppliers on procurement made by KCC and other customers. Community Equipment Services (CES) is in a Central Buying Consortium together with 17 other local authorities and have contracts set up with approximately 30 suppliers. Until September 2007 rebate due from sales was collected by Essex County Council who was the lead authority. From September 2007 individual authorities became responsible for collecting their own rebate directly from suppliers.

The audit found that there are good processes in place to ensure rebate income is identified and invoiced for on a timely basis.

No recommendations were made for this audit.

CED – Insurance Fund Review

Scope

The objective of the audit was to review processes to ensure that claims were genuine; properly authorised and settled; that contribution calculations are correct and that recovery including excess and other income are correctly identified and collected.

Overall Assurance – High

KCC insurance requirements are covered through self insurance and a number of policies with external insurance companies, the lead insurer is Zurich Municipal. Liability for claims is shared between KCC and the external insurers with the KCC fund liable for the first part of each claim. The Kent Insurance fund showed an opening balance for the 2008/09 financial year of £9.1 million with a reserve of £10.2 million.

The audit found that there were good controls and processes in place to achieve the objectives. There were no recommendations made.

CED – Oracle Review – Segregation of Duties

Scope

The review focussed upon the 'design of end user access rights' and the set up of 'system security' with an aim to evaluating the Oracle e-business environment against generally accepted good practices.

Overall Assurance – Substantial

Good controls were identified, however, the review identified that there is a need to strengthen controls around the system administration function and database administration teams' access to transaction processing options in Oracle. The ability of these teams to access sensitive systems functions and powerful transaction processing roles affects the strength of internal controls over the Purchasing and Accounts Payable, Accounts Receivable, Human Resources and payroll modules.

Ten recommendations have been made to improve controls which have been accepted by management.

E&R – Policies and Procedures for Health and Safety in Country parks and Public Rights of Way

Scope

A review to provide assurance that there is compliance with health and safety legislation for County Parks and Public Rights of Way (PROW) to ensure that employees, clients and members of the public who visit or use County Parks and PROW are protected by health and safety practises.

Overall Assurance – Substantial

The audit found good procedures in place to demonstrate that staff and management are aware of and committed to the health and safety policy and therefore health and safety in county Parks and PROWs.

Four recommendations have been made to improve controls which have been accepted by management.

**Directorates Progress with the Implementation of Audit Recommendations
(Covers August and September 2008)**

Annex D

Directorate	Actions due to be in place	Actions in place	Outstanding actions	Progress with outstanding actions	
				Audit	Comments
Authority wide	1	1	0	Governance of Partnerships	Workshops clarifying partnership guidance and the categorisation of partnerships are currently being delivered to Directorates, as per the agreed action plan.
	1	0	1	Schemes of Delegation	The review and updating of CFE's Schemes of Delegation is planned to be completed by 31 March 2009. This will coincide with the distribution of 2009/10 budgets to unit managers.
Chief Executive's Department	1	0	1	Network Security Review	Information Security Policies are currently being reviewed with respect to the Government's Code of Connection (COCO) guidance. The agreed action will therefore be implemented by March 09, to ensure that it is in compliance with the code.
	1	1	0	Wireless Networks Review	The review recommended introduction of a specific Wireless Access Policy. Management have stated that issues relating to the WLAN are currently encompassed in the existing policy for users of IT Systems and Equipment. It has been agreed the need for amended guidelines & standards will be reviewed on an ongoing basis, and in line with the work of the ICT Operations Board's Security & Risk Assessment Sub-Group
	1	0	1	Insurance Fund	The review recommended that the insurance team keeps formal up to date procedures as an ongoing recommendation. As the team are currently in the process of tendering for their external insurer, progress against this recommendation will be followed up after this process has been completed.
	2	2	0	Access to Information	All actions have been implemented. Directorate processes for administration of FOI and EIR requests have been agreed and formalised. If information is not available within 20 days, the requester is now informed of the reason for delay.
Kent Adult Social Services	3	-	3	SWIFT System Review	A number of actions are currently underway to address the key findings of this review. A follow-up of this interim audit report will start in November 08 to establish the progress that has been made and the level of assurance.
Environment & Regeneration	0	-	-		The Directorate had no actions due to be implemented in this time period.
Communities	0	-	-		The Directorate had no actions due to be implemented in this time period.
Children, Families & Education	1	1	0	CRB & Recruitment Checks	The recommendation following this audit has been implemented. The Directorate have reminded schools of the requirements of the DCSF guidance on 'Safeguarding Children and safer recruitment in Education' through the KentTrustWeb.
TOTAL	11	5	6		

Internal Audit performance

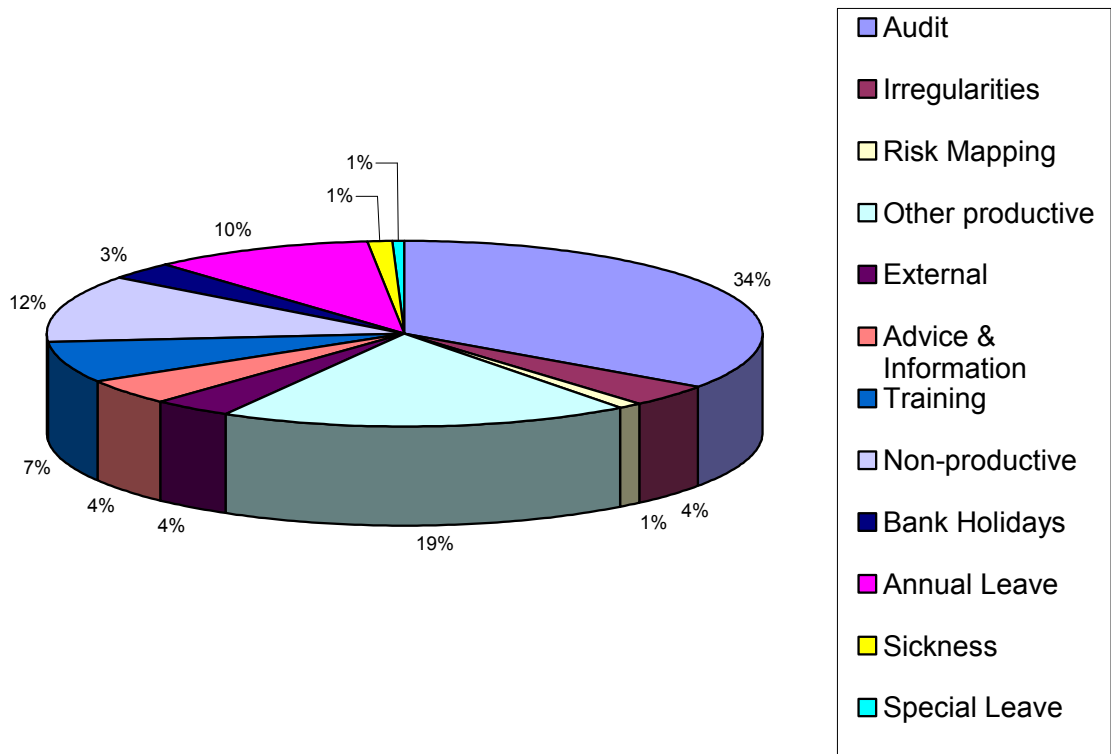
The following table is designed to provide Members with Internal Audit’s performance against Key Performance Indicators.

Performance Indicator	Target	Actual (Apr – Oct)
<p><u>Effectiveness</u></p> <ul style="list-style-type: none"> • % of recommendations accepted • % of recommendations implemented • CPA/CAA Score for Internal Control 	<p>98%</p> <p>90%</p> <p>Level 4</p>	<p>100%</p> <p>67%</p> <p>*n/a</p>
<p><u>Efficiency</u></p> <ul style="list-style-type: none"> • % of plan delivered – • % of available time spent on direct audit work • % of draft reports completed within 10 days of finishing fieldwork • Preparation of annual audit plan • Periodic reports on progress • Preparation of annual report and Annual Governance Statement 	<p>95%</p> <p>80%</p> <p>80%</p> <p>By March</p> <p>G&AC meetings</p> <p>By May</p>	<p>40%*</p> <p>86%</p> <p>97%</p> <p>March</p> <p>G&AC meetings</p> <p>May</p>
<p><u>Quality of Service</u></p> <ul style="list-style-type: none"> • Average Client Satisfaction Score – 	<p>70%</p>	<p>97%</p>

* Percentage of plan delivered as at 31 October 2008

Team Structure
 Number of staff 14 FTE
 Qualified 8
 Number of staff training 3

Breakdown of all time in Internal Audit
April 2008 to October 2008



Assurance Level	Summary description	Detailed definition
High	Strong controls in place and complied with.	The system/area under review is not exposed to foreseeable risk, as key controls exist and are applied consistently and effectively.
Substantial	Controls in place but improvements beneficial.	There is some limited exposure to risk of error, loss, fraud, impropriety or damage to reputation, which can be mitigated by achievable measures. Key or compensating controls exist but there may be some inconsistency in application.
Limited	Improvements in controls or the application of controls required.	<p>The area/system is exposed to risks that could lead to failure to achieve the objectives of the area/system under review e.g., error, loss, fraud/impropriety or damage to reputation.</p> <p>This is because, key controls exist but they are not applied, or there is significant evidence that they are not applied consistently and effectively.</p>
Minimal	Urgent improvements in controls or the application of controls required.	<p>The authority and/or service is exposed to a significant risk that could lead to failure to achieve key authority/service objectives, major loss/error, fraud/impropriety or damage to reputation.</p> <p>This is because key controls do not exist with the absence of at least one critical control, or there is evidence that there is significant non-compliance with key controls.</p>