# Appendix 1: Internal Audit Annual Report 2018/19

**Contents:**

## 1. Introduction

This report outlines the internal audit work Internal Audit have carried out for the year ended 31 March 2019.

The Public Sector Internal Audit Standards require the Chief Audit Executive (Head of Assurance) to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix 1. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.

The 2018/19 Internal Audit Plan, approved by the Audit and Standards Committee, included 28 audits, consisting of 27 risk and compliance audits and a risk assessment of schools.  39 audits were delivered, consisting of 23 risk and compliance audits and 16 audits of schools, with reasons for variations in the plan being reported quarterly to the Audit and Standards Committee.

Internal Audit work was performed in accordance with PwC's Internal Audit methodology which conforms with the Public Sector Internal Audit Standards.

The annual internal audit report is timed to inform the organisation's Annual Governance Statement.

## 2. Head of Assurance Opinion

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

My opinion is based on:

- All audits undertaken during the year.

- Any follow up action taken in respect of audits from previous periods.

- Any significant recommendations not accepted and/or addressed by management and the resulting risks.

- The effects of any significant changes in the organisation's objectives or systems.

- Any limitations which may have been placed on the scope or resources of internal audit.

- What proportion of the organisation's audit needs have been covered to date.

-

My opinion is as follows:

> **Generally satisfactory with some improvements required.**
>
> Governance, risk management and control in relation to business critical areas is generally satisfactory. However, there are some areas of weakness and non-compliance in the framework of governance, risk management and control which potentially put the achievement of objectives at risk.
>
> Some improvements are required in those areas to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

An explanation of the types of opinion that may be given can be found in Appendix 2.

I would like to take this opportunity to thank Council officers for their co-operation and assistance provided during the year.

## 3. The 2018/19 internal audit service

During most of the year, the in-house team has consisted of one substantive post, an Auditor working towards the Institute of Internal Auditors qualification. The other posts have been vacant although a Head of Assurance was appointed from January 2019.

For most of 2018/19 the internal audit service was led by a part-time seconded Head of Audit who started in November 2017 following the decision to end the shared service with LB Redbridge. This enabled LBBD to build up internal capacity and develop the service and the substantive Head of Assurance was appointed in January 2019.

The Internal Audit service continued to be supported throughout 2018/19 by Mazars through the Council's contract with LB Croydon and also commissioned some work from PwC via LB Islington.

Internal Audit has remained independent of the business in 2018/19 and has had no direct operational responsibility or authority over any the processes reviewed.

The Internal Audit outturn position for 2018/19 is set out below:

| INTERNAL AUDIT | Revised Budget 2018-19 | Outturn |
|---|---|---|
| EMPLOYEE EXPENSES | 197,280 | 83,510 |
| TRANSPORT RELATED EXPENDITURE | 2,000 | 0 |
| SUPPLIES & SERVICES | 106,700 | 247,760 |
| **TOTAL EXPENDITURE** | **305,980** | **331,270** |
| | | |
| CUSTOMER & CLIENT RECEIPTS | -306,590 | -306,590 |
| **TOTAL INCOME** | **-306,590** | **-306,590** |
| | | |
| **GROSS CONTROLLABLE EXPENDITURE TOTAL** | **-610** | **24,680** |
| | | |
| SUPPORT COSTS | 610 | 610 |
| **TOTAL NON-CONTROLLABLE COSTS** | **610** | **610** |
| | | |
| **TOTAL NET EXPENDITURE (I&E)** | **0** | **25,290** |

## 4. 2018/19 Internal Audit work conducted

The approved 2018/19 internal audit plan consisted of:

- 27 risk and compliance internal audits, of which ten were deferred or cancelled.
- 1 risk assessment of schools to determine where to focus the audits.

Two risk and compliance audits and fifteen school audits were added to the plan in the year as follows:

- Security of Buildings follow-up – added following a Limited Assurance review at the end of 2017/18
- Adoptions follow-up – added following a No Assurance review issued in Quarter 2
- Fifteen school audits added following a schools' risk assessment in Quarter 1:
    - Mayesbrook PRU
    - Eastbrook School
    - Barking Abbey School
    - Marks Gate Infant School
    - Thomas Arnold Primary School
    - Dorothy Barley Infant School
    - Gascoigne Primary School
    - Henry Green Primary School
    - John Perry Primary School
    - Northbury Primary School
    - Roding Primary School

- General Schools' follow-up
- Manor Junior School follow-up
- William Bellamy Primary School follow-up
- Schools' Annual Report

The following six (all risk and compliance, no schools) audits of the original approved plan of 27 audits were deferred or cancelled as follows:

- Special Guardianship Orders – because of similar issues identified in the Adoptions audit, this work was deferred to 2019/20
- Adaptations Grant Scheme - scheme suspended with no new applicants
- Budgetary Control and Savings - due to the senior management changes, expected to be an area subject to management review and change so limited value in audit at this stage. Deferred to 2019/20.
- Private Sector Housing - new scheme to be implemented from September 2019. Deferred to consider for inclusion in 2019/20
- Liquidlogic Implementation - deferred so as not to detract management time from the expected OFSTED inspection. Included in 2019/20 plan
- Elevate Contract Exit – deferred to 2019/20 when plans will be in a better position for audit.

## 5. Progress against audit plan

Of the remaining 39 audits (23 risk and compliance and 16 audits of schools), as at 31 March 2019, 4 were at draft report and 30 at final report stage with the remainder still at fieldwork stage. The total of 87% at report stage exceeded the target of 80%.

During April and May 2019, further progress was made in finalising draft reports meaning that, as at 31 May 2019, 3 were at draft report and 36 at final report stage. This met the target of 100% at draft report stage by this date.

| Progress status | 2018/19 as at 31 May 2019 | | 2017/18 as at 31 May 2018 | |
| --- | --- | --- | --- | --- |
| Final report | 35 | 69% | 38 | 92% |
| Draft report | 4 | 10% | 2 | 8% |
| Pre-report | 0 | 0% | 0 | 0% |
| TOTAL | 39 | | 40 | |
| Cancelled / deferred | 6 | | 10 | |

Progress against audit plan at 31 May
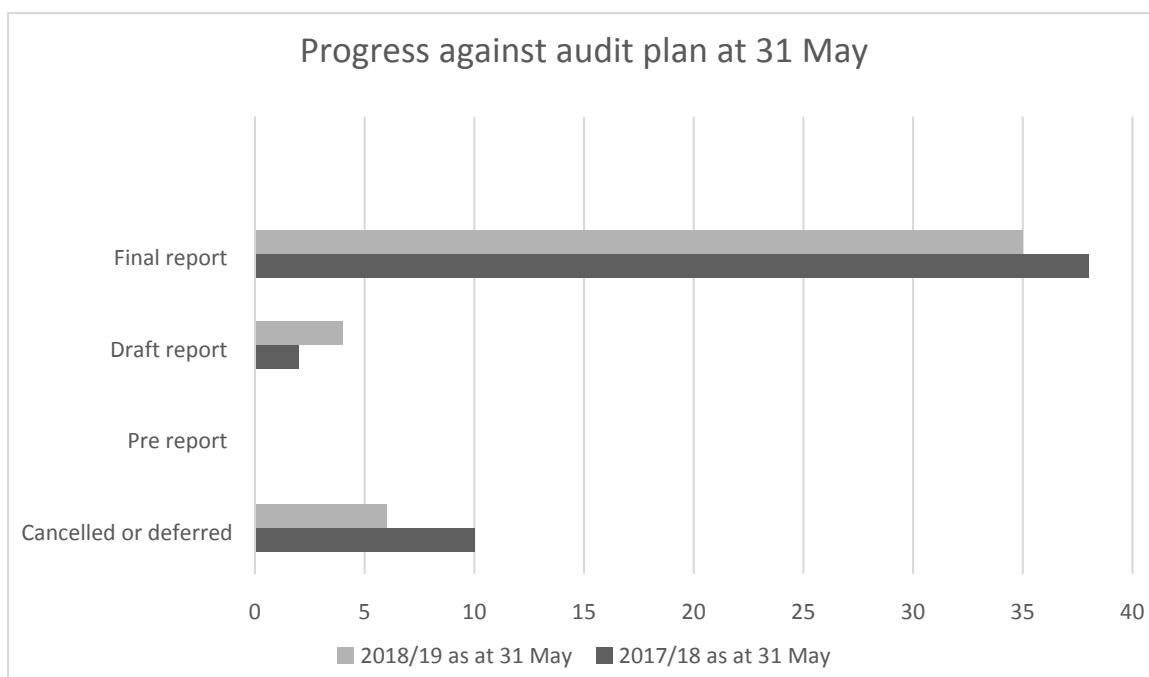
The three audits not at final report stage as at 31 May 2019 were due to the school half-term holiday and were finalised immediately thereafter.

## 6. Results of the internal audit work

### Risk and compliance audits

Internal audit reports include a summary level of assurance using the following scale:

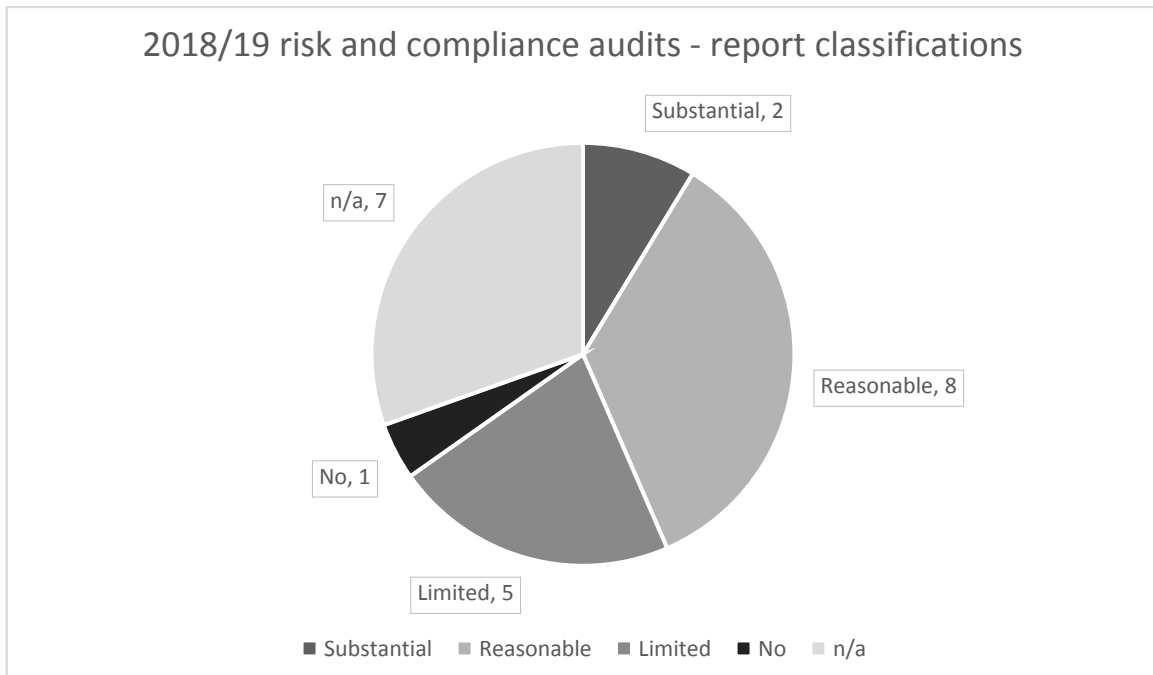- Substantial.
- Reasonable.
- Limited.
- No.

Internal audit findings are categorised critical, high, medium and low risk (or advisory) depending upon the impact of the associated risk attached to the recommendation.

Definitions of the ratings can be found at Appendix 3.

The table below sets out the results of our 23 risk and compliance 2018/19 internal audits:

| Audit | Opinion | Number of Findings | | | |
|---|---|---|---|---|---|
| | | Critical | High | Medium | Low |
| Information governance - Subject Access Requests | Substantial | 0 | 0 | 0 | 1 |
| Museum Accreditation | n/a | n/a | n/a | n/a | n/a |
| Sickness absence [review] | n/a | 0 | 0 | 3 | 1 |
| Recruitment | Limited | 0 | 2 | 0 | 2 |
| Cyber Security | Limited | 0 | 1 | 4 | 1 |

| | | | | | |
|---|---|---|---|---|---|
| IR35 | Reasonable | 0 | 1 | 1 | 2 |
| Adoptions | No | 1 | 0 | 2 | 0 |
| Gifts and Hospitality | Reasonable | 0 | 0 | 3 | 2 |
| Everyone Active Contract Management | Reasonable | 0 | 0 | 2 | 2 |
| IT Risk Diagnostic | n/a - average control maturity | n/a | n/a | n/a | n/a |
| Adoptions (follow up) | Reasonable | 0 | 0 | 3 | 1 |
| Commercial Waste Services | n/a | n/a | n/a | n/a | n/a |
| Governance | Reasonable | 0 | 0 | 3 | 4 |
| My Place BDMS Contract Management | Limited | 0 | 1 | 4 | 1 |
| Brexit Impact Workshop [review] | n/a | n/a | n/a | n/a | n/a |
| Direct Payments | Limited | 0 | 1 | 4 | 1 |
| Parks and Grounds Maintenance | Reasonable | 0 | 0 | 2 | 1 |
| Parking Income Collection | Reasonable | 0 | 1 | 2 | 4 |
| Fleet Management | Substantial | 0 | 0 | 1 | 2 |
| Homelessness Reduction | Reasonable | 0 | 0 | 3 | 2 |
| Be First Procurement on behalf of the Council | n/a | n/a | n/a | n/a | n/a |
| Asset Management: New housing assets and surveys | Limited | 0 | 2 | 1 | 0 |
| Security of Corporate Buildings (follow up) | n/a | n/a | n/a | n/a | n/a |
| **Total** | | **1** | **9** | **38** | **27** |

2018/19 risk and compliance audits - report classifications

The majority of report classifications were positive, i.e. "substantial" or "reasonable" assurance.

We issued one "No Assurance" report in the year as follows:

| **Title** and audit objective | **Summary of findings** *and current progress to address reported high-risk findings* |
|---|---|
| **Adoptions – no assurance**<br><br>The objective of this audit was to evaluate the control design and test the operating effectiveness of key controls in place over adoptions from during April 2017 to June 2018. | Liquidlogic's Children's System went live for children's services, including adoptions in March 2018, replacing the legacy system, Northgate. Due to issues with evidence not being available on Liquidlogic, we were unable to verify the operation of a number of the controls and processes detailed to us during interviews.<br><br>We identified one critical risk finding regarding incomplete access to adoptions records following the migration of records to Liquidlogic.<br><br>We also identified two medium risk findings:<br><br>• Timely responses to initial enquiries<br>• Adherence to recommended assessment processes and timeframes<br><br>*Our follow up audit of adoptions audit in November and December 2018 confirmed that a large amount of further data had been added to Liquidlogic.  More significantly, we confirmed that relevant individuals had access to data not yet in Liquidlogic through either the shared folder or through the legacy system.*<br><br>*Finding superseded by updated finding in follow-up report, now rated as medium risk.* |

We issued five "Limited Assurance" report in the year as follows:

| **Title** and audit objective | **Summary of findings** *and current progress to address reported high-risk findings* |
|---|---|
| **Cyber Security - Limited Assurance**<br><br>The objective of the audit was to evaluate the control design and test the operating effectiveness of key controls in place relating to Cyber Security. | We found controls over Cyber Security at were of limited effectiveness. The split in responsibility between Elevate and the Council's internal IT team may have contributed to some of the issues we identified. We highlight that reviews at other London Boroughs performed in the last six months performed by the Cyber Security subject matter experts involved in this review confirms that many of these findings are similar to those found in other councils.<br><br>We identified the following high and medium risk findings:<br><br>• Owners of Cyber Security risks did not have sufficient oversight of Cyber Security operations (high risk)<br>• Policies are out-of-date or are not sufficiently mature (medium risk)<br>• Sophisticated event monitoring capabilities exist within LBBD, but are not fully utilised (medium risk)<br>• A lack of oversight and monitoring of user access (medium risk)<br>• Incident response plans do not exist beyond a general procedure (medium risk)<br><br>We also identified one low risk finding.<br><br>*The one high risk finding was established at follow-up to have been implemented.* |
| **Recruitment – Limited Assurance**<br><br>The objective of this audit was to evaluate the control design and test the operating effectiveness of key controls in place relating to recruitment for the period April 2017 to March 2018. | The recruitment process had been designed and implemented by HR and operationally, was conducted by individual line managers. We found that while the HR process was designed effectively, there was evidence of non-adherence to this policy by some managers. It appeared that there are two primary reasons for this. Firstly, because of managers missing scheduled training courses, there was a subsequent lack of awareness of the policy. Secondly, some managers were not retaining full documentation to support recruitment decisions.<br><br>We identified two high risk findings:<br><br>• Recruiting managers not attending training and refresher courses – Our testing identified a number of managers who had recruited staff had not followed the required process to recruit via iGrasp and had either not done the initial recruitment training, provided a signed-off assessment of prior knowledge and experience or had not kept it up to date by completing the refresher course they are required to undertake every three years. This does not mean that they did not have the required level of skills, experience and knowledge to carry out recruitment but they had not adhered to the Council's recruitment process.<br>• Key documents supporting the recruitment process could not be located – Our testing of 25 recruitments identified that some key documents required to evidence the recruiting process and appointment decision, were not available for our review therefore we could not verify that the recruitment took place in accordance with the Council's policy.<br><br>We also identified one low risk finding in relation to the reflectiveness of the current process in policy.<br><br>*Management have confirmed that an internal group chaired by the Chief Executive now considers all recruitment requests from managers, and the details of the recruitment panel and their training status is now reviewed and scrutinised. Approval for recruitment will not be agreed unless the* |

| | |
|---|---|
| | *manager can demonstrate a fully-trained panel. Recruitment and selection training is mandatory for recruiting managers, and they must complete a refresher every 3 years.*<br><br>*The recruitment policy has been amended and will make specific reference to the responsibility of managers to retain the full documentation related to recruitment for 6 months.* |
| **My Place BDMS Contract Management – Limited Assurance**<br><br>This was an audit of the control design and operating effectiveness of My Place procurement contract management through review of the contract management of the Trading Services Contract. | The Council is reliant on BDMS as the sole provider of maintenance services for its housing stock. There are a number of critical services being provided such as repair of boilers in the homes of older or more vulnerable residents. These critical services have to continue even if there is major disruption to the Council or BDMS.<br><br>The review of the contract confirmed that it stipulates that BDMS should provide a business continuity plan to ensure that the services can continue in the event of major disruption.<br><br>However, it was identified that this plan had not yet been produced. This meant that there was no plan in place to recover these services in the timeframes required by the Council.<br><br>*This high risk finding was due for implementation by 31st May 2019 and is in the process of follow-up.* |
| **Direct Payments – Limited Assurance**<br><br>An audit of the control design and operating effectiveness of direct payments. | Testing identified one high risk finding about incomplete data in Liquid Logic whereby a number of issues with the data and records available in Liquid Logic were identified. Liquid logic had been live for about six months at the time of the audit.<br><br>Testing of 20 DP accounts identified the following audit trail / data issues with the documents held in the system:<br><br>• 11 accounts did not contain/index a contract signed by both parties;<br>• One account did not contain the relevant Support Plan for an increase processed in 2018;<br>• 2 (of 11) accounts reviewed in 2018 did not contain the supporting documents and updated support plan;<br><br>There was also one account identified that was incorrectly tagged as 'Proposed' in the system - this means awaiting for Social Worker Team Manager authorisation but the review found the account had been paid.<br><br>These issues hinder management's ability to embed efficient and effective key controls into their process.<br><br>We were unable, during the audit, to physically verify whether the documents existed. This action would have taken significant resources from both the audit and service teams and as the issue was known and acknowledged by management would not have been a good use of resources.<br><br>Management noted that that some documents transferred into the new system had not been accurately indexed and that this was a known issue that they were working with the systems support teams to rectify. Management further reported that work to address issues with the system was underway and the issues noted in our testing had been identified by the teams in the period since go live.<br><br>*The agreed action for this high risk finding is due to be implemented by 30th June 2019 and will be followed up accordingly.* |

| Asset Management: New housing assets and surveys – Limited Assurance<br><br>The objective of this audit was to evaluate the control design and test the operating effectiveness of key controls in place over asset management, specifically new housing stock handed over from Be First and surveys over the period December 2018 to January 2019. | Asset Management has significantly changed in the Council since the creation of the Be First subsidiary, which moved responsibility for building new housing from the Council to Be First. The Council created the My Place team to oversee the handover of housing and ensure its correct addition to the housing register. The My Place team undertook a survey of the housing stock in November 2017 to review the accuracy of the inherited housing asset register.  The Council developed a Handover process map which was in its infancy as at March 2019 (version "0.2"). As these processes were relatively new or still in development, a number of processes had yet to be fully implemented. We have identified a number of recommended improvements to the current and planned controls, primarily to monitor the operation of the key control activities and proactively identify and resolve issues with their operation. We identified two high risk and one medium risk issue that need to be addressed:<br><br>• Design of the handover process (high risk) – The Council had drafted a process to on-board new housing. Our evaluation of the documented process found it to be generally robust. However, we identified a number of issues including no tracking of houses being received and no review of changes made to the asset register.<br>• Implementation of the designed handover process (high risk) – We were informed by My Place staff that the designed handover process had not yet been implemented at the time of our audit work in March 2019.  Therefore there was no formal handover process in place and operating.<br>• Updating the asset register with the survey results (medium risk) – A survey of housing assets was completed in July 2018. This has not yet been fully incorporated into the asset register and so spreadsheets are being used for management decision making as a work around.<br><br>*The agreed actions for the two high risk finding are due to be implemented by 30th June 2019 and will be followed up accordingly.* |

A critical risk is defined as requiring immediate and significant action.  A high risk is defined as requiring prompt action to commence as soon as practicable where significant changes are necessary.  Management are expected to implement all critical and high-risk recommendations by the agreed target dates. Internal Audit tracks management progress by way of a chase up or follow up to the audit client accordingly. Slippage in implementing agreed actions does occur and requires management to instigate revised targets and consider ways to mitigate the identified risks.

There was one finding that was rated as critical risk in the year in the Adoptions audit as per the table above.  That finding was reduced to medium risk following management action.

The following table summarises the critical and high risk findings, as at 31 March 2019, that have been reported, implemented, were outstanding and were beyond their due date:

|  | Reported | Implemented | Outstanding | Beyond due date |
|---|---|---|---|---|
| Previous years b/f: | - | - | 1 | 1 |
| Current year: | 10 | 4 | 6 | 0 |
| **Total:** | **10** | **4** | **7** | **1** |

The progress as at 31 May 2018 in implementing the high-risk recommendations overdue as at 31 March 2018 has been reported in the following table:

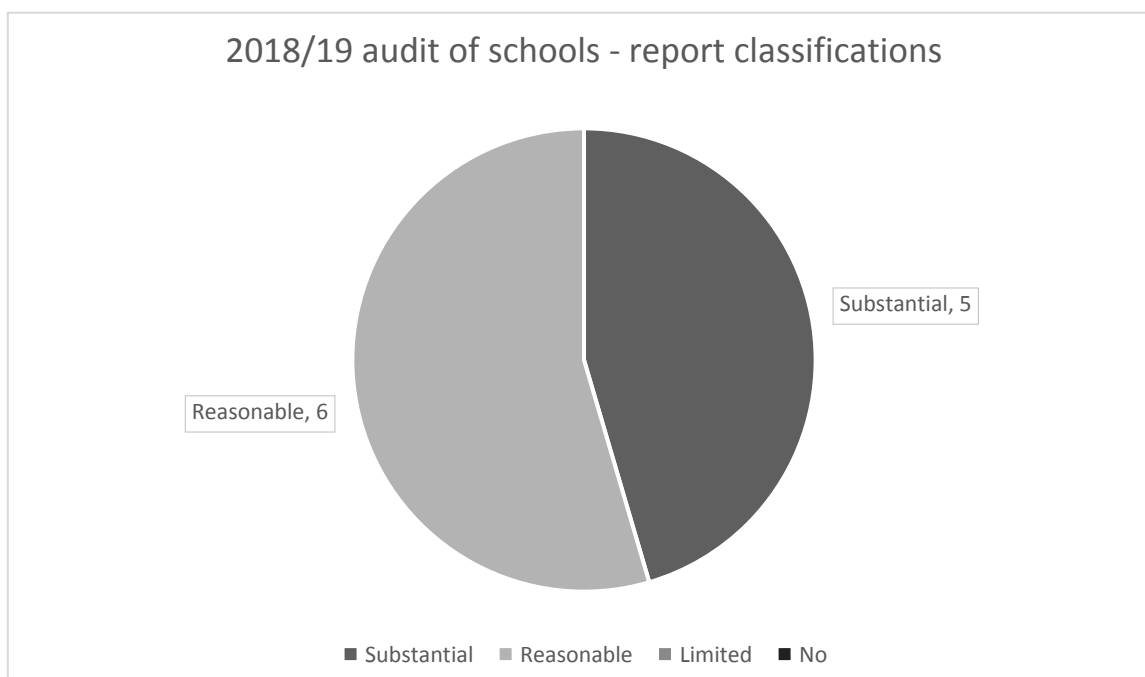| Finding | Agreed Action | Latest progress as reported by management |
|---|---|---|
| **Records Compliance** | | |
| There is no list of information asset owners (IAO), a list is in the process of being compiled. The roles and responsibilities of the IAO's has not been defined or communicated to officers. A part time consultant has been appointed and is in the process of identifying IAOs. | a. Roles and responsibilities for IAO's should be clearly defined and communicated and incorporated into job descriptions<br>b. Basic training on the requirements of IAO's should be given to those holding the role.<br><br>Target: 31/12/15 | **In progress, expected to be completed by December 2019:** An Information Asset Register has been launched and is mostly completed.  A Records Management training module has been identified. Guidance around the IAO role is expected to be completed by mid Feb with incorporation of role into job descriptions agreed with HR and in progress. |

## **Audits of schools**

Schools within the Borough are audited on a risk basis.  The audits of schools are fully outsourced to Mazars, the Council's internal audit co-source provider.

The objective of these audits is to ensure that the schools have adequate and effective controls with regards to the financial management and Governance of the school.

The table below sets out the results of Mazars 2018/19 internal audit work auditing 16 schools:

| School | Opinion | Number of findings | | | |
|---|---|---|---|---|---|
| | | Critical | High | Medium | Low |
| Risk Assessment of Schools | n/a | n/a | n/a | n/a | n/a |
| General Schools follow up | n/a | n/a | n/a | n/a | n/a |
| Manor Junior School (follow up) | n/a | n/a | n/a | n/a | n/a |
| William Bellamy Primary School (f/up) | n/a | n/a | n/a | n/a | n/a |
| Mayesbrook PRU | Substantial | 0 | 0 | 0 | 2 |
| Eastbrook School | Substantial | 0 | 0 | 1 | 2 |
| Barking Abbey School | Reasonable | 0 | 0 | 1 | 7 |
| Marks Gate Infant School | Reasonable | 0 | 0 | 3 | 2 |
| Thomas Arnold Primary School | Substantial | 0 | 0 | 1 | 0 |
| Dorothy Barley Infant School | Reasonable | 0 | 0 | 2 | 5 |
| Gascoigne Primary School | Reasonable | 0 | 1 | 0 | 4 |
| Henry Green Primary School | Substantial | 0 | 0 | 0 | 1 |
| John Perry Primary School | Reasonable | 0 | 0 | 3 | 2 |
| Northbury Primary School | Reasonable | 0 | 0 | 2 | 1 |
| Roding Primary School | Substantial | 0 | 0 | 0 | 1 |
| Schools' Annual Report | n/a | n/a | n/a | n/a | n/a |
| TOTAL: | | **0** | **1** | **13** | **27** |

2018/19 audit of schools - report classifications

Substantial, 5
Reasonable, 6

■ Substantial  ■ Reasonable  ■ Limited  ■ No

All school reports were rated as either "Substantial Assurance" or "Reasonable Assurance".  We issued no "No Assurance" or "Limited Assurance" reports in the year.

## 7.  Internal audit performance

| Purpose | Target | Performance & RAG Status | What it measures |
|---|---|---|---|
| **Output Indicators (Efficiency)** | | | |
| % of 2018/19 Audit Plan completed (Audits at draft report stage) | >25% by 30/09/18 | 32% - GREEN | Delivery measure |
| | >50% by 31/12/18 | 57% - GREEN | |
| | >80% by 31/03/19 | 86% - GREEN | |
| | 100% by 31/05/19 | 100% - GREEN | |
| Meet standards of Public Sector Internal Audit Standards | Substantial assurance or above from annual review | Confirmed * - GREEN | Compliant with professional standards |
| **Outcome Indicators (Effectiveness - Adding value)** | | | |
| High Risk Recommendations not addressed within timescales | <5% | 0% - GREEN | Delivery measure |
| Overall Client Satisfaction | > 85% satisfied or very satisfied over rolling 12-month period | 100% - GREEN | Customer satisfaction |

* Internal Audit for 2018/19 was being provided by a combination of the in-house team, Mazars LLP and PwC LLP.  All teams have confirmed ongoing compliance with the Public Sector Internal Audit Standards.


**Quality and improvement programme**

Internal audit quality has been maintained through adequate supervision and review processes in the year.

Quality and consistency has been improved through use of revised Terms of Reference and report templates and stability has been achieved through the appointment of a permanent Head of Assurance.

Plans are in place to further strengthen quality in 2019/20 particularly through further recruitment to the in-house team.

## 8. Appendices

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

We have undertaken internal audit subject to the following limitations:

- **Internal control:** Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overring 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 following risks:

  - The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes.

  - 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 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.


### Opinion

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

## 2: Opinion types

The table below sets out the types of opinion that I have considered, along with an indication of the types of findings that may determine the opinion given. I apply my judgement when determining the appropriate opinion, so the guide given below is indicative rather than definitive.

| Opinion | Indication of when this type of opinion may be given |
|---|---|
| **Satisfactory** | • A limited number of medium risk rated weaknesses may have been identified, but generally only low risk rated weaknesses have been found in individual assignments; and<br>• None of the individual assignment reports have an overall report classification of either high or critical risk. |
| **Generally satisfactory with some improvements required** | • Medium risk rated weaknesses identified in individual assignments that are **not significant in aggregate** to the system of internal control; and/or<br>• High risk rated weaknesses identified in individual assignments that are **isolated** to specific systems or processes; and<br>• None of the individual assignment reports have an overall classification of critical risk. |
| **Major improvement required** | • Medium risk rated weaknesses identified in individual assignments that are **significant in aggregate but discrete parts** of the system of internal control remain unaffected; and/or<br>• High risk rated weaknesses identified in individual assignments that are **significant in aggregate but discrete parts** of the system of internal control remain unaffected; and/or<br>• Critical risk rated weaknesses identified in individual assignments that are **not pervasive** to the system of internal control; and<br>• A **minority** of the individual assignment reports may have an overall report classification of either high or critical risk. |
| **Unsatisfactory** | • High risk rated weaknesses identified in individual assignments that **in aggregate are pervasive** to the system of internal control; and/or<br>• Critical risk rated weaknesses identified in individual assignments that are **pervasive** to the system of internal control; and/or<br>• **More than a minority** of the individual assignment reports have an overall report classification of either high or critical risk. |
| **Disclaimer opinion** | • An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either:<br>  - Restrictions in the audit programme agreed with the Audit Committee, which meant that our planned work would not allow us to gather sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control; or<br>  - We were unable to complete enough reviews and gather sufficient information to conclude on the adequacy and effectiveness of arrangements for governance, risk management and control. |

## 3: Definition of risk categories and assurance levels

| Risk rating | |
|---|---|
| **Critical**<br>●● | Immediate and significant action required. A finding that could cause:<br>• Life threatening or multiple serious injuries or prolonged work place stress. Severe impact on morale & service performance (e.g. mass strike actions); or<br>• Critical impact on the reputation or brand of the organisation which could threaten its future viability. Intense political and media scrutiny (i.e. front-page headlines, TV). Possible criminal or high profile civil action against the Council, members or officers; or<br>• Cessation of core activities, strategies not consistent with government's agenda, trends show service is degraded. Failure of major projects, elected Members & Senior Directors are required to intervene; or<br>• Major financial loss, significant, material increase on project budget/cost. Statutory intervention triggered. Impact the whole Council. Critical breach in laws and regulations that could result in material fines or consequences. |
| **High**<br>● | Action required promptly and to commence as soon as practicable where significant changes are necessary. A finding that could cause:<br>• Serious injuries or stressful experience requiring medical many workdays lost. Major impact on morale & performance of staff; or<br>• Significant impact on the reputation or brand of the organisation. Scrutiny required by external agencies, inspectorates, regulators etc. Unfavourable external media coverage. Noticeable impact on public opinion; or<br>• Significant disruption of core activities. Key targets missed, some services compromised. Management action required to overcome medium-term difficulties; or<br>• High financial loss, significant increase on project budget/cost. Service budgets exceeded. Significant breach in laws and regulations resulting in significant fines and consequences. |
| **Medium**<br>● | A finding that could cause:<br>• Injuries or stress level requiring some medical treatment, potentially some workdays lost. Some impact on morale & performance of staff; or<br>• Moderate impact on the reputation or brand of the organisation. Scrutiny required by internal committees or internal audit to prevent escalation. Probable limited unfavourable media coverage; or<br>• Significant short-term disruption of non-core activities. Standing orders occasionally not complied with, or services do not fully meet needs. Service action will be required; or<br>• Medium financial loss, small increase on project budget/cost. Handled within the team. Moderate breach in laws and regulations resulting in fines and consequences. |
| **Low**<br>● | A finding that could cause:<br>• Minor injuries or stress with no workdays lost or minimal medical treatment, no impact on staff morale; or<br>• Minor impact on the reputation of the organisation; or<br>• Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule; or<br>• Handled within normal day to day routines; or<br>• Minimal financial loss, minimal effect on project budget/cost. |
| **Level of assurance** | |
| **Substantial**<br>● | There is a sound control environment with risks to key service objectives being reasonably managed. Any deficiencies identified are not cause for major concern. Recommendations will normally only be Advice and Best Practice. |
| **Reasonable**<br>● | An adequate control framework is in place but there are weaknesses which may put some service objectives at risk. There are Medium priority recommendations indicating weaknesses, but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any High recommendations would need to be mitigated by significant strengths elsewhere. |

| Limited ● | There are a number of significant control weaknesses which could put the achievement of key service objectives at risk and result in error, fraud, loss or reputational damage. There are High recommendations indicating significant failings. Any Critical recommendations would need to be mitigated by significant strengths elsewhere. |
|---|---|
| No ● | There are fundamental weaknesses in the control environment which jeopardise the achievement of key service objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered. |