

Action Plan in Response to the Wales Audit Office Report in Respect of Cardiff and Vale University Health Board's Contractual Relationships with RKC Associates Ltd and its Owner

Conclusion 1 - The way in which the Cardiff and Vale University Health Board (UHB) procured and managed HR consultancy contracts awarded to RKC Associates fell well short of the standard that the public has a right to expect of a public body

- a) The UHB failed to comply with its own procurement procedures when it awarded consultancy contracts to RKC Associates in November 2014 and June 2015 and in consequence both the contracts and payments made under them are potentially unlawful.
- b) The award of consultancy contracts to RKC Associates breached public procurement rules.
- c) The UHB failed to undertake due diligence checks of RKC Associates resulting in the UHB being exposed unnecessarily to financial and reputational risk.
- d) The UHB was in breach of its own Standing Financial Instructions when it agreed contracts with RKC Associates which had been drafted by the owner of RKC Associates.
- e) The UHB appointed the owner of RKC Associates to deliver consultancy projects, but the UHB utilised her as a senior member of staff and, in consequence, has potentially over-claimed VAT amounting to £58,162.
- f) As the Officer who signed the contracts with RKC Associates in November 2014 and June 2015, the UHB's Chief Operating Officer had a duty to ensure proper process had been followed. The failure to do so has cast doubt on whether the decisions to award these contracts were based entirely on valid considerations.
- g) The UHB did not exercise effective financial monitoring of its contracts with RKC Associates, with payments exceeding the contracted value and contractual expenses not being verified.

UHB Response to Conclusion 1

Following publication of the Wales Audit Office report, a full report was received at the UHB's Board meeting on 27 July 2017 and discussion conducted in the public session of that meeting. In addition, the report has been raised at the meetings of our Management Executive (ME) and Health Systems Management Board (HSMB), and discussed with Senior Trade Union / Staff Side representatives and at our Local Partnership Forum (LPF).

As acknowledged by the Wales Audit Office, the UHB has a number of detailed policies and procedures covering this area. These have been developed to standardise processes based on best procurement practice and set out the governing principles for public procurement, for example, the Scheme of Delegation, Standing Orders, Standing Financial Instructions and Financial Control Procedures. Regrettably, these processes were not followed on this occasion, and there was no reference to the UHB's Head of Procurement as provided for in our Scheme of Delegation.

The Procurement Guide for Staff which was developed in conjunction with NHS Wales Shared Services Partnership Procurement Services, and approved through the All Wales Directors of Finance Sub Group in 2015, is provided to UHB staff as part of the training delivered by the UHB Procurement Department and will be further reinforced throughout the UHB.

Prior to the Wales Audit Office report, a review of our processes was already in train in response to changes to the IR35 legislation¹ relating to off-payroll working in the public sector. In addition, the process around requesting approval of contracts has been changed, a procurement checklist that sets out a defined approval hierarchy has been implemented to ensure compliance with Standing Orders and EC Regulations and that more than one signatory is obtained. All external Consultancy contracts are now signed off by the CEO.

The UHB, in conjunction with its colleagues in Procurement and Human Resources / Workforce, has developed this action plan to make the necessary further improvements to ensure no similar incidents of this kind occur in the future. The Action Plan will be presented to the UHB Board on 28 September 2017 and its Audit Committee on 26 September 2017 and will thereafter be monitored by the Audit Committee. The Action Plan has also been shared with Wales Audit Office.

¹ Her Majesty's Revenue and Customs (HMRC) introduced the 'intermediaries legislation' commonly known as IR35 or off-payroll rules in April 2000. This legislation is intended to combat tax abuse by an individual who would be treated as an employee were it not for the fact that they provide their services via their own company, called 'disguised employees' by HMRC. From April 2017, where a public sector organisation engages an off-payroll worker through their own limited company, that organisation will become responsible for determining whether the rules should apply, and, if so, for paying the right tax and National Insurance Contributions.

Conclusion 1 Action Plan	Lead	Completion	Update	Status
Training				
1. Provide training for all Board members on the law, rules and regulations relating to employment and procurement at the August Board Development Day.	Director of Corporate Governance	Aug 2017	Complete Training delivered on 31/08/17.	
2. Cascade the training provided at Clinical Board senior management teams and throughout the organisation to Directorate Management level.	Executive and Clinical Board Directors	Oct 2017	Complete Discussed at ME on 04/09/17 & cascaded.	
Review				
3. Undertake review of external consultancy categories in the purchase to pay system for period 2014-2017 to ensure compliance with procurement rules.	Head of Procurement	Aug 2017	Complete Reports received by CEO and Director of Finance.	
4. Review the Procurement Guide for Staff and revise to reflect process changes connected with the IR35 legislation.	Head of Procurement	Sep 2017	Complete	
Process				
5. Provide the Procurement Guide for Staff to the Management Executive Team meeting for cascading to Clinical Boards, and Corporate Departments.	Director of Finance	Sep 2017	Complete Approved by ME on 25/09/17	
6. Publish the Procurement Guide for Staff across the UHB and place on intranet and internet for ease of staff access.	Director of Corporate Governance	Oct 2017	Complete	
7. Implement a no purchase order, no payment system to prevent the processing of manual payments.	Head of Procurement	June 2018 (original date set was Mar 2018)	Roll out has taken place in the Executive Team, UHB "no purchase order, no payment" Group meets monthly & feeds into the National Group. Full implementation now expected by June 2018.	
8. Develop and cascade process guidance for off-payroll working.	Head of Procurement	Aug 2017	Complete Approved by ME on 14/08/17, taken to HSMB on 17/08/17 for cascading by Clinical Board Directors.	

Conclusion 2 - The way in which an HR consultancy contract was awarded to RKC Associates in February 2016, along with the actions of key decision-makers, compromised the integrity of the procurement process

- a) The UHB embarked upon a procurement process for a contract and invited and evaluated tenders for that contract, despite the fact that RKC Associates had been engaged in advance of the tender process.
- b) The robustness and integrity of the advertised procurement process was compromised in several key respects and the UHB's Chief Operating Officer participated in the process despite knowing that RKC Associates had already been engaged in advance of the procurement process commencing.
- c) The Procurement Department failed to keep adequate documentation of the procurement process.
- d) The UHB delayed seeking formal written approval for the fixed-term appointment of a new Director of Workforce and Organisational Development, resulting in the UHB incurring unnecessary expenditure on a consultancy contract.

UHB Response to Conclusion 2

The UHB has taken steps to strengthen its existing processes and extend training at all levels to reinforce the requirements in relation to these areas.

We recognise however that policies / procedures and training, whilst the foundation of good practice, are part of a bigger picture that includes a culture of sound behaviours and values, adherence to the rules at all levels of the organization, checks to ensure this is happening and an environment that enables individuals to confidently highlight departure from any rules no matter how senior those involved. As part of the communication with the UHB following receipt of this report, the CEO has asked staff to share any concerns they may have with him and provided assurance that anything raised will be explored to provide reassurance regarding our systems / processes and decisions made.

Procurement compliance reports are already presented to the UHB's Audit Committee outlining for example Contract Extensions and Single Quotation or Single Tender Actions. Steps are also being taken to put in place more vigorous checks around our processes to flag potential issues and to achieve more robust oversight and business scrutiny by our Management Executive Team, Board and its Committees.

We are committed to utilising temporary employment contracts rather than consultancy contracts wherever possible.

Conclusion 2 Action Plan	Lead	Completion	Update	Status
Training				
1. Develop and deliver an enhanced training programme for procurement staff focusing on the conclusions of the Wales Audit Office report.	Head of Procurement	Sep 2017	Complete All training complete, refresher sessions will continue.	
2. Obtain quality management accreditation for the Procurement Department in respect of its tendering processes.	Head of Procurement	Mar 2018 (original date set was Nov 2017)	Complete Audit took place 15/02/18 & full ISO Accreditation awarded with no findings of non-compliance.	
3. Develop a Procurement flowchart for use by Board and Senior Managers.	Head of Procurement	Oct 2017	Complete Flowchart considered by ME on 11/12/17 & agreed that Executives will cascade through Management Structures.	
Audit				
4. Enhance existing audit processes within the Procurement Department to verify compliance with contract procedure.	Head of Procurement	Sep 2017	Complete Forward programme for audit planned & training of Clinical Boards & departments to continue.	
5. Review Internal Audit Programme to include audits relevant to the issues highlighted in this report and to test compliance with new processes.	Director of Finance	Nov 2017 (original date set was Sep 2017)	Complete Specific audit included in 2018 plan, to look at overall progress of action plan & review in detail a sample of actions.	
Assurance				
6. Enhance the statutory compliance report provided at each Audit Committee to include our compliance with and exceptions to recruitment requirements, Standing Orders and Standing Financial Instructions.	Directors of Finance and Workforce and Organisational Development	Sep 2017	Complete Standing agenda item with first report received at Audit Committee on 26/09/17.	
7. Review the Terms of Reference for the Remuneration and Terms of Service Committee to include a requirement to report any Executive level secondments and Consultancy appointments for approval to this Committee.	Director of Corporate Governance	Jan 2018 (original date set was Oct 2017)	Complete Review approved by Board on 30/11/17. Amendment made to note at the next meeting of the Remuneration and Terms of Service Committee.	

Conclusion 3 - The process followed by the UHB that led to the appointment of the owner of RKC Associates to the position of Director of Workforce and Organisational Development in April 2016 was fundamentally compromised, lacked transparency and was poorly documented.

- a) It is unclear why the UHB decided to proceed with a recruitment process for a Board level position with only a single candidate who had not applied for the position when it was originally advertised.
- b) The recruitment process was poorly documented and, as a consequence, it is not clear when the person who had been overseeing the recruitment exercise became a candidate.
- c) The integrity of the recruitment process was compromised because the sole candidate had access to some of the assessment questions in advance of being interviewed for the position.
- d) The information provided to the Board and its Remuneration and Terms of Service Committee regarding the appointment was inaccurate, incomplete and inconsistent.

UHB Response to Conclusion 3

High level appointments are not as frequent as other positions within the UHB and are often challenging to recruit due to small numbers of applicants with the relevant skills and experience.

As a result of this report, the UHB has looked at how these senior appointment processes are conducted and how the office of the Chief Executive and Director of Workforce and Organisational Development can work better together to ensure compliance with processes and that satisfactory documentation is maintained.

We also recognise that we can better support our Independent Board Members in relation to their Committee roles, to equip them to confidently scrutinise decisions and hold us to account.

Conclusion 3 Action Plan	Lead	Completion	Update	Status
Review 1. Review the procedures used to recruit Executive Directors and other Senior Managers.	Assistant Director of Workforce and Organisational Development	May 2018 (target date set Jul 2017)	Partially Complete Process revised & now to be reflected in the updated Recruitment and Selection Policy & Procedure which is due for approval in May 2018.	
2. Review the quality of information and its presentation to the Remuneration and Terms of Service Committee.	Chair and Director of Corporate Governance	Mar 2018 (target date set Sep 2017)	Complete New process introduced in January 2018 whereby all papers are assured by Chair & Director of Corporate Governance prior to publication. Checklist formulated to support this scrutiny.	
Process 3. Revise the Executive recruitment process to include a clear defined role for the Director of Workforce and Organisational Development which can be delegated to their Deputy or Director of Corporate Governance if circumstances require or a conflict arises.	Chief Executive	Aug 2017	Complete Process revised & now to be reflected in the updated Recruitment and Selection Policy & Procedure.	
Training 4. Arrange training for Independent Board Members, including those sitting on the Remuneration and Terms of Service Committee, covering their roles and responsibilities. This should also provide them with example questions they may wish to ask and the minimum information they may require to assist them in discharging their role.	Director of Corporate Governance	Aug 2017	Complete Included in the programme for the August Board Development Day.	
5. Provide legal and governance training for all Board members on their roles and responsibilities at the October Board Development Day.	Director of Corporate Governance	Oct 2017	Complete Included in the programme for the October Board Development Day.	

Additional Improvements				
Action Plan	Lead	Completion	Update	Status
Whistleblowing				
1. Review current Procedure for NHS Staff to Raise Concerns which includes whistleblowing to ensure it is fit for purpose and easy for staff to raise any concerns regarding non-compliance.	Director of Workforce and Organisational Development	Jan 2018 (target date set Oct 2017)	Complete All Wales Procedure adopted, Working Group established to re-launch Procedure, agree underlying process & improve culture.	
2. Develop an internal protocol providing a system for senior leaders to raise concerns, with clear lines of reporting should a concern relate to the Chair, Vice Chair or Chief Executive.	Director of Corporate Governance	Apr 2018 (target date set Oct 2017)	This will be developed by the above Working Group.	
Governance and Accountability Framework				
3. Revise the UHB Governance and Accountability Framework to reflect any amendments by the Directors of Finance All Wales Group to the Standing Financial Instructions and Standing Orders.	Director of Corporate Governance	June 2018 (target date set Mar 2018)	Model Standing Financial Instructions and Standing Orders being developed on an All Wales basis.	
4. Review and revise the UHB's Scheme of Delegation.	Director of Finance	Feb 2018 (target date set Oct 2017)	Complete Review presented to Audit Committee on 27/02/18 & Scheme of Delegation revised to include off-payroll working.	
5. Circulate a bulletin to the UHB Board and throughout the UHB reinforcing the Nolan principles of Good Governance and duties of probity / candour and the Values and Standards of Behaviour Framework.	Directors of Corporate Governance and Communications	Apr 2018 (target date set Oct 2017)	Draft prepared, final version delayed to ensure content aligns with outcomes of Working Group.	
Communication				
6. Communicate openly and transparently with staff about the findings of this report, the actions being taken by the UHB and their progress. This will include public meetings of Board / Audit Committee and meetings of LPF, Clinical Board Directors, HSMB and publishing of the action plan on the intranet for access by all staff, supplemented by other communication bulletins.	Chief Executive and Chair	Oct 2017	Complete Reports at Board, ME, HSMB, LPF. Continued dialogue with Senior Trade Union / Staff Side representatives, CEO communication placed on intranet and internet. Action plan monitored by Audit Committee.	

Action plan on WAO Audit of RKC Associates

Final Internal Audit Report

2017/18

NHS Wales Shared Services Partnership

Audit and Assurance Services

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Review reference:	C&V-1718-42
Report status:	Final Internal Audit Report
Fieldwork commencement:	January 2018
Fieldwork completion:	February 2018
Draft report issued:	14 th February 2018
Management response received:	14 th February 2018
Final report issued:	14 th February 2018
Auditor/s:	Ian Virgill, Deputy Head of Internal Audit; Kimberley Rowe, Principal Internal Auditor
Executive sign off:	Peter Welsh, Director of Governance
Distribution:	Peter Welsh, Director of Governance Sian Rowlands, Head of Corporate Governance
Committee:	Audit Committee

ACKNOWLEDGEMENT

NHS Wales Audit & Assurance Services would like to acknowledge the time and co-operation given by management and staff during the course of this review.

Disclaimer notice - Please note:

This audit report has been prepared for internal use only. Audit & Assurance Services reports are prepared, in accordance with the Service Strategy and Terms of Reference, approved by the Audit Committee.

Audit reports are prepared by the staff of the NHS Wales Shared Services Partnership – Audit and Assurance Services, and addressed to Independent Members or officers including those designated as Accountable Officer. They are prepared for the sole use of the Cardiff and Vale University Health Board and no responsibility is taken by the Audit and Assurance Services Internal Auditors to any director or officer in their individual capacity, or to any third party.

1. Introduction and Background

Our review of the progress made against the Action Plan prepared to address issues raised in the Wales Audit Office (WAO) report on the contractual relationships with RKC Associates Limited and its owner was completed in line with the 2017/18 Internal Audit plan for Cardiff and Vale University Health Board (the UHB).

The UHB developed a comprehensive action plan following the WAO audit of the UHBs contractual relationships with RKC Associates Ltd and its Owner. This action plan has been developed to ensure necessary further improvements are made to avoid similar incidents occurring in the future.

The action plan was presented to the Board at its July 2017 meeting. It was subsequently presented to the Public Accounts Committee in September 2017 and a further update on implementation is required in April 2018.

Progression of the action plan is reported and monitored by the Audit Committee.

The relevant lead Executive Director for the review is the Director of Corporate Governance.

2. Scope and Objectives

The objective of our review was to evaluate and determine the adequacy of the systems and controls in place for reporting progression against the agreed actions, in order to provide assurance the Health Board's Audit Committee that risks material to the achievement of the systems objectives are managed appropriately.

The main purpose of our review was to establish if the reported improvements being made by the Health Board are occurring as stated to enable completion and closure of the agreed actions.

The areas that this review sought to provide assurance on are:

- The UHB has appropriate processes in place to monitor and report on the progress towards the implementation of agreed actions;
- The reported level of progress against the planned actions is an accurate reflection of improvements implemented; and
- The agreed actions are being effectively implemented in line with planned timescales.

3. Associated Risks

The potential risks considered in this review are as follows:

- Identified actions may not be effectively implemented


OPINION AND KEY FINDINGS

4. Overall Assurance Opinion

We are required to provide an opinion as to the adequacy and effectiveness of the system of internal control under review. The opinion is based on the work performed as set out in the scope and objectives within this report. An overall assurance rating is provided describing the effectiveness of the system of internal control in place to manage the identified risks associated with the objectives covered in this review.

The level of assurance given as to the effectiveness of the system of internal control in place to manage the risks associated with the Action plan on WAO Audit of RKC Associates is **Substantial assurance**.

The overall level of assurance that can be assigned to a review is dependent on the severity of the findings as applied against the specific review objectives and should therefore be considered in that context.





RATING	INDICATOR	DEFINITION
Substantial Assurance		The Board can take substantial assurance that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Few matters require attention and are compliance or advisory in nature with low impact on residual risk exposure.

The process for monitoring and providing updates on the Action Plan in Response to the WAO Report in respect of C&V UHB's Contractual Relationships with RKC Associates Ltd and its Owner ('The Action Plan') is well managed by the Corporate Governance team.

The reported level of progress against the planned actions is predominantly an accurate reflection of improvements implemented and the audit only noted a few minor issues. The agreed actions are being effectively implemented, however, it has been identified that in part initial target completion dates were over ambitious and some actions have surpassed the planned timescales; despite this good progress has been made against remaining outstanding actions.

5. Assurance Summary

The summary of assurance given against the individual objectives is described in the table below:

Assurance Summary					
1	Identified Actions may not be Effectively Implemented				✓

* The above ratings are not necessarily given equal weighting when generating the audit opinion.

Design of Systems/Controls

The findings from the review have highlighted no issues that are classified as weakness in the system control/design for Action plan on WAO Audit of RKC Associates.

Operation of System/Controls

The findings from the review have highlighted three issues that are classified as weakness in the operation of the designed system/control for Action plan on WAO Audit of RKC Associates.

6. Summary of Audit Findings

The key findings are reported in the Management Action Plan.

RISK: Identified actions may not be effectively implemented

The following areas of good practice have been noted:

- The Action Plan and its subsequent update report is kept as a live document and managed appropriately by the Head of Corporate Governance with frequent progress reports provided to Audit Committee;
- Audit conducted testing of a sample of eight actions with a status of 'complete', there was sufficient evidence to provide assurance that seven of these actions were reasonably complete and the progress update provided to audit committee is an accurate reflection of improvements implemented. Details of the one action deemed partially complete can be found in Appendix A of this report;
- Five of these actions were completed within the timescale initially indicated, with three surpassing this date.
- Audit conducted testing of a sample of four actions with a status of 'non/partially complete' and are satisfied that the commentary provided in update report was a reasonable reflection of actions undertaken.

- All of the planned completion dates of uncompleted actions have surpassed and were therefore not achieved, however, testing has concluded that three of these actions will be complete in time for closure of the action plan in March 2018.

The following significant issue was identified:

- Whilst progress has been made to implement the new 'No PO No Pay' Policy (Conclusion 1, Action 7), full implementation of this is not anticipated until summer of 2018 and therefore will not be complete in time for full closure of the Action Plan by March 2018.

7. Summary of Recommendations

The audit findings, recommendations are detailed in Appendix A together with the management action plan and implementation timetable.

A summary of these recommendations by priority is outlined below.

Priority	H	M	L	Total
Number of recommendations	0	1	2	3

Finding 1 - Deadlines for Non-Complete Actions (Operating effectiveness)	Risk
<p>All of the planned completion dates of the four uncompleted actions tested have surpassed and were therefore not achieved, however, testing has concluded that three of these actions will be complete in time for closure of the action plan in March 2018.</p> <p>Whilst progress has been made to implement the new 'No PO No Pay' Policy (Conclusion 1, Action 7), full implementation of this is not anticipated until summer of 2018 and therefore will not be complete in time for full closure of the Action Plan by March 2018.</p>	<p>Identified actions may not be effectively implemented</p>
Recommendation	Priority level
<p>Action timescales should be reasonably considered and further updates to the audit committee should include achievable updated target completion dates.</p>	<p>Medium</p>
Management Response	Responsible Officer/ Deadline
<p>Accepted.</p> <p>We will continue to emphasise the importance of realistic timescales when assisting in the development of action plans.</p> <p>Action</p> <p>Update report for the February Audit Committee will contain this information.</p>	<p>Director of Corporate Governance</p> <p>February 2018</p>

Finding - 2 - Complete Actions not fully supported (Operating effectiveness)	Risk
<p>Testing of a sample of eight actions with a status of 'complete' was conducted to ensure there was sufficient evidence to provide assurance that actions were reasonably complete and the progress update provided to audit committee is an accurate reflection of improvements implemented.</p> <p>Conclusion 3, Action 1 was deemed to only be partially complete:</p> <ul style="list-style-type: none"> It is evident from the draft 'Employment Policies Sub Group' minutes that the Recruitment and Selection Policy has been discussed, particularly the executive recruitment processes as a result of the WAO report and the policy will cover all staff. However, this policy is still in draft and going through consultation, it is due to be approved by the EPSG in March 2018 with the intention of approval by the Resource and Delivery Committee in May 2018. Whilst the procedures have been 'reviewed' no changes will be formally made until May therefore this action is not fully complete. 	<p>Identified actions may not be effectively implemented</p>
Recommendation	Priority level
<p>Further updates to the audit committee should include Conclusion 3, Action 1 as not fully complete and commentary updated to reflect outstanding approval of the Recruitment and Selection policy by the Resource and Delivery Committee.</p>	<p>Low</p>

Management Response	Responsible Officer/ Deadline
<p>Accepted.</p> <p>Action</p> <p>Update report for the February Audit Committee will contain this information.</p>	<p>Director of Corporate Governance</p> <p>February 2018</p>
Finding 3 - Complete Actions passed target date (Operating effectiveness)	Risk
<p>Five of the eight 'complete' actions tested were completed within the timescale initially indicated, with three surpassing this date:</p> <ul style="list-style-type: none"> • Conclusion 2 - Action 5 (Planned for Sept 17, completed Nov 17) • Conclusion 2 - Action 7 (Planned Oct 17, Completed Jan 18) • Conclusion 3 - Action 1 (Planned July 17, Not yet complete) <p>The action plan was not updated to indicate that the actions had not been completed within the original planned timescales.</p>	<p>Identified actions may not be effectively implemented</p>
Recommendation	Priority level
<p>Action timescales should be reasonably considered and realistic and achievable target completion dates should be set.</p> <p>Where initial planned completion dates are not achieved then updated planned dates should be recorded on the action plan.</p>	<p>Low</p>


Management Response	Responsible Officer/ Deadline
<p>Accepted.</p> <p>We will continue to emphasise the importance of realistic timescales when assisting in the development of action plans.</p> <p>Action</p> <p>Updated action plan for the February Audit Committee, subsequent Board and Public Accounts Committee will contain this information.</p>	<p>Director of Corporate Governance</p> <p>February 2018</p>


Appendix B - Assurance opinion and action plan risk rating

Audit Assurance Ratings

 **Substantial assurance** - The Board can take **substantial assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Few matters require attention and are compliance or advisory in nature with **low impact on residual risk** exposure.

 **Reasonable assurance** - The Board can take **reasonable assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some matters require management attention in control design or compliance with low to **moderate impact on residual risk** exposure until resolved.

 **Limited assurance** - The Board can take **limited assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. More significant matters require management attention with **moderate impact on residual risk** exposure until resolved.

 **No assurance** - The Board can take **no assurance** that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. More significant matters require management attention with **high impact on residual risk** exposure until resolved.

Prioritisation of Recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows.

Priority Level	Explanation	Management action
High	Poor key control design OR widespread non-compliance with key controls. PLUS Significant risk to achievement of a system objective OR evidence present of material loss, error or misstatement.	Immediate*
Medium	Minor weakness in control design OR limited non-compliance with established controls. PLUS Some risk to achievement of a system objective.	Within One Month*
Low	Potential to enhance system design to improve efficiency or effectiveness of controls. These are generally issues of good practice for management consideration.	Within Three Months*

* Unless a more appropriate timescale is identified/agreed at the assignment.