

# Wiltshire Council

## Annual Report and Opinion 2018-19

# Contents

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## Summary:

Purpose

Page 1

Scope

Page 2

Annual Opinion

Page 3-4



## Summary of Audit Work:

High Corporate Risks

Page 5

Partial and No Assurance Audit Summary

Page 6

Summary of Control Assurance Opinions

Page 7

Summary of Recommendations

Page 8

Summary of Key Control Audit Outcomes

Page 9



## Plan Performance:

Value Added

Page 10

Team Performance

Page 11



## Appendices

Appendix A – Summary of Work Plan

Page 12-18

Appendix B – Summary of Work Plan

Page 19

**The Head of Internal Audit is required to provide an opinion to support the Annual Governance Statement.**

## Purpose

The Head of Internal Audit (SWAP Assistant Director) should provide a written annual report to those charged with governance to support the Authority's Annual Governance Statement (AGS). This report should include the following:

- an opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and internal control environment, including an evaluation of the following:
  - the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities;
  - whether the information technology governance of the organisation supports the organisation's strategies and objectives;
  - the effectiveness of risk management processes;
  - the potential for the occurrence of fraud and how the organisation manages fraud risk.
- disclose any qualifications to that opinion, together with the reasons for the qualification
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies
- draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement
- compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria
- comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content and the Annual Internal Audit Opinion given.

### Three lines of defence

To ensure the effectiveness of an organisation's risk management framework, the Audit Committee and senior management need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation.

The 'Three Lines of Defence' model is a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

- the first line of defence – functions that own and manage risk.
- the second line of defence – functions that oversee or specialise in risk management, compliance.
- the third line of defence – functions that provide independent assurance.

### Scope

The Internal Audit service for Wiltshire Council is provided by SWAP Internal Audit Services. The team's work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. The work of the team is guided by the Internal Audit Charter which is reviewed annually.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work of the service is based on the Annual Plan agreed by Senior Management and this Committee (see Appendix). This report summarises the activity of the Internal Audit team for the 2018/19 year against the Internal Audit Plan (approved by the Audit Committee on 11<sup>th</sup> April 2018).

The position of Internal Audit within an organisation's governance framework is best summarised in the three lines of defence model shown below.



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

**The Head of Internal Audit is required to provide an opinion to support the Annual Governance Statement.**

## Annual Opinion

The Annual Opinion is made based on the following sources of information:

- Completed audits (during the year 2018/19) which evaluate risk exposures (including new and emerging risks) relating to the organisation's governance, operations and information systems, reliability and integrity of information, efficiency and effectiveness of operations and programmes, safeguarding of assets and compliance with laws and regs;
- Observations from consultancy/advisory support;
- Follow up of previous audit activity, including agreed actions;
- Significant/material risk where management has not accepted the need for mitigating action;
- Notable changes to the organisation's strategy, objectives, processes or IT infrastructure; and,
- Assurances from other providers, including third parties, regulator reports etc.

Opinions are a balanced reflection, not a snapshot in time. Information to support this assessment is obtained from multiple engagements and sources (including advice/consultancy work). The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.

After considering the above, the Annual Opinion Definitions (which differ from assignment assurance definitions) are explained in Appendix B.

This Annual Opinion informs the Review of Effectiveness within the Annual Governance Statement.

Internal Audit has not reviewed all risks and assurances relating to Wiltshire Council and cannot provide absolute assurance on the internal control environment. Senior Management and Members, through the various committees, are ultimately responsible for ensuring an effective system of internal control.

Over the year, the Internal Audit Team have found Senior Management of Wiltshire Council to be supportive of Internal Audit findings and responsive to the recommendations made. In addition, there is a good relationship with Management whereby they feel they can approach the Internal Audit Team openly in areas where they perceive potential problems.

## Annual Opinion Continued

Generally, the follow up work confirms the responsive nature of management at Wiltshire Council in implementing agreed recommendations to mitigate exposure to areas of significant risk. Follow up of recommendations in the year have not identified any significant issues regarding non-implementation.

63% of completed audits received Substantial or Reasonable assurance opinions in relation to the control environment. Of the audits completed in 2018/19 (54 in total), there are 7 areas (13%) that have been awarded Partial or No assurance opinions in relation to their control environment (none of them Key Financial Control Systems). The findings within these audits have been accepted and are being appropriately addressed by management. Any outstanding weaknesses in the governance, risk and control framework will continue to be followed up by Internal Audit as part of the 2019/20 Plan. Further details of audits with Limited assurance opinions can be found on page 6.

A small number of audits (9) are still in the process of being finalised, 4 of which are currently at draft report stage.

A number of audits originally scheduled in the internal audit plan have been removed or deferred over the course of the year and are detailed in the Appendix to this report. A number of unplanned audits have been added to the plan over the year as the need arose and the risk environment altered. These changes have ensured audit resources have been focussed where it matters.

An incident of fraud has been identified within Wiltshire Council, however, this remains the subject of an ongoing police investigation and we are therefore unable to provide further details of this case at this time.

There will be occasions where audit make recommendations to mitigate risk exposure and after consideration of the recommendation, the service decide to accept the risk. In 2018/19, there have been no instances to bring to the attention of the Audit Committee.

I have considered the balance of 2018/19 audit work, the sources of information referred to above and outcomes against this environment enhanced by the work of external agencies and am able to offer a **Reasonable Assurance** opinion in respect of the areas reviewed during the year.

## Definitions of Corporate Risk

### High Risk

Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

### Medium Risk

Issues which should be addressed by management in their areas of responsibility.

### Low Risk

Issues of a minor nature or best practice where some improvement can be made.

## High Corporate Risk

For those audits which have reached report stage through the year, we have assessed the following risks as 'High'.

### Review

#### Wiltshire Primary School (Anonymised)

##### Objective:

To determine from financial health check review the effectiveness of financial management and governance and compliance with SFVS and Wiltshire Schools regulations and through review of personnel files, procedures and documents the adherence to human resources regulations.

##### Risks:

1. The governing body and School staff - Failure to operate sound financial governance risks financial loss, reputational damage and nonachievement of educational goals and priorities.
2. Setting the budget - Failure to set a realistic budget and to manage it effectively risks financial and reputational loss as well as nonachievement of educational goals and priorities.
3. Recruitment and HR Management is not in line with Legislation, Council Policies and Council Procedures.

## Assurance Definitions

Assurance Definitions	
<b>None</b>	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Partial</b>	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Reasonable</b>	Most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Substantial</b>	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

## Partial and No Assurance Summary

The following audits received a Partial or No assurance opinion in respect of their control environments in 2018/19. Each audit will have a follow up audit in 2019-20.

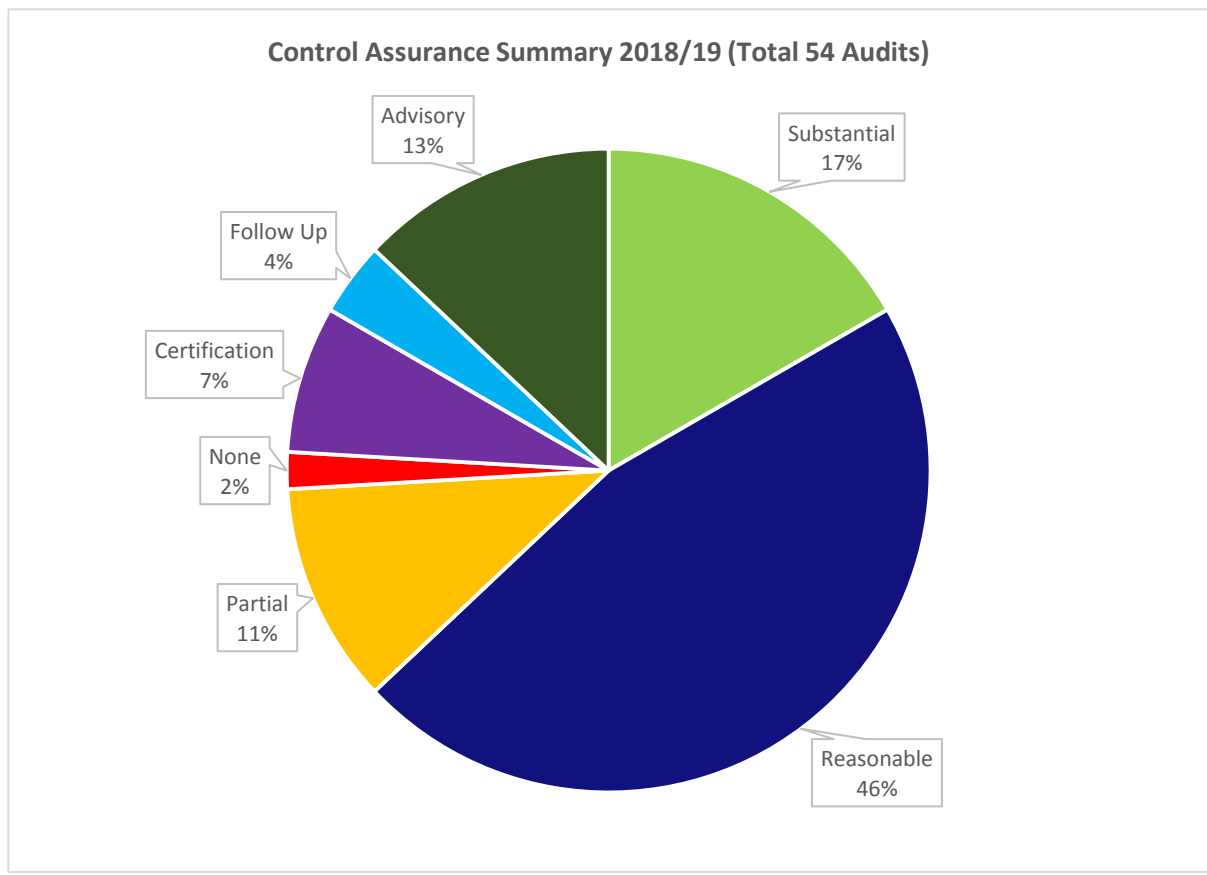
Audit Name	Key Issues
Off Street Parking	The monitoring of contract performance and cash collections is delayed by a long process of matching data, meaning errors and omissions are not identified on a timely basis.
Supply Chain Management	The Council does not have a comprehensive approach to supplier resilience. Key items to demonstrate business continuity are not requested as part of contract documentation and there is limited supplier contingency arrangements within the actual contracts reviewed.
Clarendon Junior School	Formal and regular budget monitoring does not occur and the budget is not linked to the School Improvement Plan, balanced or well thought out. A Business Continuity Plan is not currently in place or operating.
St Mary's Catholic Primary School	Although a limited number of basic system procedures and controls are operating they are not clearly documented, approved by the Governing Body or adhered to and several concerns are raised over the governance of the School.
Traded Services with Schools	Governance and accountability are unclear. The service does not have a clear budget and cannot progress due to lack of key personnel.
Premises Health and Safety	Non-compliance with Corporate Health, Safety and Welfare Policy. Health and safety audit records are not accurate and up to date and Health and safety duties have not been appropriately delegated by the Competent Person at each site.
Adult Social Care Contracts	The governance process is still being established and embedded. There is no clear process for evaluating the outcomes of the service and key suppliers are not identified.



At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

Assurance Definitions	
<b>None</b>	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Partial</b>	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Reasonable</b>	Most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Substantial</b>	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

### Summary of Control Assurance Opinions



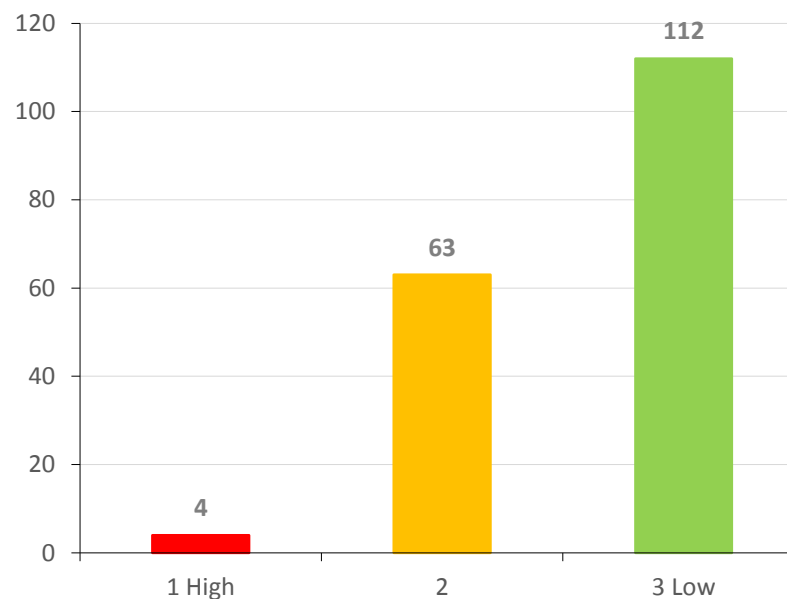
63% of audits results in a Substantial or Reasonable assurance opinion (2017/18: 65%) and 13% in a Partial or No assurance opinion (2017/18: 10%).

### Summary of Audit Recommendations by Priority

We rank our recommendations on a scale of 1 to 3, with 3 being medium or administrative concerns to 1 being areas of fundamental concern requiring immediate corrective action.

### Summary of Recommendations

Audit Recommendations by Priority 2018/19



## Summary of Key Control Audit Outcomes

## Summary of Key Control Audit Outcome

Key Control system	Assurance Level 2016/17	Assurance Level 2017/18	Assurance Level 2018/19	Assurance Movement
Accounts Payable	Reasonable	Reasonable	Reasonable	→
Accounts Receivable	Reasonable	Partial	Substantial	↑
Business Rates	Reasonable	Substantial	Substantial	→
Council Tax	Substantial	Substantial	Reasonable	↓
Housing & Council Tax Benefits	Reasonable	Substantial	Substantial	→
Housing Rents	Reasonable	Reasonable	Reasonable	→
Main Accounting	Substantial	Substantial	N/A	→
Payroll	Reasonable	Reasonable	Reasonable	→
Pensions	Reasonable	Reasonable	Reasonable	→
Treasury Management	Substantial	Substantial	Substantial	→

Within these results, there has been a decline in the control environments of 1 key control system (from Substantial to Reasonable), but also an improvement in 1 (from Partial to Substantial). It is pleasing to note that the remaining 8 key control systems have remained at a consistent assurance level, 3 of these being substantial.

## Value Added

**'Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more, while adding little or nothing to its cost.'**



## Value Added

Throughout the year, Internal Audit has strived to add value wherever possible i.e. going beyond the standard expectations and providing something 'more' while adding little or nothing to the cost.

The section continues to provide advice and support on controls across the organisation and responds to requests to assist with specific pieces of work. During the year, the section has:

- *Participation in Knowledge Sharing and Benchmarking requests:*
  - *Building Control: Market Share and Fee Structure*
  - *Electoral Registration Practice*
  - *SEN Transport*
  - *Business Rates Maximisation*
  - *Bed and Breakfast VAT Charges*
  - *Risk Policy/Strategy*
  - *Data Protection Policy and Information*
  - *Other Funding/Grants*
  - *Business Continuity Management*
  - *Sickness Management*
  - *Revenue Debt Recovery*
  - *Adult Debt Recovery Teams*
  - *Waste Partnerships – Value for Money*
  - *Elections – Compliance with DPA*
  - *Parking Services – Benchmarking Survey*
- *Audited grant claims to ensure expenditure can be reclaimed from relevant bodies;*
- *Provided comment and improvement suggestions on the Anti-Fraud and Corruption Strategy;*
- *GDPR implementation advice;*
- *Production of the Annual Governance Statement;*
- *Sharing of significant risks identified across our Partnership;*
- *Point of Practice Requests from the Local Authority Chief Auditors Network (LACAN); and,*
- *Timely review of the controls operating in the Court of Protection service following the identification of fraudulent activity.*

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS).

### Internal Audit Team Performance

SWAP’s performance is subject to regular monitoring and review by both the Board and the Member Meetings. The respective outturn performance results for Wiltshire Council for the 2018/19 year are as follows;

Performance Target	Performance
<b><u>Audit Plan – Percentage Progress</u></b>	
Final, Draft and Discussion	92.06%
In progress/ Review	7.94%
Yet to start	0%
<b><u>Customer Satisfaction Questionnaire</u></b>	
Feedback	95%

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice Framework of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS). Both standards require an Internal and External Assessments (Standard 1300) of the Internal Audit function.

The standards require an External Assessment to be carried out at least every five years. SWAP was found to be in conformance with the International Professional Practices Framework and the Public Sector Internal Auditing Standards (PSIAS). As a result of the External Assessment, a Quality Assessment Improvement Plan (QAIP) is produced. This document is a live document, reviewed regularly by the SWAP Board to ensure continuous improvement.

And finally, just like any other company and Wiltshire Council itself, our accounts are subject to both Internal and External Audit Review. The auditor confirmed that the audit did not find any areas of concern and the auditor was confident that the processes in place are adequate to support SWAP’s annual report and financial statements.

The schedule below contains a list of audits agreed for inclusion in the Annual Audit Plan 2018/19 and the final outturn for the financial year.

At the conclusion of audit assignment work each review is awarded a “Control Assurance”, a summary of the assurance levels is as follows:

Assurance Definitions	
<b>None</b>	The areas reviewed were found to be inadequately controlled. Risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Partial</b>	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Reasonable</b>	Most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed, but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Substantial</b>	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Recommendations have been assigned a priority based on the following framework:

Categorisation of Recommendations	
In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:	
<b>Priority 1</b>	Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of
<b>Priority 2</b>	Important findings that need to be resolved by management.
<b>Priority 3</b>	Finding that requires attention.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major 2 = Moderate 3 = Minor Recommendation		
						1	2	3
						<b>Completed Audits</b>		
Operational	Off Street Parking	Q1	Completed	Partial	1		1	
Operational	Risk and Performance Management	Q1	Completed	Reasonable	7	1	6	
Operational	Supply Chain Management	Q1	Completed	Partial	5			5
Operational	Property Management – Third Party Income	Q1	Completed	Reasonable	5		2	3
Operational	Staff Survey Action Plans	Q1	Completed	Reasonable	2		1	1
Operational	Schools Financial Value Standard	Q1	Completed	Reasonable	5			5
School	Thematic – Health & Safety of School Premises	Q1	Completed	Reasonable	3		2	1
School	Clarendon Junior School	Q1	Completed	Partial	12		7	5
School	Clarendon Infant School	Q1	Completed	Reasonable	10		2	8
School	St Mary’s Catholic Primary School	Q1	Completed	No Assurance	27	3	12	12
School	North Bradley Primary	Q1	Completed	Reasonable	7		2	5
School	Westbury Leigh	Q1	Completed	Substantial	4			4
Operational	General Data Protection Compliance	Q1	Completed	Reasonable	2			2
Operational	Homelessness Reduction Act	Q2	Completed	Reasonable	1		1	

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major 2 = Moderate 3 = Minor Recommendation		
						1	2	3
						Operational	Traded Services with Schools	Q2
Operational	Early Years Funding	Q2	Completed	Substantial	0			
Operational	Management of Blue Badges	Q2	Completed	Reasonable	4		1	3
Operational	Data Breaches	Q2	Completed	Reasonable	1			1
Operational	Financial Regulations and Contract Standing Orders	Q3	Completed	Reasonable	2		1	1
School	St Thomas A Beckett	Q3	Completed	Reasonable	7			7
Key Control	Accounts Receivable	Q3	Completed	Substantial	1			1
Operational	Apprenticeship Levy	Q3	Completed	Reasonable	1			1
School	Cricklade St Sampson	Q3	Completed	Reasonable	3			3
School	Wylve Valley	Q3	Completed	Reasonable	8		3	5
Key Control	Housing and Council Tax Benefit	Q3	Completed	Substantial	1			1
Operational	Pension Fund Transfer	Q3	Completed	Substantial	0			
Key Control	Council Tax	Q3	Completed	Reasonable	2			2
Key Control	Business Rates	Q3	Completed	Substantial	0			
School	Studley Green	Q3	Completed	Reasonable	8			8
Key Control	Accounts Payable	Q3	Completed	Reasonable	3			3



Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major 2 = Moderate 3 = Minor		
						Recommendation		
						1	2	3
Operational	Digital Transformation Stream	Q3	Completed	Reasonable	3		3	
Key Control	Payroll	Q3	Completed	Reasonable	3		1	2
Operational	Premises Health and Safety	Q3	Completed	Partial	4		2	2
Operational	Disabled Facilities Grants	Q4	Completed	Substantial	1			1
School	Monkton Park	Q4	Completed	Reasonable	3			3
Key Control	Treasury Management	Q4	Completed	Substantial	0			
Operational	Pensions	Q4	Completed	Reasonable	8		3	5
School	Amesbury Primary	Q4	Completed	Reasonable	6		4	2
School	Shalbourne C of E Primary School	Q4	Completed	Substantial	3			3
Operational	Adult Social Care Contracts	Q4	Completed	Partial	3		3	
Key Control	Housing Rents	Q4	Completed	Reasonable	3			3
<b>Follow Ups</b>								
Follow Up	Land Charges	Q2	Completed	Follow Up	N/A			
Follow Up	ICT Asset Management	Q3	Completed	Follow Up	N/A			

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major 2 = Moderate 3 = Minor Recommendation		
						1	2	3
						<b>Grant Certification Work Completed</b>		
Grant Certification	Troubled Families	Q1-Q4	Completed	Certification	N/A			
Grant Certification	Public Health Grant	Q1	Completed	Certification	N/A			
Grant Certification	Local Authority Bus Subsidy	Q2	Completed	Certification	N/A			
Grant Certification	Growth Hub	Q4	Completed	Certification	N/A			
<b>Work Incomplete as at 8<sup>th</sup> July 2019</b>								
Operational	Deferred Payments	Q2	Draft					
Operational	Employment and Skills (Children's Services)	Q2	Draft					
Operational	Mobile Computing/Device Management	Q2	Draft					
School	Thematic – Schools Financial Management	Q2	Draft					
Operational	Highways Contract – Use of Subcontractors	Q1	Fieldwork					
Operational	Community Infrastructure Levy/S106 Agreements	Q2	Fieldwork					
Operational	Families and Children Transformation Stream	Q2	Fieldwork					
Operational	Contract Reviews - Highways Consultancy / Street Lighting / Grounds Maintenance	Q3	Fieldwork					
Non-Opinion	Court of Protection File Review	Q4	Fieldwork					

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major 2 = Moderate 3 = Minor Recommendation		
						1	2	3
						<b>Advice and Consultancy</b>		
Non-Opinion	National Fraud Initiative	Q1	Completed	Advisory	N/A			
Non-Opinion	Data Analytics Exercises	Q1	Completed	Advisory	N/A			
Advisory	Annual Governance Statement	Q1	Completed	Advisory	N/A			
Advisory	Organisational Fraud Awareness	Q1	Completed	Advisory	N/A			
Operational	Housing Repairs Contract	Q2	Completed	Advisory	N/A			
Operational	Counter Fraud Strategy and Framework	Q2	Completed	Advisory	N/A			
Non-Opinion	Court of Protection	Q4	Completed	Advisory	5		3	2
<b>Audits Removed from the Plan during the year</b>								
Operational	Fraud Intelligence Hub	Q1	Deferred to 2019/20					
Key Control	Budget Management	Q2	Removed					
ICT	Liquid Logic Case Management Application	Q2	Removed					
Operational	People With Learning Difficulties	Q2	Removed					
Operational	Workforce Planning	Q2	Deferred to 2019/20					
ICT	Network Management	Q3	Deferred to 2019/20					

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major 2 = Moderate 3 = Minor Recommendation		
						1	2	3
						Operation	Community Engagement Transformation Stream	Q3
Operational	Commercialisation Transformation Stream	Q3	Removed					
Operational	Adoption	Q3	Deferred to 2019/20					
Operational	Highways Consultancy Contract	Q3	Merged					
Operational	Waste Management Contract	Q3	Deferred to 2019/20					
Operational	Financial Assessments	Q3	Deferred to 2019/20					
Operational	Direct Payments	Q3	Deferred to 2019/20					
ICT	ICT Business Continuity	Q4	Deferred to 2019/20					
Operational	Street Lighting Contract	Q4	Merged					
ICT	Cloud Computing	Q4	Removed					
ICT	Replacement Customer Service Application	Q4	Removed					
ICT	Cyber Security	Q4	Deferred to 2019/20					
Key Control	Main Accounting	Q4	Removed					
Operational	Grounds Maintenance Contract	Q4	Merged					

Annual Opinion Definitions	
<b>None</b>	<p><i>A control framework is not in place to mitigate key risks. The organisation is exposed to abuse, significant error or loss and/or misappropriation. Objectives are unlikely to be met.</i></p> <p>serious systemic control weaknesses identified through aggregation of individual audit engagements            significant number of critical and/or high risk rated weaknesses identified for isolated issues            internal audit has serious concerns about managements approach to resolving identified issues.</p>
<b>Partial</b>	<p><i>The control framework is not operating effectively to mitigate key risks. A number of key controls are absent or are not being applied to meet business objectives.</i></p> <p>significant number of medium and/or critical risk rated weaknesses identified in individual audit engagements            isolated critical and/or high risk rated weaknesses identified that are not systemic            internal audit has concerns about managements approach to resolving identified issues</p>
<b>Reasonable</b>	<p><i>The control framework is adequate and controls to mitigate key risks are generally operating effectively, although a number of controls need to improve to ensure business objectives are met.</i></p> <p>medium risk rated weaknesses identified in individual audit engagements            isolated high risk rated weaknesses identified for isolated issues            no critical risk rated weaknesses were identified            internal audit is broadly satisfied with management's approach to resolving identified issues.</p>
<b>Substantial</b>	<p><i>There is a sound framework of control operating effectively to mitigate key risks, which is contributing to the achievement of business objectives.</i></p> <p>no individual audit engagement classed as limited or no assurance            occasional medium risk rated weaknesses identified in individual audit engagements although mainly only low/efficiency weaknesses            internal audit has confidence in managements attitude to resolving identified issues.</p>