

# **Taunton Deane Borough Council**

## **Corporate Governance Committee – 21 March 2016**

### **SWAP Internal Audit – Internal Audit Plan 2015/16**

**This matter is the responsibility of Executive Councillor Richard Parrish**

**Report Author: Alastair Woodland, Audit Manager, SWAP**

#### **1 Executive Summary**

- 1.1 The Internal Audit function plays a central role in corporate governance by providing assurance to the Corporate Governance Committee, looking over financial controls and checking on the probity of the organisation.
- 1.2 The 2015-16 Annual Audit Plan is to provide independent and objective assurance on TDBC's Internal Control Environment. This work will support the Annual Governance Statement.

#### **2 Recommendations**

- 2.1 Members are asked to note progress made in delivery of the 2015/16 internal audit plan and significant findings since the previous update in December 2015.

#### **3 Risk Assessment**

- 3.1 Any large organisation needs to have a well-established and systematic risk management framework in place to identify and mitigate the risks it may face. TDBC has a risk management framework, and within that, individual internal audit reports deal with the specific risk issues that arise from the findings. These are translated into mitigating actions and timetables for management to implement.

## Risk Scoring Matrix

<b>Likelihood</b>	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
<b>Impact</b>							

<b>Likelihood of risk occurring</b>	<b>Indicator</b>	<b>Description (chance of occurrence)</b>
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

## 4 Background

4.1 This report summarises the work of the Council's Internal Audit Service and provides:

- Details of any new significant weaknesses identified during internal audit work completed since the last report to the committee in December 2015.
- A schedule of audits completed during the period, detailing their respective assurance opinion rating, the number of recommendations and the respective priority rankings of these.

4.2 For Internal Audit Progress Report for 2015/16 is contained within Appendix A.

## 5 Links to Corporate Aims

5.1 Delivery of the corporate objectives requires strong internal control. The attached report provides a summary of the audit work carried out to date this year by the Council's internal auditors, South West Audit Partnership.

## **6 Finance**

6.1 There are no specific finance issues relating to this report.

## **7 Legal Implications**

7.1 There are no specific legal issues relating to this report.

## **8 Environmental Impact Implications**

8.1 There are no direct implications from this report.

## **9 Safeguarding and/or Community Safety Implications**

9.1 There are no direct implications from this report.

## **10 Equality and Diversity Implications**

10.1 There are no direct implications from this report.

## **11 Social Value Implications**

11.1 There are no direct implications from this report.

## **12 Partnership Implications**

12.1 There are no direct implications from this report.

## **13 Health and Wellbeing Implications**

13.1 There are no direct implications from this report.

## **14 Asset Management Implications**

14.1 There are no direct implications from this report.

## **15 Consultation Implications**

15.1 There are no direct implications from this report.

### **Democratic Path:**

- **Corporate Governance Committees – Yes**
- **Cabinet/Executive – No**
- **Full Council – No**

**Reporting Frequency :**  **Once only**  **Ad-hoc**  **Quarterly**

**Twice-yearly**  **Annually**

**List of Appendices (delete if not applicable)**

Appendix A	SWAP Internal Audit Progress Update 2015/16
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## **Taunton Deane Borough Council**

### **Report of Internal Audit Activity, March Update, 2015/16**

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Appendix B - High Priority Findings and Recommendations (since last Committee)

Appendix C - Audit Definitions



SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the PSIAS and the CIPFA Code of Practice for Internal Audit in England and Wales.

Our audit activity is split between:

- Operational Audit
- Key Control Audit
- Governance, Fraud & Corruption Audit
- IT Audit
- Special Reviews

See Appendix A for individual audits

## Role of Internal Audit

The Internal Audit service for Taunton Deane Borough Council is provided by South West Audit Partnership (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Corporate Governance Committee and last reviewed at its meeting on 9<sup>th</sup> March 2015.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes;

- Operational Audit Reviews
- Key Financial Control Reviews
- Cross Cutting Fraud and Governance Reviews
- IT Audit Reviews
- Other Special or Unplanned Reviews

## Overview of Internal Audit Activity

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Corporate Management Team and External Auditors. This year's Audit Plan was reported to this Committee and approved by this committee at its meeting in March 2015.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk. Key Control Audits are undertaken in quarter three of each year and these are planned in conjunction with the Council's External Auditor to assist in their assessment of the Council's financial control environment. This reduces the overall cost of audit to the Council.



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Update 2015-16

## Completed Audit Assignment in the Period

### Audit Plan Progress

The schedule provided at [Appendix A](#) contains a list of all audits as agreed in the Annual Audit Plan 2015/16. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed. Each completed assignment includes its respective “control assurance” opinions together with the number and relative ranking of recommendations that have been raised with management. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as shown in [Appendix C](#)

As can be seen from [Appendix A](#) the following audits have been progressed to date:

#### Operational:

- Final, 3 reviews
- Draft, 1 review
- In Progress, 5 reviews

#### Governance, Fraud and Corruption:

- Final, 2 Reviews
- Draft, 2 Reviews

#### Follow-up Reviews:

- Final, 2 reviews
- Drafting, 1 Review
- Not started, 1 Review



## Audit Plan Progress

### ICT Reviews

- Final, 1 review
- Draft, 1 review
- Not Started, 2 reviews

### Key Control Reviews

- Final, 2 Reviews
- Draft, 2 reviews
- Drafting, 2 review
- In progress, 2 reviews

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee

## Report on Significant Findings

As agreed with this Committee where a review has a status of 'Final' and has been assessed as 'Partial' or 'No Assurance', I will provide further detail to inform Members of the key issues identified. I attach as **Appendix B**, a summary of the agreed 'high' priority actions relating to those reviews completed that have not been previously reported where the Auditor assessed the priority to be a level 4 (Medium/High) or 5 (High). Please note these priorities are assessed as how important they are to the service, not at a corporate level. Since my last update there are two reviews concluded and assessed as 'Partial' and one follow-up audit to bring to your attention.

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee

## Report on Significant Findings

### Asset Management – Partial Assurance

This audit focused on the following key risk areas:

- There is not a cohesive and inclusive strategy to ensure that property management services are joined up;
- The authority does not have a complete and up to date record of property assets to facilitate decision making;
- Acquisitions and disposals are not managed effectively;
- Best value is not obtained from property owned by the Council.

TDBC have a relatively new Asset Strategy which was put in place to address the weaknesses identified by the Bob Baber Associates Report who were engaged to carry out a fundamental review of Asset Management. The strategy covered 2014-17. However, implementation of the strategy has been delayed through a conscious decision whilst organisational restructuring was undertaken. Progress is now being undertaken on the key projects to improve Asset Management. The main issues identified during this review that need to be addressed are:

- Need to review and embed the current Asset Management Plan.
- Need for a full building condition survey.
- Need to fully embed a full individual property costing system.
- Need to embed an integrated asset data record system.

The audit has shown that the asset management issues are being addressed but it will take some time before the benefits fully accrue.

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

## Report on Significant Findings Continued

### Hardware Asset Management – Partial Assurance

This audit focused on the following key risk area:

- IT hardware assets are misappropriated;
- Disclosure of information stored on IT hardware assets that are disposed of, or a failure to comply with environmental regulations and standards when disposing of assets.

There was clear evidence identified in this audit review that progress is being made towards improving management of the hardware estate. These improvements are evident from the Asset Management improvement plans as well as with the introduction of improved software discovery applications. Completion of the SWOne 'Inventory Plan Councils' and the creation of a single hardware inventory should provide a solid foundation for a more systematic approach to asset management in the future.

However, the asset verification testing highlighted a number of weaknesses in the inventory records that related to both deficiencies in the categories of information captured and the accuracy of records. There is also a wider issue regarding the use of pool laptops that have been issued to service teams and then reallocated within the team, meaning that more than half of the sample chosen could not be located during testing. It is important that the inventory is extended to capture essential information relating to warranty and support arrangements and periodic asset checks are conducted to verify the existence and location of assets, so that the inventory can be updated accordingly. However the issue with pool assets requires the introduction of a more robust process. A suggested approach may be to allocate pool assets to a service area team who will be required to take responsibility for responding to asset check enquiries and advising the Asset Manager of any changes so that the inventory can be updated.

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time.

## Report on Significant Findings Continued

Further, assets classified as disposal items in the inventory requires remedial action to confirm whether these assets have already been disposed of, or remain in storage awaiting disposal, and if so, that appropriate action is taken to mitigate the risk that sensitive data stored on the assets could be misappropriated.

## Future Planned Work/Plan Changes

The audit plan for 2015/16 is detailed in [Appendix A](#). Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to Taunton Deane Borough Council. Members will note that where necessary any changes to the plan throughout the year will have been subject to agreement with the appropriate Service Manager and the Section 151 Officer.

No further plan changes have been made since the December Committee update.

## Conclusions

Steady progress is being made against the 2015-16 Audit Plan.

Members will note the two partial assurance audits that have been reported. Both these are scheduled to be followed up in the 2016-17 audit plan to provide assurance that weaknesses have been addressed. As with all our reviews, an agreed action plan is in place. Members can see from [Appendix B](#) the agreed responses to the high priority recommendations (please note priority scores are assessed on how important the recommendation is to the service, not how important corporately).

I would also draw members' attention to the assurance ratings that have been provided on the key financial systems and the indicative opinions based on the work in progress. Overall key financial controls are operating effectively.

# Audit Plan 2015-16

## Audit Plan Progress 2015-16

## APPENDIX A

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
<b>Final Report</b>											
Follow Up	Data Transparency	Q1	Final	Follow – up	3	0	2	0	1	0	
ICT Audits	Disaster Recovery Audit	Q1	Final	Partial	5	0	0	1	4	0	
Governance, Fraud & Corruption	Business Incentive Grants	Q1	Final	Partial	11	0	3	7	1	0	
Governance, Fraud & Corruption	Business Continuity	Q1	Final	Reasonable	4	0	0	4	0	0	Additional Cross Partnership Report also produced as part of this work to share best practice.
Operational Audit	Crematorium	Q1	Final	Non-Opinion	3	0	0	2	1	0	
Operational Audit	Housing Voids	Q1	Final	Partial	17	0	2	9	6	0	
Follow Up	Parks & Open Spaces	Q1	Final	Follow-up	3	0	0	2	1	0	
Operational Audit	Food safety	Q2	Final	Substantial							
Key Control	Council Tax & NNDR	Q3	Final	Substantial	2	0	2	0	0	0	



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# Audit Plan 2015-16

## Audit Plan Progress 2015-16

## APPENDIX A

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Key Control	Payroll	Q3	Final	Substantial	1	0	1	0	0	0	
<b>Draft Report</b>											
Governance, Fraud & Corruption	Cash & Banking	Q2	Discussion Document								
ICT Audits	Information Systems – Property Management - Atrium	Q2	Discussion Document	Non Opinion							
Operational Audit	Gas Servicing	Q2	Discussion Document								
Governance, Fraud & Corruption	Declaration of Interests, Gifts and Hospitality & Ethical Standards	Q2	Discussion Document								
Key Control	Main Accounting	Q3	Review								
Key Control	Debtors	Q3	Discussion Document								
Key Control	Treasury Management	Q3	Review								
Key Control	Housing Benefits	Q4	Discussion Document								



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# Audit Plan 2015-16

## Audit Plan Progress 2015-16

## APPENDIX A

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Follow Up	Business Grants	Q4	Review								
<b>In Progress</b>											
Operational Audit	Stores	Q2	In Progress								
Key Control	Housing Rents	Q2	In Progress								
Operational Audit	DLO Operations <b>(NEW)</b>	Q3	In Progress								
Key Control	Creditors	Q3	In Progress								
Operational Audit	Homelessness	Q4	In Progress								
Operational Audit	Deane Help Line	Q4	In Progress								
Operational Audit	Land Charges	Q4	In Progress								
<b>Not Started</b>											



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# Audit Plan 2015-16

## Audit Plan Progress 2015-16

## APPENDIX A

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
ICT Audits	Information Systems - Finance	Q2	Not Started								Scope to review SAP Migration work, however the SAP migration has been deferred. This review to be re-scheduled and re-scoped.
ICT Audits	Physical and Environmental Controls / Data Centre	Q4	Not Started								
Follow up	Disaster Recovery Audit	Q4	Not Started								
<b>Removed</b>											
Governance, Fraud & Corruption	Transformation Programme	Q3									Assurance provided by external consultant's iESE.
Operational Audit	Housing - Responsive Maintenance	Q4									Replaced by DLO Operations



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# Audit Plan 2015-16

## Outstanding 2014-15 Audits update from December Committee

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor		↔	5 = Major		Comments
						Recommendation					
						1	2	3	1	2	
ICT Audits	Hardware Asset Management	Q2	Final	Partial	4	0	0	2	2	0	
Governance, Fraud & Corruption	Choice Based Letting	Q4	Final	Reasonable	6	0	0	6	0	0	
Governance, Fraud & Corruption	Asset Management	Q4	Final	Partial	13	0	2	7	4	0	

# Internal Audit Plan 2015-16

## High Priority Findings and Recommendations (Priority 4 or 5 only)

APPENDIX B

Note: Priority scores are how important they are to the service, not at a corporate level.

Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action	Responsible Officer
<b>Asset Management</b>					
Asset Management Plan does not reflect the current role and responsibilities of the new integrated Property and Development function.	Responsibility to undertake key actions within the AMP may not be undertaken.	I recommend that the Asset Manager refreshes the current Asset Management Plan to embrace the current role and responsibilities of the new integrated Property and Development function and reviews proposed actions for individual property to ensure they are still appropriate drivers of asset management.	The current Asset Management Plan, whilst needs refreshing, is still live until end of 15/16. In line with work plan, this is to be refreshed during early 2016 and will reflect subsequent Asset Strategy and new structure and responsibilities.	June 2016	Asset Manager
The make-up of asset records for property has a number of components, none of which are integrated. Those that are computer based have some 'searchability'.	Without a single integrated system there is a risk of different records show conflicting information and not being clear on which is the most recent and up to date.	I recommend that the Asset Manager in his review of property records ensures that property data is rationalised and collated into a readily accessible and searchable form and one which provides for appropriate document attachment.	Already committed to delivering as part of Commercial Rents SWAP Audit Management Action. Permanent solution will be the implementation and subsequent use of a new Asset Management System. As interim measure (if required) will collate core data currently from multiple sources into one spreadsheet but this will not enable document attachment.	December 2016 (for interim measure if becomes necessary)	Asset Data Manager



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# Internal Audit Plan 2015-16

## High Priority Findings and Recommendations (Priority 4 or 5 only)

APPENDIX B

Note: Priority scores are how important they are to the service, not at a corporate level.

Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action	Responsible Officer
No formal structured building condition survey.	Property defects are not being fully identified and phased over a period of years for remedial work to be carried out. This means that the financial impact of defects is not being fully uncovered and built into budget availability for future years.	I recommend that the Asset Manager seeks to establish a formal structured building condition approach across the council which can then inform the longer term maintenance programme and costs for inclusion within appropriate annual revenue and capital budgets.	Agreed. Will be introduced as part of a rolling programme based on perceived risk / cost and on existing data. Agreed.	June 2016 (for rolling programme to be in place)	Asset Manager
Traditionally data is not broken down sufficiently to allow individual ownership costs to be identified.	Without individual asset ownership costs it is hard to make informed decisions from an asset management perspective.	I recommend that the Asset Manager progresses asset cost determination so that reliable cost data can be used for both internal and external comparisons which can then appropriately inform management decision making on the future suitability of such assets in service delivery.	Agreed. Processes and communication/ awareness to be in place to enable greater accuracy of data for 16/17 financial year.	March 2016	Asset Manager

# Internal Audit Plan 2015-16

## High Priority Findings and Recommendations (Priority 4 or 5 only)

APPENDIX B

Note: Priority scores are how important they are to the service, not at a corporate level.

Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action	Responsible Officer
<b>Hardware Asset Management (ICT)</b>					
The current inventory format does not include details of value, warranty & support arrangements for hardware assets, and does not differentiate between items awaiting disposal and those assets that have already been disposed of.	There is a risk that these deficiencies in information could result in critical servers and devices going out of support if the inventory cannot be used to identify expiry dates, and a risk that sensitive data stored on the end of life assets could be lost or stolen.	I recommend that the ICT & Information Manager should work with SWOne to increase the level of information captured in the inventory, by extending 'Assyst' to report on the categories of information currently not recorded.	I recommend that the ICT & Information Manager should work with SWOne to increase the level of information captured in the inventory, by extending Assyst to report on the categories of information currently not recorded.	31/3/2016	ICT & Information Manager

# Internal Audit Plan 2015-16

## High Priority Findings and Recommendations (Priority 4 or 5 only)

APPENDIX B

Note: Priority scores are how important they are to the service, not at a corporate level.

Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action	Agreed Date of Action	Responsible Officer
The status of end of life assets were not recorded definitively in the asset inventory.	There is a risk that if end of life assets are not recorded properly in the asset inventory, that they could be lost or stolen before data is removed, and that the Council will be unable to provide a complete audit trail if the use or location of one of its assets comes into question.	I recommend that the ICT & Information Manager requests that SWOne carry out a check of those items 'awaiting disposal' and those that have been 'disposed of' and update the asset inventory accordingly, to take assurance that the location and status of end of life equipment and data is known and recorded.	End of life PC assets are currently held in a locked room at Deane House. We had originally commissioned SWO to wipe/re-image them to enable re-use within the community, but they have advised us that the requirements of PSN compliance would make this uneconomic. We are therefore reviewing our plans for these assets, and the asset register will be updated once a new approach has been agreed and delivered.	31/3/2016	ICT & Information Manager

# Audit Framework Definitions

## Control Assurance Definitions

## Appendix C

<b>Substantial</b>	▲★★★★	I am able to offer substantial assurance as 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.
<b>Reasonable</b>	▲★★★★	I am able to offer reasonable assurance as 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>Partial</b>	▲★★★	I am able to offer Partial assurance 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>None</b>	▲★★★	I am not able to offer any assurance. 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.

## Categorisation Of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.

Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.

Priority 4: Important findings that need to be resolved by management.

Priority 3: The accuracy of records is at risk and requires attention.

Priority 2: Minor control issues have been identified which nevertheless need to be addressed.

Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

## Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management.
Very High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.