

# Sheffield City Region Mayoral Combined Authority and South Yorkshire Passenger Transport Executive

**Internal Audit 2020/21**

**Procurement**

July 2021

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## Report distribution:

### Responsible Executives:

- Gareth Sutton, Group Finance Director

### For action:

- Jill Smith, Head of Procurement (MCA)

### For Information:

- Dave Smith, Chief Executive (MCA)
- Stephen Edwards, Executive Director (PTE)
- Ruth Adams, Deputy Chief Executive (MCA)
- Steve Davenport, Monitoring Officer & Principal Solicitor & Secretary to the Executive
- Mike Thomas, Deputy Section 73 Officer
- Jan Smallwood, Senior Legal Executive (PTE)
- Claire James, Senior Governance and Compliance Officer (MCA)
- Dawn Marshall, Secretary to the Group Finance Director and Deputy Section 73 Officer

This report is confidential and is intended for use by the management and directors of Sheffield City Region Mayoral Combined Authority (MCA) and South Yorkshire Passenger Transport Executive (PTE). It forms part of our continuing dialogue with you. It should not be made available, in whole or in part, to any third party without our prior written consent. We do not accept responsibility for any reliance that third parties may place upon this report. Any third party relying on this report does so entirely at its own risk. We accept no liability to any third party for any loss or damage suffered or costs incurred, arising out of or in connection with the use of this report, however such loss or damage is caused.

It is the responsibility solely of the Authority's and Executive's management and directors to ensure there are adequate arrangements in place in relation to risk management, governance, control and value for money.

# Executive Summary

## Background

Effective procurement is central to ensuring resources are put to best use and can be achieved through robust procedures and effective decision making processes.

All public bodies are required to set Contract Procedure Rules (CPRs). These rules set the parameters through which public bodies will acquire goods and services and detail the formal processes through which they will go to ensure compliance with regulation and good practice. CPRs form part of each public authority's suite of constitutional documents.

The MCA adopted a set of CPRs in its constitution in 2014 that reflected ways of working and best practice at the time. Following an independent review of the CPRs and engagement with the statutory officers, a new suite of CPR documents have been developed. The revised CPRs have been designed to strengthen controls and promote greater emphasis on priority issues including Social Value and Equality & Diversity.

The PTE has in place Standing Orders and Financial Regulations which are reviewed and updated on an annual basis. Section five sets out the Executive's Contract Standing Orders.

A review of Procurement was included within the 2020/21 Internal Audit Plan. The review is a "Group" piece of work and will therefore consider the arrangements in place within the MCA and PTE.

## Objectives

The aim of the review is to provide an independent assessment of the key risks and the design and operational effectiveness of the controls in place in relation to procurement. We will review the effectiveness of internal control and compliance with policy.

## Objectives - continued

Our review will focus on the following potential risk areas:

- Governance arrangements are not robust. Roles and responsibilities, management oversight, decision making processes and monitoring and reporting arrangements are not in place or clearly understood. Inadequate ownership or accountability arrangements may lead to ineffective or inappropriate expenditure being made.
- Contract Standing Orders and Procedure Rules do not adequately set out the guidelines that govern procurement.
- Operational non-compliance with policy and procedures could lead to inaccurate or inappropriate claims being made or loss due to error or fraud. Inappropriate or inadequately managed procurement processes may increase the risk of loss due to error or fraud. There is also an increased risk of suppliers providing goods and services which are not needed, may not be provided, do not meet quality standards or meet value for money objectives.

For the MCA, our review was designed to be completed in two phases, phase one completed within the 2020/21 year, focussing on the design effectiveness of the procurement process and phase two to be completed in 2021/22 focussing on embeddedness, compliance and operational effectiveness.

## Limitations of scope

Our findings and conclusions will be limited to the risks identified above. The scope of this audit does not allow us to provide an independent assessment of all risks and controls associated with consultation and engagement.

Where sample testing is undertaken, our findings and conclusions will be limited to the sample tested only. Please note that there is a risk that our findings and conclusions based on the sample may differ from the findings and conclusions we would reach if we tested the entire population from which the sample is taken.

This report does not constitute an assurance engagement as set out under ISAE 3000.

# Executive Summary

## Conclusion

### Significant assurance with some improvement required

We have reviewed the key risks and operational effectiveness of the MCA's and PTE's frameworks for procurement. The controls tested are set out in our Audit Planning Brief. We have concluded that the processes provide **Significant assurance with some improvement required** to the Committee.

Our review has been undertaken to provide assurance in respect of the arrangements in place for the year 2020/21 and up to the period of finalising the Head of Internal Audit Opinion.

We acknowledge that both the PTE and MCA are now in a transitional year of integration after which the procurement framework and Contract Standing Orders will be subject to a full review. Where possible, we have therefore structured our audit recommendations to ensure that where actions may affect the joint governance structures in the future, these are designed to be undertaken collaboratively and not in isolation of either organisation.

## Good practice identified

- We confirmed that there is detailed narrative within the Contract Procedure Rules that sufficiently documents the procurement processes.
- Procurement thresholds are in line with that of similar organisations.
- Tender and quotation controls are in place to ensure transparent market testing.
- Formal processes have been established for ensuring that conflicts of interest are recorded.
- Compliance testing at SYPTE confirmed:
  - A contracts register is maintained by the Executive with testing confirming each contract in our sample was awarded in compliance with the CPRs.
  - A named Contract Officer is recorded for each contract.

- Invoice testing confirmed that the associated contract has been awarded in compliance with the CPRs and that the Management Board was sufficiently informed of the award details.
- Sample testing confirmed were invitation of Quotations and Tenders was not considered appropriate that adequate details of the reason were document and provided to the Monitoring Officer.

## Areas requiring improvement

- We noted that The CPRs for both the MCA and PTE have not been updated with the changes in public-sector procurement following the UK withdrawal from the EU and refer to EU Procurement regulations. However, we acknowledge that this has been identified as an issue and will be reflected in the updated procedures.

## Recommendations

Based on our findings, we have made three recommendations the grading of these is shown below:

Findings	High	Medium	Low	Improvement
PTE	-	-	-	1
MCA	-	-	1	-
Group	-	-	1	-

## Acknowledgement

We would like to take this opportunity to thank your staff for their co-operation during this internal audit.

# Action Plan – MCA

In this section we set out the detailed findings arising from our work. Details of what each of the ratings represents can be found in Appendix 2.

Risk Issue	Findings and Recommendation	Action Plan
<p>Governance arrangements are not robust. Roles and responsibilities, management oversight, decision making processes and monitoring and reporting arrangements are not in place or clearly understood. Inadequate ownership or accountability arrangements may lead to ineffective or inappropriate expenditure being made.</p>	<p>We reviewed the design effectiveness of the MCA’s governance arrangements for Procurement. We noted the following areas of good design effectiveness:</p> <ul style="list-style-type: none"> <li>• The expected governance arrangements have been established and are formally documented in the MCA’s CPRs. Processes are in place to support the Authority’s procurement activity including providing an audit trail and assurance that conflicts of interest are declared.</li> <li>• The MCA has appointed a new Head of Procurement to provide expertise and lead procurement activity as required. Authority for awarding contracts to suppliers has been restricted to appropriate officers, according to the value of the contract e.g. Between £25,000 and £50,000 requires Director approval.</li> <li>• Conflicts of interest are recorded for all contracts valued over £5,000. A template for recording the conflicts of interests is included as an appendix in the Contract Procedure Rules.</li> <li>• Procurement thresholds are in line with that of similar organisations and are documented in the CPRs with all contract expenditure above £25,000 required to be led by the Procurement Expert. The new Head of Procurement provides procurement expertise.</li> <li>• The MCA maintains a contracts register that records all contract awards over £5,000. There is also a requirement that up to £5,000 one local (South Yorkshire) based business should be invited to quote.</li> <li>• Arrangements are in place to ensure appropriate market testing is undertaken as part of the procurement, either through quotes or tendering.</li> <li>• Procurement arrangements support Data protection impact assessments which are completed for contracts involving data processing.</li> <li>• Processes are in place to mitigate the risk of advantage from the late submission of tenders. YORtender does not allow late tender submissions, and any late submissions require approval by the Monitoring officer which can only be provided where it is not the fault of the bidder and advantage from the late submission can not be gained. The Authority has a reasoned approach to dealing with abnormally low tenders.</li> <li>• Processes are in place to ensure that waivers to the procurement process are formally documented with authorisation thresholds in line with those of other organisations.</li> </ul>	

# Action Plan – MCA

Risk Issue	Findings and Recommendation	Action Plan
<p>Governance arrangements are not robust. Roles and responsibilities, management oversight, decision making processes and monitoring and reporting arrangements are not in place or clearly understood. Inadequate ownership or accountability arrangements may lead to ineffective or inappropriate expenditure being made.</p>	<p>Overall our review of the governance arrangements for procurement identified no significant issues. We did identify from discussions with the Head of Procurement that the Project Performance Unit (PPU) manages contracts. However, the role of this department was not clearly documented in the Authority's procurement governance documents. To ensure accountability we recommend that as part of the procurement documentation review further details are recorded on the roles and responsibilities of staff and departments for monitoring and reporting contract performance.</p> <p><b>Issues Identified:</b></p> <p>The role of the PPU is not clearly documented in the Authority's procurement governance documents.</p> <p><b>Risk:</b></p> <p>There is a lack of clarity on the roles and responsibilities for monitoring and reporting contract performance which may result in late identification of performance issues.</p> <p><b>Recommendation:</b></p> <p>As part of the CPR review the MCA should provide further clarity and detail in its procurement documentation on how contract performance should be monitored, recorded and reported.</p>	<p><b>Agreed Action:</b></p> <p>Management accepts the recommendation and will implement the necessary changes, for instance clarifying where the Head of Procurement and/or her delegate has responsibility as opposed to PPU or Legal.</p> <p><b>Responsible Officer:</b></p> <p>Jill Smith, Head of Procurement</p> <p><b>Executive Lead:</b></p> <p>Gareth Sutton, Group Finance Director</p> <p><b>Due date:</b> 31 December 2021</p>

# Action Plan – MCA

Risk Issue	Findings and Recommendation	Action Plan
<p>Contract Standing Orders and Procedure Rules do not adequately set out the guidelines that govern procurement.</p>	<p>We confirmed that the MCA has detailed CPRs in place which support the Authority's Constitution and provides the expected information required to govern procurement. These were last reviewed and amended in January 2020, although we note that these will be reviewed again as part of the wider integration agenda. We confirmed that these are available to all staff and are publicly available on the public facing website.</p> <p>Our review confirmed that the CPRs sufficiently define the procurement process which stipulates that the procurement and contracting process is limited to officers with the required budgetary provision and subject to levels of approval dependant of value. The decision to award any contract (including a call from a Framework Agreement) can be taken as follows:</p> <ul style="list-style-type: none"> <li>• Contract value up to: <ul style="list-style-type: none"> <li>– £25,000: Assistant Director;</li> <li>– £50,000: Director;</li> <li>– £100,000 (for Goods/Services) and £250,000 (for Works): Statutory Officer/Deputy Chief Executive.</li> <li>– £200,000 (for Goods/Services) and £500,000 (for Works): Thematic Board.</li> </ul> </li> </ul> <p>We noted the procurement requirements of the threshold limits are clearly set out:</p> <ul style="list-style-type: none"> <li>• Purchasing up to £5,000: Obtain comparative pricing information</li> <li>• Contract Value £5,000 – £25,000 (goods and services), £5,000 to £50,000 (works)</li> <li>• Contract Value £25,000 - £100,000 (goods and services), £50,000 - £100,000 (works)</li> <li>• Contract Value £100,000 – EU Threshold</li> </ul> <p>Phase 2 of our review, to be undertaken in Q2 of 2021/22 will include compliance testing of a sample of expenditure against these criteria.</p> <p>As part of our review, we also assessed the CPRs against the procurement documentation of eight other combined authorities. Comparison testing of the CPRs with other national combined authorities did not identify any issues or discrepancies in the procedures, tender thresholds or authority levels. Our assessment of the CPRs confirmed they adequately set out the guidelines that govern procurement.</p>	

# Action Plan – MCA & PTE

Risk Issue	Findings and Recommendation	Action Plan
<p>Contract Standing Orders and Procedure Rules do not adequately set out the guidelines that govern procurement.</p>	<p>We noted that the CPRs have not been updated with the changes in public sector procurement following the UK withdrawal from the EU and make reference to outdated EU Procurement regulations. Since the 1st of January 2021, the UK is no longer subject to EU procurement regulations and therefore no longer follows the rules outlined for OJEU tenders. Government advice for public sector procurement is that tenders will now be published on a new e-tendering portal, called Find a Tender Service (FTS) instead of on OJEU. Find a Tender is free to use and replaces the role of Tenders Electronic Daily, the Official Journal of the EU (OJEU/TED) for procurements in the UK.</p> <p>Discussions with the Senior Legal Executive identified that this issue has been identified and will be reflected in the updated procedures.</p> <p><b>Issues Identified:</b> The CPRs do not accurately document the new national guidance following the UK's departure from the EU.</p> <p><b>Risk:</b> Procurement may not comply with updated UK regulations.</p> <p><b>Recommendation:</b></p> <p>As part of the CPR update, remove reference to EU procurement regulations and include the new national guidance for recording tenders on the UK e-tendering portal.</p>	<p><b>Agreed Action:</b></p> <p>Management agree with the recommendation. The CPRs will be updated accordingly.</p> <p><b>Responsible Officer:</b></p> <p>Jill Smith, Head of Procurement</p> <p><b>Executive Lead:</b></p> <p>Gareth Sutton, Group Finance Director</p> <p><b>Due date:</b> 31 December 2021</p>



# Action Plan – PTE

Risk Issue	Findings and Recommendation	Action Plan
<p>Governance arrangements are not robust. Roles and responsibilities, management oversight, decision making processes and monitoring and reporting arrangements are not in place or clearly understood. Inadequate ownership or accountability arrangements may lead to ineffective or inappropriate expenditure being made.</p>	<p>We reviewed the design effectiveness of the PTE's governance arrangements for Procurement. We noted the following areas of good design effectiveness:</p> <ul style="list-style-type: none"> <li>• All procurement is undertaken by a Contracts Officer who is accountable to an Approving Officer. The definitions of these roles are documented in the Executive's Standing Orders and Financial Regulations. High value procurement is overseen by the Senior Legal Executive.</li> <li>• Processes are in place to ensure key information is obtained before expenditure is committed e.g. estimated costs and specifications.</li> <li>• Once a contract has been awarded, a single contract officer is assigned to manage the contract ensuring there is a named contact for each award. We confirmed compliance through our contract testing.</li> <li>• A contracts register is in place.</li> <li>• All contracts over £25,000 are recorded in writing and signed off by the Monitoring Officer with a named contract officer responsible for monitoring spend and performance. We confirmed compliance for 10 contracts.</li> <li>• Procurement thresholds are in line with that of similar organisations and are clearly documented in the Standing Orders and Financial Regulations. The PTE does not have a preferred supplier list. Contracts are awarded to suppliers that can best meet the individual requirements and provide value for money.</li> <li>• Robust processes are in place to safeguard the integrity of the tender process including an auditing process to verify the date and time of receipt of the tender, reducing the risk of a supplier gaining an unfair competitive advantage from a late submission.</li> <li>• Contract awards are reported to the Executive's Management Board with sufficient details of the procurement and decision process. From our invoice testing we confirmed reporting to the Management Board is being undertaken and that the reports provide sufficient information.</li> <li>• The Executive's tender submission, opening and evaluation processes are in line with those of other organisations and were assessed as sufficient to safeguard the integrity of the tender procedure.</li> </ul>	

# Action Plan – PTE

Risk Issue	Findings and Recommendation	Action Plan
<p>Contract Standing Orders and Procedure Rules do not adequately set out the guidelines that govern procurement.</p>	<p>We confirmed that the PTE has detailed CPRs in place which provide the expected information required to govern procurement. These were last reviewed and amended in January 2020. We confirmed that these are accessible to all staff on the internal intranet.</p> <p>The PTE Financial Regulations contain a dedicated CPR section covering procurement rules and processes. The definition of a contract is clearly stated as 'any arrangement whereby the Executive pays money (including petty cash and corporate credit card facilities) for either receiving or disposing of supplies, services or works'. Arrangements and approval thresholds are clearly stated:</p> <ul style="list-style-type: none"> <li>• Up to £25,000 - obtain value for money:               <ul style="list-style-type: none"> <li>– 0 - £500 – 1 quotation / tender (where appropriate)</li> <li>– £0 - £5,000 – 2 quotations / tenders</li> <li>– £5,000 - £25,000 – (Supplies) 3 quotations / tenders</li> <li>– £5,000 - £50,000 – (Works &amp; Services) 3 quotations / tenders</li> </ul> </li> <li>• £25k - £100k – Invitation to tender to 3 persons</li> <li>• £100k to EU Threshold – Invitation to Tender to 4 persons</li> <li>• EU Threshold and above EU Procedure – consult Legal Department</li> </ul> <p>We noted that the requirements of the PTE and MCA are largely aligned although the PTE requirements for expenditure under £5,000 may cause confusion where requirements both start at 0.</p> <p>As part of our review, we assessed the CPRs against the procurement documentation of eight other combined authorities. Comparison testing of the CPRs with other national combined authorities did not identify any issues or discrepancies in the procedures, tender thresholds or authority levels. Our assessment of the CPRs confirmed they adequately set out the guidelines that govern procurement.</p>	
	<p><b>Improvement Point</b></p> <p>As part of the wider integration agenda and implementation of a joint process, the Executive to consider whether the requirements of lower level expenditure are materially appropriate.</p>	<p>This finding has attracted an 'Improvement Point' as opposed to a formal recommendation, and as such does not require a management response.</p>

# Action Plan – PTE

Risk Issue	Findings and Recommendation	Action Plan
<p>Operational non-compliance with policy and procedures leading to inaccurate or inappropriate claims being made or loss due to error or fraud. Inappropriate or inadequately managed procurement processes may increase the risk loss due to error or fraud. There is also an increased risk of suppliers providing goods and services which are not needed, may not be provided, do not meet quality standards or meet value for money objectives.</p>	<p><b>For this phase of the review testing was carried out at the PTE only.</b></p> <p>SYLTE Standing Orders and Financial Regulations contains a specific Contract Standing Orders section which details the roles and responsibilities of staff and the correct procurement process that should be undertaken for awarding all contracts.</p> <p>A contracts register is maintained by the Executive and contains summary information about each contract award. From this register we selected a sample of 10 contracts which had been awarded during 2020/21 and assessed whether there was sufficient evidence to confirm compliance with procurement requirements. In all 10 cases, the documentation indicated compliance with policy and procedures. We also confirmed that contract awards are reported to the Management Board with sufficient detail to enable transparency on the procurement route followed.</p> <p>We were provided with a data export of all PTE expenditure for the period April to November 2020. We completed data analysis to select a sample of 20 invoices of varying value and tested compliance with procurement rules.</p> <p>The sample included five invoices where the expenditure was not a procurement matter e.g., concession reimbursement, contribution to Urban Transport Group Budget, an internal payment to Yorcard Ltd which is an arm’s length company established by West Yorkshire Combined Authority (WYCA) and SYLTE.</p> <p>For the remaining 15 invoices we reviewed supporting documentation including management board reports and confirmed compliance with procurement requirements in all cases.</p> <p>We reviewed the processes under Contract Standing Order 5.6.1(d) and the recording of times where the Contract Officer does not consider that the invitation of quotations and tenders is appropriate. The reasons should be documented on a CSO form. We reviewed the last 10 CSO forms and confirmed that they provided sufficient details of the reason for not inviting quotes and tenders which we also assessed as reasonable.</p> <p>As part of our data analysis, we identified the Executives top 10 suppliers in terms of expenditure by the Executive. The graph at appendix 2 is provided for information purposes.</p>	

# Appendices

# Appendix 1 – Staff involved and documents reviewed

## Staff involved

- Jan Smallwood, Senior Legal Executive (SYPTTE)
- Jill Smith, Head of Procurement (MCA)

## Documents reviewed

- SYPTTE Financial Standing Orders
- SYPTTE Financial Contracts Register
- SYPTTE Framework Agreements
- SYPTTE Quotation Guidance
- MCA Contract Procedure Rules
- MCA Constitution

# Appendix 2 – Top 10 Suppliers

Risk Issue	Findings and Recommendation	Action Plan																																	
<p>Operational non-compliance with policy and procedures leading to inaccurate or inappropriate claims being made or loss due to error or fraud. Inappropriate or inadequately managed procurement processes may increase the risk loss due to error or fraud. There is also an increased risk of suppliers providing goods and services which are not needed, may not be provided, do not meet quality standards or meet value for money objectives.</p>	<p>As part of our data analysis, we identified the Executives top 10 suppliers in terms of expenditure by the Executive for the period April – November 2020. The below graph is provided for information purposes.</p> <table border="1"> <caption>Top 10 Suppliers by Expenditure</caption> <thead> <tr> <th>Supplier</th> <th>Total value of invoices (£)</th> <th>Number of invoices</th> </tr> </thead> <tbody> <tr> <td>First South Yorkshire Limited</td> <td>~£10,800,000.00</td> <td>~45</td> </tr> <tr> <td>Yorkshire Traction Co Ltd</td> <td>~£8,800,000.00</td> <td>~35</td> </tr> <tr> <td>Stagecoach Services Ltd</td> <td>~£7,800,000.00</td> <td>~30</td> </tr> <tr> <td>VolkerRail Specialist Businesses Ltd</td> <td>~£3,800,000.00</td> <td>~25</td> </tr> <tr> <td>Stagecoach Services Ltd SSC...</td> <td>~£3,200,000.00</td> <td>~100</td> </tr> <tr> <td>Bidvest Noonan UK Limited</td> <td>~£2,800,000.00</td> <td>~450</td> </tr> <tr> <td>Doncaster Bus Station Ltd</td> <td>~£1,800,000.00</td> <td>~10</td> </tr> <tr> <td>SCR Ticketing Company Limited</td> <td>~£1,500,000.00</td> <td>~20</td> </tr> <tr> <td>Powells Bus Co. Ltd.</td> <td>~£1,400,000.00</td> <td>~25</td> </tr> <tr> <td>HMRC Cumbernauld</td> <td>~£1,300,000.00</td> <td>~40</td> </tr> </tbody> </table>	Supplier	Total value of invoices (£)	Number of invoices	First South Yorkshire Limited	~£10,800,000.00	~45	Yorkshire Traction Co Ltd	~£8,800,000.00	~35	Stagecoach Services Ltd	~£7,800,000.00	~30	VolkerRail Specialist Businesses Ltd	~£3,800,000.00	~25	Stagecoach Services Ltd SSC...	~£3,200,000.00	~100	Bidvest Noonan UK Limited	~£2,800,000.00	~450	Doncaster Bus Station Ltd	~£1,800,000.00	~10	SCR Ticketing Company Limited	~£1,500,000.00	~20	Powells Bus Co. Ltd.	~£1,400,000.00	~25	HMRC Cumbernauld	~£1,300,000.00	~40	
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# Appendix 3 - Our assurance levels

The table below shows the levels of assurance we provide and guidelines for how these are arrived at. We always exercise professional judgement in determining assignment assurance levels, reflective of the circumstances of each individual assignment.

Rating	Description
<b>Significant assurance</b>	<p>Overall, we have concluded that, in the areas examined, the risk management activities and controls are suitably designed to achieve the risk management objectives required by management.</p> <p>These activities and controls were operating with sufficient effectiveness to provide significant assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by no weaknesses in design or operation of controls and only IMPROVEMENT recommendations.</p>
<b>Significant assurance with some improvement required</b>	<p>Overall, we have concluded that in the areas examined, there are only minor weaknesses in the risk management activities and controls designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were operating with sufficient effectiveness to provide reasonable assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by minor weaknesses in design or operation of controls and only LOW rated recommendations.</p>
<b>Partial assurance with improvement required</b>	<p>Overall, we have concluded that, in the areas examined, there are some moderate weaknesses in the risk management activities and controls designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were operating with sufficient effectiveness to provide partial assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by moderate weaknesses in design or operation of controls and one or more MEDIUM or HIGH rated recommendations.</p>
<b>No assurance</b>	<p>Overall, we have concluded that, in the areas examined, the risk management activities and controls are not suitably designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were not operating with sufficient effectiveness to provide reasonable assurance that the related risk management objectives were achieved during the period under review</p> <p>Might be indicated by significant weaknesses in design or operation of controls and several HIGH rated recommendations.</p>

# Appendix 3 - Our assurance levels (cont'd)

The table below describes how we grade our audit recommendations.

Rating	Description	Possible features
<b>High</b>	Findings that are fundamental to the management of risk in the business area, representing a weakness in the design or application of activities or control that requires the immediate attention of management	<ul style="list-style-type: none"> <li>▪ Key activity or control not designed or operating effectively</li> <li>▪ Potential for fraud identified</li> <li>▪ Non-compliance with key procedures / standards</li> <li>▪ Non-compliance with regulation</li> </ul>
<b>Medium</b>	Findings that are important to the management of risk in the business area, representing a moderate weakness in the design or application of activities or control that requires the immediate attention of management	<ul style="list-style-type: none"> <li>▪ Important activity or control not designed or operating effectively</li> <li>▪ Impact is contained within the department and compensating controls would detect errors</li> <li>▪ Possibility for fraud exists</li> <li>▪ Control failures identified but not in key controls</li> <li>▪ Non-compliance with procedures / standards (but not resulting in key control failure)</li> </ul>
<b>Low</b>	Findings that identify non-compliance with established procedures, or which identify changes that could improve the efficiency and/or effectiveness of the activity or control but which are not vital to the management of risk in the business area.	<ul style="list-style-type: none"> <li>▪ Minor control design or operational weakness</li> <li>▪ Minor non-compliance with procedures / standards</li> </ul>
<b>Improvement</b>	Items requiring no action but which may be of interest to management or which represent best practice advice	<ul style="list-style-type: none"> <li>▪ Information for management</li> <li>▪ Control operating but not necessarily in accordance with best practice</li> </ul>



