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Council Building
2 High Street
Perth
PH1 5PH

30/11/2021

A meeting of the **Audit Committee** will be held virtually on **Wednesday, 08 December 2021** at **09:30**.

If you have any queries please contact Committee Services on (01738) 475000 or email Committee@pkc.gov.uk.

THOMAS GLEN
Chief Executive

Those attending the meeting are requested to ensure that all notifications are silent on their device and other devices are in silent mode.

Please note that the meeting will be broadcast online and recorded. The recording will be publicly available on the Council's website following the meeting.

Members:

Councillor Eric Drysdale (Convener)
Councillor Stewart Donaldson (Vice-Convener)
Councillor Liz Barrett
Councillor Harry Coates
Councillor David Illingworth
Councillor Roz McCall
Councillor Xander McDade

Audit Committee

Wednesday, 08 December 2021

AGENDA

MEMBERS ARE REMINDED OF THEIR OBLIGATION TO DECLARE ANY FINANCIAL OR NON-FINANCIAL INTEREST WHICH THEY MAY HAVE IN ANY ITEM ON THIS AGENDA IN ACCORDANCE WITH THE COUNCILLORS' CODE OF CONDUCT.

- | | | |
|-----------------|--|----------------|
| 1 | WELCOME AND APOLOGIES/SUBSTITUTES | |
| 2 | DECLARATIONS OF INTEREST | |
| 3 | MINUTE OF MEETING OF THE AUDIT COMMITTEE OF 20 SEPTEMBER 2021 FOR APPROVAL
(copy herewith) | 5 - 8 |
| 4 | INTERNAL AUDIT FOLLOW UP
Report by Chief Internal Auditor (copy herewith 21/228) | 9 - 12 |
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| 5(i) | COMMUNITIES | |
| 5(i)(a) | 19-12 ALEOS - HORSECROSS
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(copy herewith 21/231) | 29 - 46 |

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AUDIT COMMITTEE

Minute of Meeting of the Audit Committee held virtually via Microsoft Teams on Monday 20 September 2021 at 09.30am.

Present: Councillors E Drysdale, S Donaldson, L Barrett, D Illingworth, R McCall and X McDade (from item 4).

In Attendance: L Simpson, S Mackenzie, J Clark, S Walker, A O'Brien, D Coyne, K Molley, A Brown, M Pasternak, L McGuigan and B Parker (all Corporate and Democratic Services); C France (Communities); and J Cockburn (Education and Children's Services).

Also in Attendance: M Wilkie and C Windeatt (KPMG).

Apologies: Councillor H Coates

Councillor E Drysdale, Convener, Presiding.

The Convener led discussion on items 1-7, and Vice-Convener on item 8.

1. WELCOME AND APOLOGIES/SUBSTITUTIONS

The Convener welcomed everyone to the meeting and an apology was noted above.

2. DECLARATIONS OF INTEREST

In terms of the Councillors' Code of Conduct, Councillors E Drysdale and X McDade declared a non-financial interest in item 8.

3. MINUTE OF MEETING OF THE AUDIT COMMITTEE OF 30 JUNE 2021 FOR APPROVAL

The minute of meeting of the Audit Committee of 30 June 2021 was submitted and approved as a correct record.

4. DRAFT AUDITED ANNUAL ACCOUNTS 2021/22 AND DRAFT ANNUAL AUDIT REPORT TO THE MEMBERS OF PERTH AND KINROSS COUNCIL AND THE CONTROLLER OF AUDIT FOR THE YEAR ENDED 31 MARCH 2021

There was submitted a report by the Head of Finance (21/164) presenting the Council's Draft Audited Annual Accounts for financial year 2020/21 in accordance with the Local Authority Accounts (Scotland) Regulations 2014; and (2) including the Draft Annual Audit Report to the Members of Perth and Kinross Council and the Controller of Audit for the Year Ended 31 March 2021.

COUNCILLOR X MCDADE ENTERED THE MEETING DURING THIS ITEM.

The Convener thanked the Finance team for their efforts in producing the annual accounts through challenging circumstances.

In response to a question from Councillor S Donaldson regarding the absence of fraud risk on the Strategic Risk Register, L Simpson advised that risks are added to the Strategic Risk Register if they are seen as being a high-level risk, where extra measures are put in place for mitigation. Fraud has not been assessed as a high level risk in accordance with the Council's risk management framework and is managed as part of our usual business practices which are regular monitored and reviewed continually monitored. M Wilkie added that KPMG are satisfied with this conclusion and advised that their report will be updated.

In response to a question from Councillor D Illingworth regarding the impact of construction inflation on our capital programme and the absence of a reference to that risk, M Wilkie advised that until the increasing cost has an impact on the delivery of projects and in turn, impact on operational matters, there is no evidence that would influence the external audit assessment.

In response to a question from Councillor E Drysdale regarding the housing and revenue account and the increase in rent arrears, S MacKenzie advised that there was a reduction in collection levels last year due to impacts of the pandemic and pressures will continue to require to be mitigated. He added that measures are in place to support council tenants. S Mackenzie confirmed that up to date information will be brought forward to a future meeting of the Audit committee.

In response to a question from Councillor S Donaldson regarding the Tayside Pension Scheme and the risk created with the revised funding strategy, S MacKenzie advised that there has been no change in employer contribution rates. However, there are additional members joining the Pension Scheme who could review the current financial arrangements. This will continue to be monitored.

Councillor E Drysdale asked for the sentence on Remuneration of Senior Councillors at section 3.5 - 'No Councillors from Perth and Kinross Council served as a Convener or Vice-Convener of a Joint Board' to be corrected going forward.

Resolved:

- (i) The contents of KPMG's Draft Annual Audit Report to the Members of Perth and Kinross Council and the Controller of Audit for the year ended 31 March 2021, be noted.
- (ii) The Leader of the Council, the Interim Chief Executive and the Head of Finance be authorised to sign the Audited Annual Accounts and the Head of Finance be authorised to sign the Letter of Representation.

5. INTERNAL AUDIT ANNUAL REPORT & CHIEF INTERNAL AUDITOR'S OPINION 2020/21

There was submitted a report by the Chief Internal Auditor (21/165) presenting the year-end report and audit opinion of the Chief Internal Auditor for 2020/21, as set out in section 4 of the report.

The Convener thanked J Clark and her team for their efforts throughout 2020/21.

Resolved:

Contents of Report 21/165 and specifically the Audit Opinion at Section 4 of report 21/165, be noted.

6. INTERNAL AUDIT FOLLOW-UP

There was submitted a report by the Chief Internal Auditor (21/167) presenting a current summary of Internal Audit's 'follow up' work relating to actions due for completion up to June 2021.

In response to a question from Councillor S Donaldson regarding the School Estates Strategy document and it not being updated since 2012, J Cockburn advised he would report back to members with more detail.

In response to another question from Councillor S Donaldson regarding Recycling Centres and the health and safety incident at Crieff Depot, C France advised that a health and safety review was carried out earlier this year and plans are in place to progress with the necessary recommendations of the review. She added that first aid boxes across all sites, have been checked and are fully stocked. However, staff training for operatives was impacted by consequences of the pandemic and the process to ensure that all staff are fully trained is still underway.

Resolved:

The current position in respect of the agreed actions arising from internal audit work, be noted.

7. INTERNAL AUDIT UPDATE

There was submitted a report by the Chief Internal Auditor (21/168) presenting a summary of Internal Audit's work undertaken as part of the Internal Audit Plans for 2019/20 and 2020/21.

Members thanked Internal Audit for the work they had achieved over the last year, especially working with limited staffing resources. J Clark advised that recruitment is underway within the Internal Audit team, and it is aimed that additional posts will be filled by the end of 2021. If any problems arise from this, other sources will be utilised to support the completion of the Internal Audit Plan within the proposed timescales and before the next Local Government Elections in May 2022.

In response to a question from Councillor S Donaldson regarding a report on the Transformation programme, J Clark advised that given the time that had passed she considered it more useful and beneficial to the organisation to focus on the lessons learnt and to ensure that learning is applied to any change and transformation activities through the Perth and Kinross Offer and Investment Blueprint. She added that it is also important to consider the role of programme performance which will be covered by the Scrutiny Committee.

Resolved:

The progress with Internal Audit activity, be noted.

8. PERTH AND KINROSS HEALTH AND SOCIAL CARE PARTNERSHIP

(i)(a) Providers Sustainability Payments

There was submitted a report by the Chief Internal Auditor (G/21/78) on an audit to ensure that assurance has been provided over arrangements for the identification and authorisation of sustainability grants.

Resolved:

The contents of report G/21/78, be noted.

DRAFT

PERTH AND KINROSS COUNCIL

Audit Committee

8 December 2021

INTERNAL AUDIT FOLLOW UP

Report by Chief Internal Auditor (Report No. 21/228)

PURPOSE OF REPORT

This report presents a current summary of Internal Audit's 'follow up' work relating to actions due for completion up to September 2021.

1. BACKGROUND / MAIN ISSUES

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require the Chief Internal Auditor to establish a follow-up process to monitor and ensure that management actions have been effectively implemented. Internal Audit request evidence from Services which confirms that actions have been implemented and, therefore, controls have been improved.
- 1.2 There were 35 actions arising from Internal Audit activity to date. In terms of timescales for completion, the Committee is aware that two reports will be subject to follow up action in the new year due to the impact of the COVID-19 pandemic on the business areas. These two reports contain 25 actions.
- 1.3 Of the remaining 10 actions, 3 had a completion date within the period July to September 2021. Evidence has been provided to Internal Audit that these 3 actions have been completed.

2. PROPOSALS

- 2.1 As evidence has been presented to the satisfaction of Internal Audit that the 3 actions due for completion within the period between July and September 2021 have been completed by Services, there are no outstanding actions, within the relevant period, to report.

3. CONCLUSION AND RECOMMENDATIONS

- 3.1 It is recommended that the Audit Committee notes the completion of the internal audit actions due within the period July-September 2021 and the current position in respect of the agreed actions arising from internal audit work.

Author(s)

Name	Designation	Contact Details
Jackie Clark	Chief Internal Auditor	Internal.Audit@pkc.gov.uk

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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	None
Strategic Plan	Yes
Resource Implications	
Financial	None
Workforce	None
Asset Management (land, property, IST)	None
Assessments	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	None
Sustainability (community, economic, environmental)	None
Legal and Governance	None
Risk	Yes
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

Community Plan/Single Outcome Agreement

Corporate Plan

- 1.1 The Council's Corporate Plan 2018 – 2022 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

- 1.2 This report relates to all of these objectives.

2. Assessments

Equality Impact Assessment

- 2.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

- 2.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

Risk

- 2.3 The risks are associated with the level of assurance provided on the control environment in the event that Internal Audit's planned work is not completed on time.

3. Consultation

Internal

- 3.1 The Chief Executive and Head of Legal and Governance have been consulted in the preparation of this report.

2. BACKGROUND PAPERS

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

3. APPENDICES

None

PERTH AND KINROSS COUNCIL

Audit Committee

8 December 2021

INTERNAL AUDIT UPDATE

Report by Chief Internal Auditor (Report No. 21/229)

PURPOSE OF REPORT

This report presents a summary of Internal Audit's work undertaken as part of the Internal Audit Plans for 2019/20 and 2020/21.

1. BACKGROUND / MAIN ISSUES

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor reports periodically to the Audit Committee on internal audit activity and on performance relative to the approved plan.
- 1.2 Work has continued on assignments from approved Internal Audit Plans. In addition, the National Fraud Initiative process continues to be supported and the Bus Service Operators Grant has been completed for the current year, with funding having been received by the Council.
- 1.3 The team are also involved in a whistleblowing disclosure and any relevant outcomes may be considered by a future meeting of the Audit Committee.
- 1.4 Recruitment activity has also been undertaken to strengthen the team, with a Professional Trainee taking up post since the last meeting of the Audit Committee.
- 1.5 Appendix 1 shows the status of audits arising from the 2020-21 and 2021-22 Internal Audit Plans. Anticipated Committee dates are subject to review as Internal Audit is undertaking further recruitment activity. These dates will be dependent upon successful recruitment to vacant posts.

2. CONCLUSION AND RECOMMENDATIONS

- 2.1 This report presents a summary of Internal Audit's work.
- 2.2 It is recommended that the Committee notes progress with Internal Audit activity.

Author(s)

Name	Designation	Contact Details
Jackie Clark	Chief Internal Auditor	Internal.Audit@pkc.gov.uk

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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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Community Plan / Single Outcome Agreement	None
Strategic Plan	Yes
Resource Implications	
Financial	None
Workforce	None
Asset Management (land, property, IST)	None
Assessments	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	None
Sustainability (community, economic, environmental)	None
Legal and Governance	None
Risk	Yes
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

Community Plan/Single Outcome Agreement

Corporate Plan

- 1.1 The Council's Corporate Plan 2018 – 2022 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
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- (iii) Promoting a prosperous, inclusive and sustainable economy;
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- 2.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

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- 2.3 The risks are associated with the level of assurance provided on the control environment in the event that Internal Audit's planned work is not completed on time.

3. Consultation

Internal

- 3.1 The Chief Executive and Head of Legal and Governance have been consulted in the preparation of this report.

2. BACKGROUND PAPERS

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

3. APPENDICES

Appendix 1 – Internal Audit Activity

Appendix 1

INTERNAL AUDIT UPDATE

Internal Audit Activity

Audit No.	Title	Service(s)	Status as at December 2021	Audit Committee
2020/21				
A20-04 (inc A19-06)	Contracting	All Services	In progress	December 2021
A20-07	Violence & Aggression	Education & Children's Services	In progress	February 2022
A20-10	Horsecross Arts	Corporate & Democratic Services	In progress	December 2021
2021/22				
A21-01	Child Protection	Education & Children's Services	In progress	February 2022
C21-02	Climate Change	All Services	In progress	March 2022
A21-03	Welfare Rights	Corporate & Democratic Services	Planned	
A21-04	Partnership Working	All Services	Planned	
A21-05	Tay Cities Deal	Communities	Planned	
A21-06	IT Assets	All Services	Planned	March 2022
A21-07	Agency Workers	Communities	Commenced	March 2022
A21-08	Payroll	Corporate & Democratic Services	Planned	
G21-09	LEADER	Communities	In progress	February 2022
G21-10	BSOG	Communities	Completed	N/a



Internal Audit Report
Communities
19-12 ALEOs - Horsecross
November 2021

Final Report

Legal & Governance Services
Corporate & Democratic Services
Perth & Kinross Council
Council Offices
2 High Street
Perth
PH1 5PH

19-12 ALEOs Horsecross

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1. Introduction

- 1.1 This audit was carried out as part of the audit plan for 2020/21, approved by the Audit Committee on 26th September 2020. Testing was undertaken prior and up to March 2021 and the findings have been reviewed in respect of updated evidence provided in Autumn 2021.
- 1.2 Horsecross Arts Ltd is a registered charity and operates as an arms-length external organisation (ALEO) delivering services operating arts facilities in Perth city on behalf of the Council.
- 1.3 This review focuses on evidence for improvement to areas highlighted in the Audit Glasgow report and general oversight of Horsecross throughout 2020-21 and to date. Restrictions on Horsecross, the Council and stakeholders during the Covid19 emergency are taken into account. Reference was made to Audit Scotland's guidance on ALEOs 'Are you getting it right? [ALEOs]¹ and to Service Level Agreement clauses on responsibilities of the Council and Horsecross, performance monitoring and reporting. The Council is ultimately accountable for how public money is spent, including its services commissioned through ALEOs.

2. Audit Background Information

- 2.1 In 2019, following concerns about governance and financial management in Horsecross Arts Ltd [referred to as Horsecross], the Council set up an interim leadership team in the absence of a Chief Executive and a Joint Advisory Group to support Horsecross to make improvements, provide stability for staff and to oversee immediate required improvements. These interim arrangements were a requirement of the emergency financial assistance from the Council requested by Horsecross in July 2019. The Council leadership team identified significant concerns about financial and management control areas. The Council therefore commissioned external auditors, Audit Glasgow, to identify the extent of issues and their report was published in December 2019. The Audit Glasgow financial management [report](#) described absence of controls and recommended urgent action for key elements of the internal control environment to operate effectively. The new Chief Executive of Horsecross was subsequently tasked with implementing recommendations within the report as a matter of urgency and this was a funding condition within the 2020/21 Service Level Agreement.

3. Scope and Limitations

- 3.1 The scope of this review is restricted to examining progress in implementing improvement areas highlighted by Audit Glasgow in December 2019. Twelve areas were identified for immediate action, of which 5 were of high importance and 7 of medium importance. A further six other areas were highlighted as benefiting from review at the earliest opportunity.

- 3.2 Evidence has been provided via the Council's ALEO Contract Monitoring Officer, including regular communication with the Board. It is noted that delays in implementation of these actions, partially as a result of the impact of the COVID-19 pandemic, were experienced.

4. Assessment of the Control Environment

- 4.1 The table below details the control objectives agreed for audit testing. The number of improvement actions per each rating (as detailed in section 12 below) is detailed, along with Internal Audit's assessment of the adequacy and effectiveness of the controls in place. Further details, including any improvement actions, are set out in the Management Action Plan.

No.	Control Objective	Action Rating (see 12 below)					Control Objective Assessment
		5	4	3	2	1	
1	Horsecross is following up high-level actions as described in the Glasgow Audit review as a matter of urgency, with progress of these reported to the Board and the Council. Five of the twelve actions were rated as High priority.		1	1			Reasonable
2	Horsecross is following up medium-level actions described in the Glasgow Audit review as a matter of urgency, with progress / completion of these reported to the Board and the Council. Seven of the twelve actions were rated as Medium priority.				1		Substantial
3	Horsecross Arts Ltd is following up the six other key areas identified for in-depth assurance reviews by the Glasgow Audit review, with progress / completion of these reported to the Board and the Council.			1			Reasonable

- 4.2 The auditor has assessed that reasonable assurance can be placed on arrangements for the implementation of actions arising from the Audit Glasgow report. Meaning:
There is a generally sound system of governance, risk management and control in place.

5. Summary of Findings

- 5.1 Horsecross acknowledges that the implementation of improvements as highlighted in the Glasgow Audit report have taken longer to progress than anticipated. This has been in part due to the COVID-19 pandemic, which led to the temporary cessation of business activity.

- 5.2 The Horsecross Board receives regular updates regarding progress with the implementation of actions arising from the findings of the Glasgow Audit report, with many of the identified policies being updated and approved by the Finance & General Purposes Committee in August 2021.
- 5.3 Horsecross have reported to the Board in September 2021 that all actions have been fully completed. Internal Audit can confirm that action has been taken to address all 12 findings as detailed in the Glasgow Audit action plan. The following paragraphs contain some further details and improvements.
- 5.4 A budgetary framework and reporting is now in place, along with a revised Scheme of Delegation.
- 5.5 Access to the ledger has been fully reviewed and updated to ensure that only those officers who require access have this. However there remains scope to improve access controls by making full use of the secure access controls available through the system.

Action Points 1

- 5.6 Improved processes were found to be in place for the management of the payroll system and its verification.
- 5.7 The staff structure examined revealed 3 freelance staff reporting directly to the Chief Executive who were not on the payroll, which may be contrary to IR35 rules. This is an area which may require further on-going review as the venues continue towards full re-opening.

Action Point 2

- 5.8 A revised Time Off in Lieu policy has been approved.
- 5.9 A remuneration committee was established in February 2021, with a remit to include review and agreement of standard contract details and to develop the company's remuneration philosophy.
- 5.10 A policy for complimentary tickets was approved in August 2021. This will be rolled out fully once the venues have been fully re-opened.

Action Point 3

- 5.11 There were 6 areas where Glasgow Audit considered further review should be undertaken, but which were outside Glasgow Audit's scope. These were: cash security & imprest management; governance arrangements; gifts, hospitality and declarations of interest; IT general controls and cyber security; HR management; and Board effectiveness and organisational culture.
- 5.12 Evidence has been provided of some consideration of governance arrangements, including revision of policies relating to areas highlighted for future review, as were highlighted within the Action Plan. Evidence has also been provided of Horsecross management and Board consideration of HR management issues and organisational culture. However full reviews of the areas have not been undertaken.

- 5.13 Where new arrangements have been put in place recently, it would be appropriate for reviews to be undertaken once these arrangements are embedded and the review would highlight the adequacy and effectiveness of arrangements in place. This would cover areas relating to governance arrangements; gifts, hospitality and declarations of interest; HR management and Board effectiveness and organisational culture
- 5.14 Some of the areas would benefit from review once the venues have been opened consistently for a short while so that working arrangements can be reviewed for the adequacy of internal controls (e.g. cash security & imprest management).
- 5.15 The final area, IT general controls and cyber security, should be prioritised for review due to increased general cyber risks, particularly in light of the finding from our review of the Action Plan and documented at Action Point 1 in this report.
- 5.16 In order to ensure that the additional areas highlighted for review by Glasgow Audit are given proper scrutiny at Board level, a cycle of these reviews should be considered for the provision of assurances over these areas.

Action Point 4

6. Conclusion

- 6.1 The Internal Audit review is able to place reasonable reliance on the overall control environment for implementing the agreed actions arising from the Audit Glasgow report. The agreed actions, once fully implemented, should enable Internal Audit to place substantial assurance on these arrangements.

7. Acknowledgements

- 7.1 Internal Audit would like to thank Karen Johnston, ALEO Contract Monitoring Officer, and all officers who were involved in this audit.

8. Action Implementation and Follow up

- 8.1 Responsibility for the maintenance of adequate and effective controls rests with management. Where the audit has identified areas for management action, these are identified in the Management Action Plan. Where a decision is taken by management not to act in response to finding from this review, it is the responsibility of management to assess and accept the risk arising from non-implementation.
- 8.2 Achievement of the agreed actions is monitored through Internal Audit's 'follow up' arrangements.

9. Management Action Plan

Action Point	Para. No	Finding	Risk Rating	Agreed Action & Evidence	Action Owner	Target Completion Date
1	5.5	Access to the ledger has been fully reviewed and updated to ensure that only those officers who require access have this. However there remains scope to improve access controls by making full use of the secure access controls available through the system	High	The ALEO Contract Monitoring Officer will seek assurance that Horsecross are making full use of secure access controls.	K Johnston, ALEO Contract Monitoring Officer	January 2022
2	5.7	The staff structure examined revealed 3 freelance staff reporting directly to the Chief Executive who were not on the payroll, which may be contrary to IR35 rules. This is an area which may require further on-going review as the venues continue towards full re-opening	Medium	The ALEO Contract Monitoring Officer will ensure that this is considered as part of a year end review	K Johnston, ALEO Contract Monitoring Officer	April 2022
3	5.10	A policy for complimentary tickets was approved in August 2021. This will be rolled out fully once the venues have been fully re-opened	Low	Horsecross will be requested to provide evidence of full implementation after a year of the policy having been approved.	K Johnston, ALEO Contract Monitoring Officer	September 2022

4	5.16	There were 6 areas, based on their observations during the review, where Glasgow Audit considered further review should be undertaken, but which were outside Glasgow Audit's scope. In order to ensure that these additional areas are given proper scrutiny at Board level, a cycle of these reviews should be considered for the provision of assurance over these areas.	Medium	The Head of Culture and Community Services will ensure that Horsecross consider these areas as part of a cycle of business, with the expectation that outcomes will be reported to the Horsecross Board	F Robertson, Head of Culture and Community Services	March 2022
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10. Authorisation

The auditor for this assignment was N Duncan. The supervising auditor was J Clark. This report is authorised for issue:

11. Distribution

This report has been distributed to:

T Glen, Chief Executive
B Renton, Executive Director, Communities
S Devlin, Executive Director, Education & Children's Services
K Donaldson, Chief Operating Officer
F Robertson, Head of Culture and Community Services
K Johnston, ALEO Contract Monitoring Officer
L Simpson, Head of Legal & Governance
Committee Services
External Audit

12. Assessment Definitions

The following table contains the definitions of the control objective assessment.

Control Objective Assessment	
Level of assurance	Definition
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

The following table contains the definitions applied by Internal Audit in rating audit findings/actions.

Risk Rating for Individual Findings		
Rating	Rating description	Definition
5	Critical	Significant observations / major concerns which require immediate action. Management will need to add these to the appropriate Service risk register <i>Issue represents a control weakness which could cause, or is causing, severe disruption of the process or severe adverse effect on the ability to achieve process objectives</i>
4	High	Significant observations regarding the absence / failure of key controls requiring urgent action. Management should consider adding these to the appropriate Service / divisional risk register <i>Issue represents a control weakness which could have, or is having, major adverse effect on the ability to achieve process objectives</i>
3	Medium	Observations regarding the effectiveness of key controls requiring reasonably urgent action. Management should consider these when updating any divisional / team risk registers <i>Issue represents a control weakness which could have, or is having, significant adverse effect on the ability to achieve process objectives</i>
2	Low	Minor observations regarding the adequacy of controls which require action to improve the efficiency, effectiveness or economy of operations or which otherwise require to be brought to the attention of Senior Management <i>Issue represents a minor control weakness with minimal but reportable impact on the ability to achieve process objectives</i>
1	Trivial / Minor	Very minor observations which will be raised during the course of the audit and may not be included within the final report <i>Issue represents a very minor control weakness with negligible impact on the ability to achieve process objectives. The issue will be raised during the course of the audit and may not be included within the final report.</i>



Internal Audit Report
All three Services and Health & Social Care Partnership
20-04 Contracting
(incorporating 19-06 Contracting)
November 2021

Final Report

Legal & Governance Services
Corporate & Democratic Services
Perth & Kinross Council
Council Offices
2 High Street
Perth
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19-06 & 20-04 Contracting

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1. Introduction

- 1.1 An audit of Contracting was undertaken as part of the Internal Audit Plan for 2019/20, which was approved by the Audit Committee on 26 June 2019. It was not completed and reported as officers were engaging in critical tasks as a result of the initial response to the COVID-19 pandemic.
- 1.2 An additional audit of Contracting was undertaken as part of the Internal Audit Plan for 2020/21, which was approved by the Audit Committee on 16 September 2020.
- 1.3 This report covers the audit work for both years.
- 1.4 The indicative scope for the audit in 2019/20 was to review contracting activity within Services, including awarding and management of contracts. The 2020/21 audit focused primarily on the management of contracts.
- 1.5 The audits are linked to the following [2019/20 Strategic Risk](#):

CORP-011 - External contract and commissioning and contract management arrangements fail to deliver best value resulting in increased costs and/or reduced service provision

- 1.6 The [Internal Audit Strategy & Plan 2020/21, para. 4.1 on 'Planned Audit Activity'](#) noted

'that the Corporate and Service risk registers are under review in order to ensure that they fully reflect the changing climate as a result of the COVID-19 pandemic. However, Internal Audit has identified key themes arising from its review of the current Corporate and Service risk registers, performance and activities...[one of] The themes identified for 2020/21 [was]:

Review contracting activity within Services, including activity in response to the COVID-19 pandemic.'

2. Audit Background Information

- 2.1 Procurement work can positively support the achievement of objectives set out in the Community and Corporate plans for Perth and Kinross. Effective contract and supplier management plays a key part in this, assisting in ensuring that the Council achieves best value and minimises risk.
- 2.2 Council spend with third parties during 2018/19 and 2019/20 was £240m¹ and £248m² respectively. This includes expenditure on goods, services and works and that placed with arm's length organisations such as Tayside Contracts. The

¹ Procurement Annual Report 2018/19, page 2, report 19/173 App 1 to the Strategic Policy and Resources Committee on 12 June 2019

² Procurement Annual Report 2019/20, page 3, report 20/231 App 1 to the Strategic Policy and Resources Committee in 25 November 2020

figures also include monies allocated to support capital investment decisions taken by the Council. Contracts are formed and managed either by collaborative partnerships; Scottish Procurement; Scotland Excel; Tayside Procurement; or locally by Council Services and officers. The latter represents the largest portion both in terms of contracts held and expenditure.

3. Scope and Limitations

- 3.1 In order to arrive at an opinion on the achievement of the control objective a sample of contracts managed locally was selected. The audit included interviews with officers, and a review of systems and documents in use.
- 3.2 This audit review of contract management arrangements for contracts arranged and administered by collaborative partnerships and commissioned services was limited to those carried out by Perth & Kinross Council (PKC) officers for the running of the contracts within PKC.

4. Assessment of the Control Environment

- 4.1 The table below details the control objectives agreed for audit testing. The number of improvement actions per each rating (as detailed in section 12 below) is detailed, along with Internal Audit's assessment of the adequacy and effectiveness of the controls in place. Further details, including any improvement actions, are set out in the Management Action Plan.

No.	Control Objective	Action Rating					Control Objective Assessment
		5	4	3	2	1	
1	To ensure the adequacy of arrangements to award contracts.			2			Reasonable
2	To ensure the adequacy of arrangements to manage contracts.			4			Reasonable

- 4.2 The auditor has assessed that reasonable assurance can be placed on controls overall in relation to awarding and managing contracts from the audit. Meaning:

There is a generally sound system of governance, risk management and control in place.

- 4.3 A summary of the key findings and actions are provided in section 5, please note however, the following areas of good practice which have been highlighted during the audit.
- 4.4 Arrangements for granting authority and delegation to enter into a contract are in place:
- Authority to enter into a contract is detailed in the Council's *Scheme of Administration and Contract Rules*;
 - *Financial Regulations* state that 'In placing orders for supplies, services and works, Executive Directors will comply with the delegation and

tendering procedures set out in the Council's Scheme of Administration and Contract Rules.'

- The Authorised Signatories Database in Integra has a check box to authorise a person to be able to enter into a contract. This went live from December 2019.

4.5 The Executive Director of ECS has approved a *Scheme of Delegation - List of Authorised Signatories*. The authorisation is of a post not an individual.

5. Summary of Findings

5.1 Below is a summary of key findings and actions, which are reflected in the Management Action Plan, detailed in section 9.

5.2 The Council's *Scheme of Administration* states:

'15.7 The Chief Executive, any Executive Director or the Chief Operating Officer are authorised to enter into contracts on behalf of the Council in accordance with the Council's Contract Rules and Contract & Procurement Guidance.'

5.3 As stated at paragraph 4.5 above, the Executive Director of ECS has approved a *Scheme of Delegation - List of Authorised Signatories*. The authorisation is of a post not an individual. The document was amended on 15/11/20 to reflect the reduction of Heads of Service from three to two and consequent changes to the Heads of Service titles. There is a link to the document in the ECS area of ERIC.

5.4 There are no similar current Schemes of Delegation in place from the Executive Director (Communities), the Chief Operating Officer nor the HSCP's Chief Officer/Director. These Schemes would provide evidence that these officers have appointed Authorised Officers for the contracts who would be responsible for the procurement process and for ensuring the contracts are carried out in accordance with the Service's/HSCP's requirements.

Action Points 1a, 1b, 1c and 1d

5.5 The Council's *Contract Rules* states:

'3.1.1 [Executive] Directors must appoint an Authorised Officer who will be responsible for the procurement process and for ensuring the contract is carried out in accordance with the Service's requirements.'

5.6 Although the Authorised Signatories Database in Integra has a check box to authorise a person to be able to enter into a contract, live from December 2019, as at the date of audit and reporting, only the Chief Operating Officer, Education & Children's Services' officer and the Senior Services Manager in Communities have been entered as authorised.

Action Points 2a, 2b & 2c

5.7 For five out of the seven contracts tested for the 2020/21 audit, the letter of award was sent in the name of a Head of Service, which Internal Audit considers to be a reasonable level of officer seniority to enter into a contract on

a day-to-day basis. For the other two contracts, the letter was sent in the name of an officer below Head of Service, albeit one who has knowledge of the supply area. Whilst historically and/or by habit and repute delegation of the Chief Executive, an Executive Director or the Chief Operating Officer's authority to enter into a contract may have been given to Heads of Service, possibly verbally, Internal Audit is of the opinion that delegation should be formalised in writing to evidence governance and as an audit trail.

5.8 The Council's *Contract Rules* state:

'4.3 Responsibilities of Authorised Officers

4.3.1 The Authorised Officer is responsible for all contracts they have tendered, let and managed on behalf of the Council and must comply with the following duties:...

4.3.5 Post-Award (Contract Management Phase)

(a) To put in place arrangements for efficient contract and supplier management including the identification of a Contract Manager and management of benefits and performance, for the entire duration of the contract;...'

5.9 For the contracts tested for the 2019/20 audit, there is no evidence that the Authorised Officer - taken to be the officer who awarded the contract, the officer who signed the award letter - formally identified a Contract Manager in line with the Council's *Contract Rules*.

5.10 Since then, the *Contract Strategy* document, which should be prepared for contracts with a value of £50,000 or above, has been updated to include a box for the identification of a Contract Manager. The Contract Strategy is approved by the Head of Service, who would be considered of sufficient seniority to be an Authorised Officer.

5.11 For all seven contracts chosen for testing for 2020/21, the contact value is over £50k. For one of the seven contracts, no contract strategy was prepared.

5.12 For each of the six Contract Strategies, the Contract Manager is identified and it has been approved by the Head of Service. The Head of Service, who is of sufficient seniority to be an Authorised Officer, although not formally designated as such for the contract by the Executive Director, Chief Operating Officer, Chief Executive or HSCP Chief Officer/Director, has identified the Contract Manager for the contract in the Contract Strategy approved by themselves.

Action Point 3

5.13 Controls over the management of contracts are not set at the Corporate or Service level, they are designed at the individual contract level.

Action Point 4

5.14 The Corporate Procurement team considers its role to be consultative, with the awarding service having the responsibility for a contract, both for awarding and management.

- 5.15 Procurement training offered by the Corporate Procurement team does not cover the management of contracts in depth. Currently, Services do not provide training. There is a risk that officers who do not have experience of contract management may not be provided with sufficient training to undertake this role effectively.

Action Point 5

- 5.16 Whilst Contract Managers for the contracts selected for testing had not attended training recently, Internal Audit were informed by them that they were experienced contract managers. This assurance was accepted.

- 5.17 For six out of the seven contracts tested for the 2020/21 audit, whilst it is clear at a high level what service delivery is required for each of the contracts, key performance indicators, and/or acceptable performance levels, have not been agreed between the Service and the service supplier, or if they have been, documented. Without the ongoing measurement of KPIs it is difficult to demonstrate objectively that a supplier is delivering, or not, which may have implications for any potential legal recourse for non-performance.

Action Point 6

6. Conclusion

- 6.1 The Internal Audit review is able to place reasonable assurance on the overall control environment for awarding of contracts. The agreed actions, once implemented, should enable Internal Audit to place substantial assurance on these.
- 6.2 Because there are no standard Corporate or Service controls or procedures over the management of contracts, procedures and controls are designed at the individual contract level, Internal Audit is not able to extrapolate findings from the testing of a sample of projects over all contracts or comment on the overall control environment for the management of contracts. Internal audit can only comment on the control environment for the management of the contracts tested.
- 6.3 The Internal Audit review is able to place reasonable assurance on the control environment for the contracts tested.
- 6.4 A report, or other feedback, has been prepared for each contract tested. Each will be submitted to the relevant head of service, with a Management Action Plan. The agreed actions, once implemented, should enable Internal Audit to place substantial assurance on the control environment for each of the contracts tested.

7. Acknowledgements

Internal Audit would like to thank all officers who were involved in this audit across all three Services and the Health & Social Care Partnership.

8. Action Implementation and Follow up

- 8.1 Responsibility for the maintenance of adequate and effective controls rests with management. Where the audit has identified areas for management action, these are identified in the Management Action Plan. Where a decision is taken by management not to act in response to finding from this review, it is the responsibility of management to assess and accept the risk arising from non-implementation.
- 8.2 Achievement of the agreed actions is monitored through Internal Audit's 'follow up' arrangements.

9. Management Action Plan

Action Point	Para. No	Finding	Risk Rating	Agreed Action & Evidence	Action Owner	Target Completion Date
1a	5.4	There is no scheme of delegation from the Executive Director (Communities) to anyone to enter into a contract on their behalf.	3 - Medium	<p>Audit action: The Executive Director of Communities should make arrangements to prepare a Scheme of Delegation to officers that they are authorise to enter contracts on the Executive Director's behalf.</p> <p>Agreed evidence: Written Scheme of Delegation authorised by the Executive Director, or a written statement from the Executive Director that they do not want to delegate authority to enter into a contract on their behalf.</p>	F Crofts, Head of Business & Resources (Communities)	March 2022
1b	5.4	There is no scheme of delegation from the Chief Operating Officer to anyone to enter into a contract on their behalf.	3 - Medium	<p>Audit action: The Chief Operating Officer should make arrangements to prepare a Scheme of Delegation to officers that they authorise to enter contracts on their behalf.</p>	S Mackenzie, Head of Finance (CDS)	March 2022

Action Point	Para. No	Finding	Risk Rating	Agreed Action & Evidence	Action Owner	Target Completion Date
				Agreed evidence: Written Scheme of Delegation authorised by the Chief Operating Officer, or a written statement from the Chief Operating Officer that they do not want to delegate authority to enter into a contract on their behalf.		
1c	5.4	There is no scheme of delegation from the Chief Executive to anyone to enter into a contract on their behalf.	3 -Medium	Audit action: The Chief Executive should make arrangements to prepare a Scheme of Delegation to any officers should they wish to authorise anybody to enter contracts on their behalf. Agreed evidence: Written Scheme of Delegation authorised by the Chief Executive, or a written statement from the Chief Executive that they do not want to delegate authority to enter into a contract on their behalf.	S Mackenzie, Head of Finance (CDS)	March 2022

Action Point	Para. No	Finding	Risk Rating	Agreed Action & Evidence	Action Owner	Target Completion Date
1d	5.4	There is no Scheme of Delegation or other written evidence that the Chief Executive, the Chief Operating Officer or any Executive Director has delegated authority to any Perth & Kinross Health and Social Care Partnership officer to enter into a contract on behalf of PKC.	3 - Medium	<p>Audit action: The HSCP's Chief Officer/Director should make arrangements to prepare a Scheme of Delegation to any officers should they wish to authorise anybody to enter contracts on their behalf</p> <p>Agreed evidence: Written Scheme of Delegation authorised by the HSCP's Chief Officer/Director, or a written statement from the HSCP's Chief Officer/Director that they do not want to delegate authority to enter into a contract on their behalf.</p>	G Paterson, Chief Officer/Director, HSCP	March 2022
2a	5.6	The Chief Operating Officer is the only Corporate & Democratic Services officer recorded as authorised to enter into a contract/SLA on the Authorised Signatories Database.	3 - Medium	<p>Audit action: The Chief Operating Officer should make arrangements to update the Authorised Signatories Database with officers that they authorise to enter contracts on their behalf.</p> <p>Agreed evidence: Updated Authorised Signatories Database.</p>	S Mackenzie, Head of Finance (CDS)	March 2022

Action Point	Para. No	Finding	Risk Rating	Agreed Action & Evidence	Action Owner	Target Completion Date
2b	5.6	No Communities officer is recorded as authorised to enter into a contract/SLA in the Authorised Signatories Database (ASD).	3 - Medium	Audit action: The Executive Director, Communities should make arrangements to update the ASD for themselves and officers that they authorise to enter contracts on their behalf. Agreed evidence: Updated Authorised Signatories Database.	B Renton, Executive Director, Communities	March 2022
2c	5.6	No HSCP officer is recorded as authorised to enter into a contract/SLA on behalf of PKC in the Authorised Signatories Database (ASD).		Audit action: The HSCP Chief Officer/Director should make arrangements to update the ASD for themselves and officers that they authorise to enter contracts on their behalf. Agreed evidence: Updated Authorised Signatories Database.	G Paterson, Chief Officer/Director, HSCP	March 2022

Action Point	Para. No	Finding	Risk Rating	Agreed Action & Evidence	Action Owner	Target Completion Date
3	5.9 to 5.12	<p>For the contracts tested for the 2019/20 audit, there is no evidence that the Authorised Officer - taken to be the officer who awarded the contract, the officer who signed the award letter - formally identified a Contract Manager.</p> <p>Since then, the <i>Contract Strategy</i> document, which should be prepared for contracts with a value of £50,000 or above, has been updated to include a box for the identification of a Contract Manager. The Contract Strategy is approved by the Head of Service.</p>	3 - Medium	<p>Audit action: The Corporate Procurement team should agree with Services what the process(es) should be for an Authorised Officer for a contract to formally identify a Contract Manager for the contract, to comply with the <i>Contract Rules</i>.</p> <p>Processes should be agreed for all contract values, not just for those of £50k or over.</p> <p>These processes should also cover when a Contract Manager changes over the lifetime of the project.</p> <p>Agreed evidence: Written procedures or process map(s) detailing the processes for an Authorised Officer to formally identify a Contract Manager.</p>	S Mackenzie, Head of Finance	March 2022

4	5.13	Controls over the management of contracts are not set at the corporate or service level, they are designed at the individual contract level.	3 - Medium	<p>Audit action: Consideration should be given to setting controls at a corporate level. Following this, Services can consider their implementation within their Service.</p> <p>Agreed evidence: Written procedures or process map(s) detailing corporate-wide and/or each Service-wide processes and controls for the management of contracts.</p>	S Mackenzie, Head of Finance;	June 2022
5	5.14 & 5.15	<p>The Corporate Procurement team considers its role to be consultative, with the awarding service having the responsibility for a contract, both for awarding and management.</p> <p>Procurement training offered by the Corporate Procurement team does not cover the management of contracts in depth.</p> <p>Currently, services do not provide training.</p>	3 - Medium	<p>Audit action: Comprehensive training on the management of contracts should be designed and provided mandatorily to every Contract Manager at either a corporate or service level.</p> <p>The Procurement team will work with Services to ensure that a record is maintained of who has undertaken the training and when.</p> <p>Agreed evidence: Evidence of planned corporate-wide and/or each Service-wide training on the management of contracts.</p> <p>Evidence of a corporate-wide and/or Service record of who has undertaken the training and when.</p>	S Mackenzie, Head of Finance	June 2022

6	5.17	For six out of the seven contracts tested for the 2020/21 audit, whilst it is clear at a high level what service delivery is required for each of the contracts, key performance indicators (KPIs), and/or acceptable performance levels, have not been agreed, or are not documented, between the Service and the service supplier. Without the ongoing measurement of KPIs it is difficult to demonstrate objectively that a supplier is delivering, or not, which may have implications for any potential legal recourse for non-performance.	3 - Medium	<p>Audit action: The importance of the agreement and documentation of KPIs will be included in updated procurement documentation and future training.</p> <p>Services will be encouraged to monitor KPIs at an appropriate level for each contract awarded.</p> <p>Agreed evidence: Updated documentation and training materials</p>	S Mackenzie, Head of Finance	June 2022
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10. Authorisation

The auditor for this assignment was M Stewart. The supervising auditor was J Clark.

This report is authorised for issue:

11. Distribution

This report has been distributed to:

T Glen, Chief Executive

B Renton, Executive Director, Communities

S Devlin, Executive Director, Education & Children's' Services

K Donaldson, Chief Operating Officer

J Pepper, Depute Director, Education & Children's' Services

C Mailer, Depute Director, Communities

G Paterson, Chief Officer/Director, Perth & Kinross Health & Social Care Partnership

S Mackenzie, Head of Finance

L Simpson, Head of Legal & Governance

Committee Services

External Audit

12. Assessment Definitions

The following table contains the definitions of the control objective assessment.

Control Objective Assessment	
Level of assurance	Definition
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

The following table contains the definitions applied by Internal Audit in rating audit findings/actions.

Risk Rating for Individual Findings		
Rating	Rating description	Definition
5	Critical	Significant observations / major concerns which require immediate action. Management will need to add these to the appropriate Service risk register <i>Issue represents a control weakness which could cause, or is causing, severe disruption of the process or severe adverse effect on the ability to achieve process objectives</i>
4	High	Significant observations regarding the absence / failure of key controls requiring urgent action. Management should consider adding these to the appropriate Service / divisional risk register <i>Issue represents a control weakness which could have, or is having, major adverse effect on the ability to achieve process objectives</i>

3	Medium	<p>Observations regarding the effectiveness of key controls requiring reasonably urgent action. Management should consider these when updating any divisional / team risk registers</p> <p><i>Issue represents a control weakness which could have, or is having, significant adverse effect on the ability to achieve process objectives</i></p>
2	Low	<p>Minor observations regarding the adequacy of controls which require action to improve the efficiency, effectiveness or economy of operations or which otherwise require to be brought to the attention of Senior Management</p> <p><i>Issue represents a minor control weakness with minimal but reportable impact on the ability to achieve process objectives</i></p>
1	Trivial / Minor	<p>Very minor observations which will be raised during the course of the audit and may not be included within the final report</p> <p><i>Issue represents a very minor control weakness with negligible impact on the ability to achieve process objectives. The issue will be raised during the course of the audit and may not be included within the final report.</i></p>