

All Headteachers
All Chairs of Governors
All Chairs of Finance/Resources

Please reply to: Lisa Byrne

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Date: September 2018

Dear Headteacher, Chair of Governors and Chair of Finance/Resources

2017/18 School Audits

As part of the 2017/18 Internal Audit Plan approved by the Council's Audit and Risk Management Committee, Internal Audit carried out a review of governance and financial management in 18 schools across the borough. We also undertook two grant certifications for schools.

Our work involved carrying out targeted internal audit testing to assess the adequacy and effectiveness of financial management within each school visited. The testing carried out broadly aligns to the areas covered by the Schools Financial Value Standard (SFVS). We examined the major processes in these 18 schools to assess compliance with the Scheme for Financing Schools and the Council's Finance Manual for Schools, including the Contract Procedure Rules, and to check whether good governance and financial practices were applied throughout.

School Leadership Teams should use this report to identify potential risk areas or opportunities in their own school and to make improvements as required. It may also help as a prompt when completing both the 2018/19 SFVS and Risk Assessment and Financial Control Checklist returns.

Overall Report Opinions

All reviews undertaken covered the operating effectiveness of processes and controls falling under 10 scope areas. These are detailed in Appendix 1.

Of the schools reviewed in 2017/18, 3 (15%) received a Substantial Assurance opinion, 11 (55%) received a Reasonable Assurance opinion and 4 (20%) received a Limited Assurance opinion. No school received a No Assurance opinion.

James Rolfe
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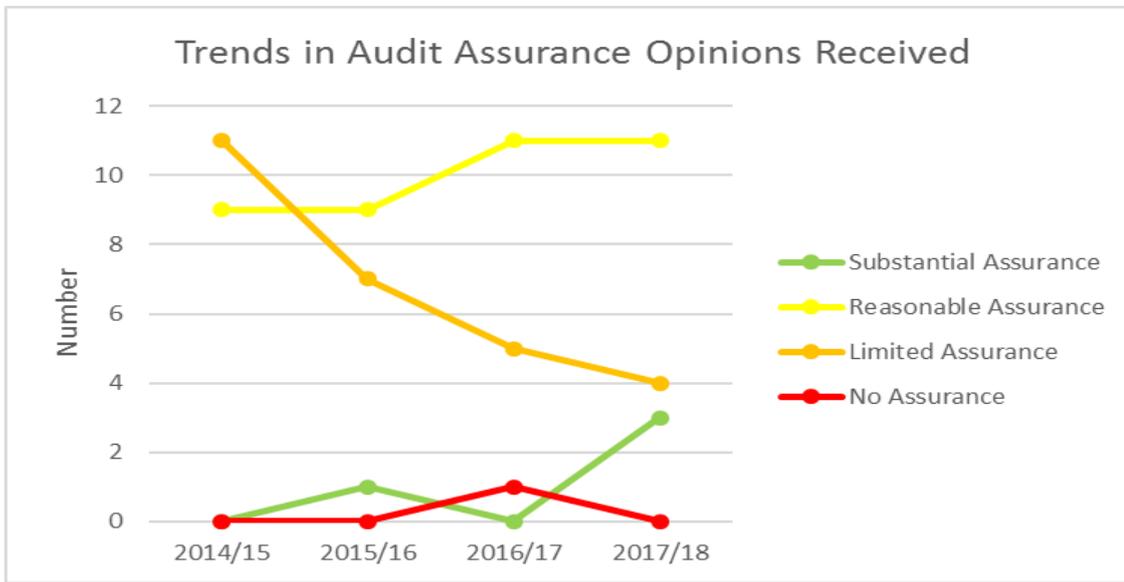
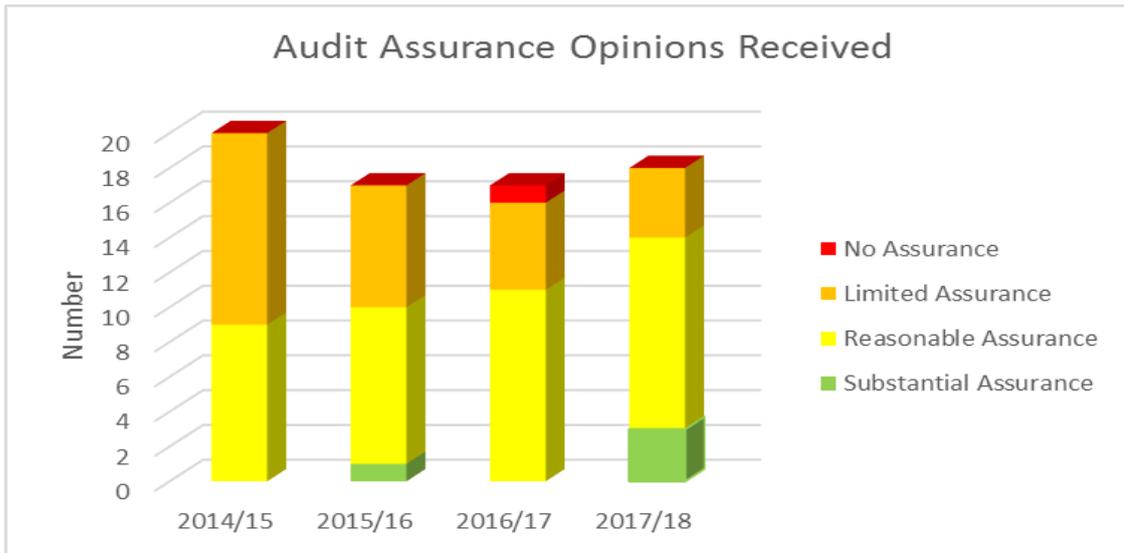
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Definitions of internal audit assurance levels are provided in Appendix 3.

Comparing against 2016/17 results, there has been an increase in positive assurance opinions (Substantial and Reasonable) from 65% to 78% and a reduction in negative assurance reports (Limited and No Assurance) from 35% to 22%.

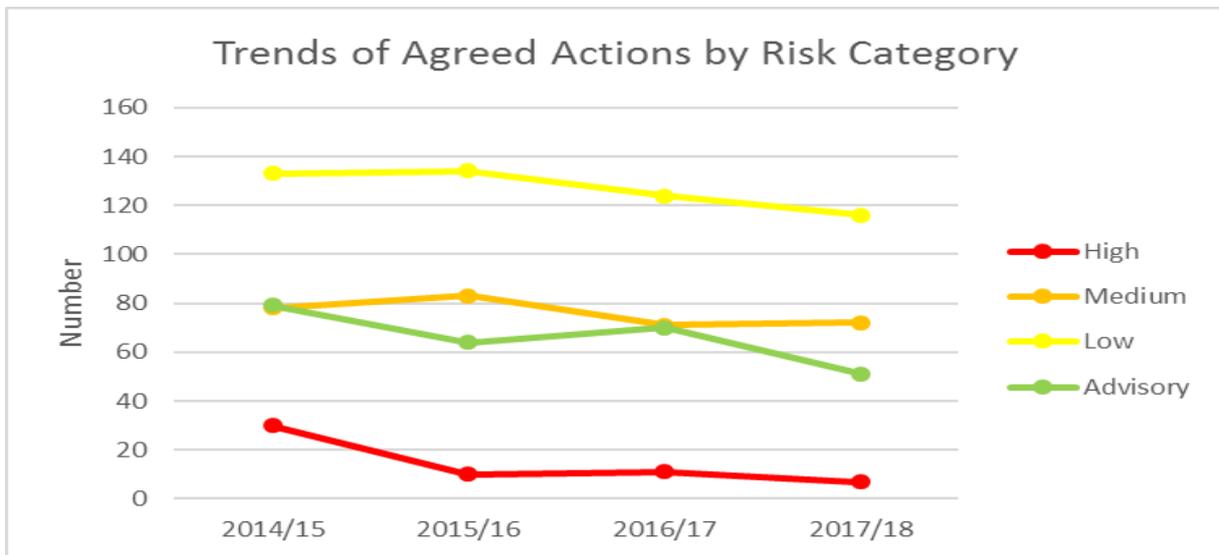
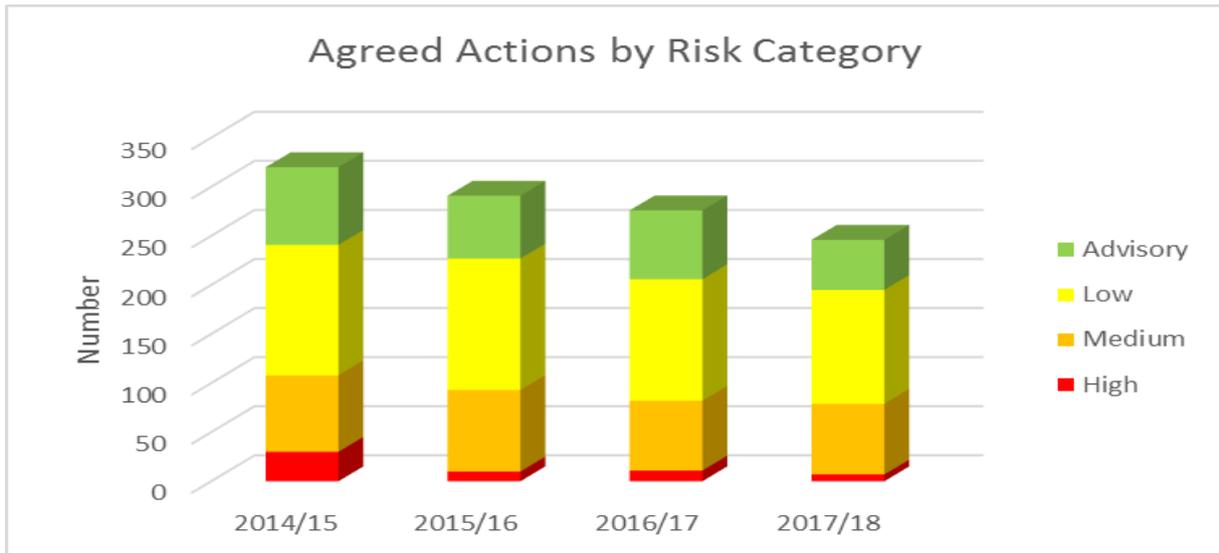
These opinions, together with the trend from 2014/15, are shown in the charts below:



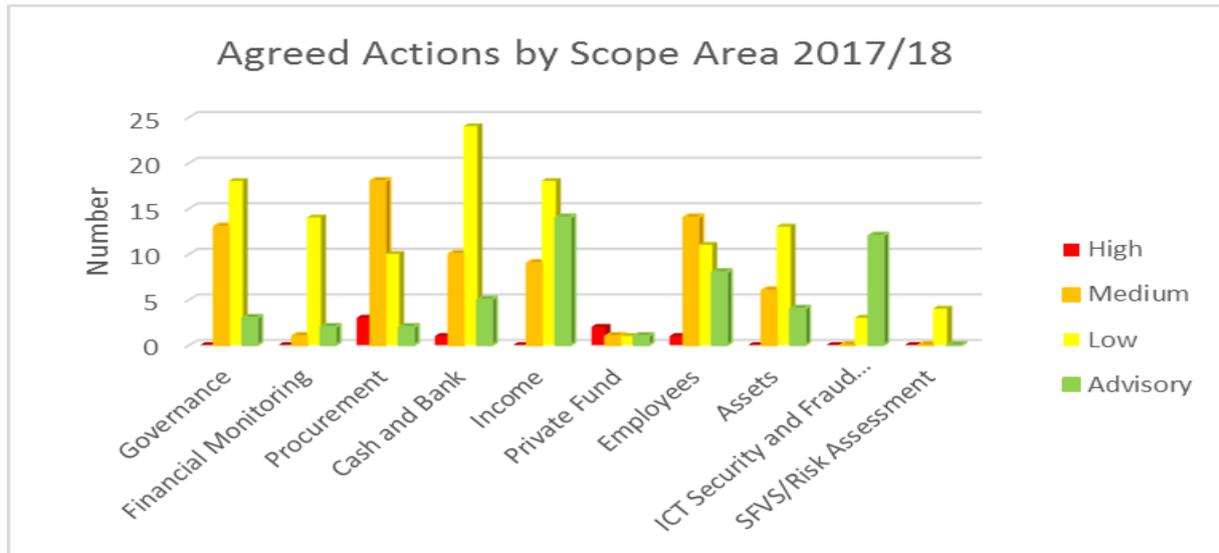
Analysis of agreed actions

Actions for improvement have been agreed with the Headteacher to address the risks identified by our internal audit work. In 2017/18, 246 actions were agreed, including 7 relating to high risk findings. The number of actions in total has declined steadily from 320 in 2014/15 to 246 in 2017/18. Controls around procurement and income remain the prime areas of concern.

An analysis and trends of the agreed actions are shown in the following graphs:



The actions agreed during 2017/18 for each scope area are shown in the following graph:



Summary of Findings

Governing Bodies have a responsibility to ensure that they have appropriate controls in place at their school to meet the regulatory framework for finance and financial management as required by statute and detailed in the local Scheme for Financing. Detailed below are the main themes and areas for improvement identified from the reviews. It is recommended that Governing Bodies consider the items listed and be assured that their schools have appropriate controls in place.

Governance

Governing Body and Committee Minutes	<ul style="list-style-type: none"> Insufficient detail regarding discussions held and key decisions made, particularly around approval of key documents.
Register of Business Interests	<ul style="list-style-type: none"> Not completed annually by all Governors or all members of staff with financial responsibility (as stated in the Scheme of Delegation) Governors' interests not posted on a publicly available website or not up to date
Delegated Authority	<ul style="list-style-type: none"> Inconsistencies between the Organisational Arrangements/Terms of Reference documents and the Scheme of Delegation documents. Scheme of Delegation: <ul style="list-style-type: none"> Incomplete or not demonstrating appropriate separation of duties. No evidence of Governing Body approval. Actions not completed in accordance with the agreed scheme of delegation

Budget Setting and Financial Monitoring

Finance Returns	<ul style="list-style-type: none"> No minutes of: <ul style="list-style-type: none"> The three year budget return having been presented to the Governing Body
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	<ul style="list-style-type: none"> – Approval of the three year budget by the Governing Body – Quarterly Returns having been presented to the Finance/Resources Committee or the Governing Body – Approval of the Quarterly Returns by the Finance/Resources Committee or the Governing Body • Quarterly returns not reconciling to the school's finance records and/or not checked before being submitted to the Council
Expenditure	
Contracts and Purchasing	<ul style="list-style-type: none"> • Non-compliance with the Council's Contract Procedure Rules, particularly around obtaining the required number of quotes • Contracts not signed by both the school and the contractor. • Official orders not completed and authorised for all goods and services <i>prior</i> to placing the order • Expenditure above the Headteacher's delegated limit not approved by, where possible in advance, the Governing Body in line with the school's Scheme of Delegation. • Inadequate evidence of a three-way match (between the order, the goods or services received and the invoice) prior to payment
Cash and Bank	
Staff reimbursements	<ul style="list-style-type: none"> • Staff reimbursements paid despite not being authorised • Items delivered to a location other than the school
Commercial and Store cards	<ul style="list-style-type: none"> • Insufficient evidence of pre-authorisation, reconciliation and monitoring of purchases made on the school's commercial and /or store cards.
School Debts	<ul style="list-style-type: none"> • High levels of debt on ParentPay system
Income	
Income reconciliations	<ul style="list-style-type: none"> • Inadequate controls around income records, including the absence of regular reconciliations of expected income to income received and banked. • No evidence of appropriate separation of duties through independent checks.
Private fund	
Reconciliations	<ul style="list-style-type: none"> • No monthly bank reconciliations
Audit of Accounts	<ul style="list-style-type: none"> • Annual accounts not independently audited • Audited annual accounts not presented to the Governing Body for approval

Staffing	
New starters	<ul style="list-style-type: none"> • Appropriate pre-employment checks not completed
Assets	
Inventory records	<ul style="list-style-type: none"> • Incomplete inventory records • No annual independent inventory checks

A summary of our key findings and recommended actions to mitigate the associated risks is given at Appendix 2. This summary allows all schools to learn from the common findings of the 2017/18 Internal Audit work and to prevent the reoccurrence of these incidents going forward.

Annual returns submitted to Internal Audit

Schools Financial Value Standard (“SFVS”)

The SFVS was designed in conjunction with schools:

- to assist schools in managing their finances; and
- to give assurance that schools have robust financial management processes in place.

Governing Bodies have responsibility for overseeing the financial management of their schools, so the standard is primarily aimed at Governors. Local Authority maintained schools are required to complete the SFVS return annually.

Every Enfield school required to do so, submitted their 2017/18 SFVS return to Internal Audit.

In reviewing the returns, we noted:

- 4 of the 49 schools that stated all controls were in place and no remedial action was required, had received Limited Assurance opinions in their most recent audits
- A further five schools, although receiving a ‘reasonable assurance’ audit opinion overall, did have five or more individual medium risk findings during the audit. Therefore, it is important that, when completing the SFVS return, governors ensure that they can confirm that appropriate processes and adequate controls are in place or, where weaknesses are identified, an appropriate remedial action plan is developed.

Risk Assessment and Financial Control Checklist

The Risk Assessment and Financial Control Checklist is intended to help schools and Governors self-review their level of internal control and to assess the likelihood and impact of any risk arising from lack of controls. The checklist should be completed on an annual basis and contributes to the Council’s assurance over schools’ financial governance.

Although an improvement on last year, the fact that 6% of schools did not submit this return to Internal Audit is a cause for concern. For these schools there is no evidence that an appropriate self-assessment of internal financial control has been undertaken within the last year, leaving them open to the risk of fraud and errors.

School leadership teams should ensure the checklist is completed robustly and honestly, and that appropriate remedial action is recorded where relevant. The implementation of remedial actions should be regularly monitored by the Governing Body.

Internal Audit offers audit and fraud training for both Governors and School Business Managers (SBMs). The training programme is developed with the School Standards and Support Service and can be accessed through the Service's [training portal](#). Officers also regularly attend and present at SBM meetings, conferences and partnership groups to advise on how schools can address the non-compliance issues raised in this letter.

Should you have any comments on this report or require further clarification or want to raise any concerns, the Internal Audit team would be happy to discuss these with you (please see below for contact details).

Yours sincerely,

Gemma Young
Head of Internal Audit and Risk Management

Copies to: Schools Forum
Clara Seery, Acting Director of Education
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APPENDIX 1 - Scope Areas

Scope Area:	To ensure that:
Governance	<ul style="list-style-type: none"> • Roles and responsibilities of the Governing Body and sub-committees are clearly defined. • Governance meetings and minutes demonstrate discussion and decision making to ensure the school meets all its statutory obligations and complies with the Council's financial regulations. • A complete and up to date register of business interests of all governors, and staff with financial responsibility, is maintained at the school.
Budget setting & Financial monitoring	<ul style="list-style-type: none"> • Good financial management exists, including the provision of regular budget reports, which are reviewed by senior management and the Governing Body.
Expenditure	<ul style="list-style-type: none"> • Expenditure is legitimate, complies with the Council's Finance Manual for Schools' and the Council's Contract Procedure Rules and is authorised appropriately. • Governing Bodies review expenditure to determine that their school's resources are well spent and provide value for money.
Cash & Bank	<ul style="list-style-type: none"> • Bank balances are managed to ensure that the school does not become overdrawn. • There are appropriate controls in place over payments including reimbursements to staff and payments made via bank cards. • There are appropriate controls over cash and cheques held on school premises • Appropriate separation of duties exists to reduce the risk of fraud and error.
Income	<ul style="list-style-type: none"> • Charges are levied in line with authorised scales • Receipts are banked promptly and in full. • Accurate records of all income due or collected are maintained by the school. • Appropriate separation of duties exists to reduce the risk of fraud and error.
Private/School Fund	<ul style="list-style-type: none"> • The standard for the guardianship of the private fund is as rigorous as for the administration of the school's delegated budget.
Employees	<ul style="list-style-type: none"> • Staff are adequately vetted to ensure their suitability for employment. • Payments to permanent, supply and agency staff are valid and appropriately authorised.
School Assets	<ul style="list-style-type: none"> • Appropriate processes are in place to ensure that assets are security marked • Full and accurate records of assets are maintained. • There are appropriate and up to date business continuity and disaster recovery plans.
ICT Security and Fraud Awareness	<ul style="list-style-type: none"> • Appropriate controls exist over general security at the school, including information, hardware and software. • The requirements of current Data Protection legislation are adhered to.
SFVS and Risk Assessment Returns	<ul style="list-style-type: none"> • The school's self certified responses on the SFVS and the Risk Assessment and Financial Control Checklist accurately reflect controls in operation.

APPENDIX 2 - Key Findings and Actions

Finding		Risk	Action
GOVERNANCE			
1	<p>Governing Body and Committee Minutes</p> <p>Examination of the minutes of Governing Body and Committee meetings highlighted that there was insufficient detail regarding:</p> <ul style="list-style-type: none"> documents received in advance documents tabled discussions held, and key decisions and approvals made at the meetings. 	<p>Where actions, decisions and assigned responsibilities are not formally recorded, they may not be carried out or may be implemented contrary to the agreed decision.</p> <p>Without the provision of clear minutes of its meetings and the decisions made, the Governing Body may not be able to demonstrate it is operating effectively, transparently and in the best interests of the school.</p>	<p>Future Governing Body and Committee minutes will:</p> <ul style="list-style-type: none"> record the title of the documents received in advance or tabled at the meeting record all discussions and decisions made ensure that all key financial returns and documentation presented are clearly approved.
2	<p>Register of business interests</p> <p>Examination of the register of business interests highlighted that:</p> <ul style="list-style-type: none"> not all Governors had completed a business interest form Governors' declarations were out of date staff with financial responsibilities had either not completed a business interest form or the form was incomplete The register of business interests for Governors published on the school website as required by the Scheme for Financing Schools section 2.9 was either incomplete 	<p>Governors' or staff private or personal interests may impact adversely on decisions taken by the school if potential conflicts are not declared and visible.</p>	<p>The school will ensure that the register of business interests, is up to date and completed by all Governors and members of staff with financial responsibility (as specified in the school's Scheme of Delegation).</p> <p>Individual forms and the information published on the school's website will be updated annually or as and when circumstances change.</p>

Finding		Risk	Action
	or out of date		
3	Delegated authority		
	<p>The Scheme of Delegation did not ensure that financial activity across all business areas was appropriately delegated taking separation of duties into account.</p> <p>Through testing, we:</p> <ul style="list-style-type: none"> noted instances where transactions were undertaken by individuals who did not have the appropriate delegated authority found instances where the School Business Manager (SBM) had the authority to sign orders, undertake goods receipting, check and authorise invoices, process information on the finance system and authorise payments <p>We also identified that the School Business Manager (SBM) has authority to sign orders, undertake some goods receipting, check and authorise invoices, process information on the finance system and is a cheque signatory. Therefore, there is potential for insufficient separation of duties throughout the financial processes.</p> <p>Delegation to committees and/or individuals through the Organisational Arrangements and/or Terms of Reference, was not agreed by the Governing Body.</p>	<p>Staff could act outside the scope of their authority, which may result in unlawful, unauthorised or inconsistent practices occurring, unauthorised procurement and value for money not being achieved.</p> <p>Where one individual is authorised to approve a transaction at all steps of its journey (i.e. there is no separation of duties), the risk of fraud is increased.</p>	<p>The school will review the Scheme of Delegation to ensure it:</p> <ul style="list-style-type: none"> includes transactions across all business areas includes sufficient separation of duties complies with the requirements of the Council's Finance Manual for Schools is kept up to date <p>Any changes to the Scheme of Delegation will be approved and minuted by the Governing Body.</p>

BUDGET SETTING AND FINANCIAL MONITORING

Finding		Risk	Action
4	<p>Approval of finance returns</p> <p>There was no minute demonstrating the approval of the three-year working budget by the Finance Committee (where applicable).</p> <p>There was also no minute demonstrating presentation of the three-year working budget to the Governing Body nor subsequent approval of the budget by the Governing Body.</p>	<p>The Governing Body may not be able to discharge its responsibility for effective budget monitoring and control.</p>	<p>The three-year working budget will be reviewed and approved by the Finance Committee (where applicable). Such review and approval will be formally minuted.</p> <p>The three-year working budget will be reviewed and approved by the Governing Body as required by the Scheme for Financing Schools, section 1.5, prior to submission to the Council. This review and approval will be formally minuted.</p>
EXPENDITURE			
5	<p>Contracts and expenditure testing</p> <p>Where contracts for services were renewed annually, we noted the following exceptions in relation to the Council's Contract Procedure Rules:</p> <ul style="list-style-type: none"> the full life of the contract had not been taken into account the appropriate number of quotations had not been obtained where the total value of the transaction was above the Headteacher's delegated limit, the expenditure had not been approved in advance by the Governing Body where the Council's Contract Procedure Rules had not been followed, a waiver had not been agreed by the Governing Body <p>There was no contract signed by both parties.</p> <p>Detailed testing of expenditure revealed the following contraventions of the Council's Contract</p>	<p>Non-adherence to the Council's Contract Procedure Rules may:</p> <ul style="list-style-type: none"> lead to poor decision making result in not achieving the best value for money when using public funds result in the school not being safeguarded in the event of dispute result in the school being at risk from fraud and not being able to respond adequately in case of fraud 	<p>The school will adhere to the Council's Contract Procedure Rules, as specified in the Scheme for Financing Schools section 2.10.</p> <p>Where contracts are renewed annually (or an on-going service is provided by the same supplier), the arrangement will be market tested at least every four years or more frequently as determined by the Governing Body. The value of the contract for Contract Procedure Rules assessment will be calculated by multiplying the annual cost by 4 (or the monthly payment by 48).</p> <p>The school will ensure that the documentation relating to quotations and tenders is retained in accordance with the Retention of Documents Policy (appendix 1 of the Schools' Finance Manual).</p> <p>Where quotation requirements cannot be adhered to, and if there is a good cause, a waiver of contract procedure rules will be completed. This arrangement will be approved by the Governing Body and formally minuted.</p> <p>Contracts with a total value over the EU threshold (currently £164,000), cannot be waived and in such cases, the appropriate</p>

Finding		Risk	Action
	<p>Procedure Rules:</p> <ul style="list-style-type: none"> • purchase orders not raised or raised retrospectively. • orders and/or invoices not authorised or not authorised in line with the agreed Scheme of Delegation. • appropriate number of quotes not obtained and retained. • late payment of invoices. 		<p>tendering process will be followed.</p> <p>All expenditure above the Headteacher's delegated limit will be approved by the Governing Body, in accordance with the school's Scheme of Delegation, and any discussion/decision recorded in the minutes of the meeting to provide evidence of this approval.</p> <p>The school will ensure that controls are in place for an effective three way check between the order raised, goods or services received and the invoice payment to take place. Appropriate separation of duties, in line with the agreed Scheme of Delegation, will be incorporated throughout the process.</p>
CASH AND BANK			
6	<p>Commercial and store cards</p> <p>Testing highlighted inadequate controls in place over the use of commercial and store cards, including:</p> <ul style="list-style-type: none"> • no pre-authorisation of expenditure. • absence of records/receipts • no monthly reconciliation between the statement and receipts or invoices • monthly reconciliation not signed and dated • no approval of the monthly reconciliation by an independent member of staff (usually the Headteacher) • delivery to an address other than the school address • no independent verification that the goods were 	<p>The school could be vulnerable to fraud, loss or misappropriation of monies through inappropriate use of the business cards.</p>	<p>Appropriate controls for the use of a business card will be implemented in accordance with the Council's Finance Manual for Schools, section 7.27-7.46. These controls will include separation of duties, pre-authorisation of orders and reconciliation of card statements with receipts or invoices.</p> <p>Goods will be delivered to the school address. In exceptional circumstances where this is not possible, an independent person will sign to confirm the school received the goods.</p>

Finding		Risk	Action
	received in the school		
7	<p>Reimbursements to staff by cash and cheque</p> <p>Testing highlighted inadequate controls in place over reimbursements to staff including:</p> <ul style="list-style-type: none"> claims not authorised claims authorised by someone without the appropriate delegated authority 	<p>Ineffective controls over staff reimbursements could result in loss, fraud or misappropriation of school funds.</p>	<p>Appropriate controls for staff reimbursements will be implemented in accordance with the Council's Finance Manual for Schools, section 7.67-7.81.</p>
INCOME			
8	<p>Processing income</p> <p>Detailed testing highlighted inadequate controls in place over school income including:</p> <ul style="list-style-type: none"> no reconciliation between expected income, income received, and income banked (e.g. for breakfast club, afterschool club, uniform sales, etc) no signed and dated independent review of the above reconciliation. Regular stock takes were not undertaken. reconciliations undertaken were not always signed and dated by the person carrying out the reconciliation nor by the independent reviewer. 	<p>If regular reconciliations are not performed:</p> <ul style="list-style-type: none"> income may be lost or misappropriated error may go undetected income due may not be collected <p>Where signatures and dates are absent, the school may be unable to demonstrate that there is separation of duties and accountability for income.</p>	<p>Appropriate records will be kept of all income received, with regular reconciliations being undertaken and independently checked.</p> <p>Regular stocktakes of uniform and other school items sold should be undertaken against records of items held. Stocktakes should be undertaken by two individuals who should sign and date the records.</p>
PRIVATE FUND			
9	<p>Private Fund records</p> <p>Examination of private fund records highlighted the following:</p>	<p>The school may not be able to demonstrate satisfactory stewardship and management</p>	<p>The school will ensure that the Private Fund bank account is reconciled monthly and that the reconciliation is independently</p>

Finding		Risk	Action
	<ul style="list-style-type: none"> no monthly bank reconciliations were undertaken the accounts were not audited annually audited annual accounts were not presented to the Governing Body for approval 	<p>over the private fund.</p> <p>Discrepancies or fraudulent transactions may not be identified, investigated and resolved.</p>	<p>reviewed, in accordance with the Scheme of Delegation.</p> <p>The reconciliations will be signed and dated by the preparer and the reviewer to evidence the checks undertaken.</p> <p>The school will ensure that the annual accounts are audited and that these audited accounts are presented to the Governing Body for approval annually.</p>
STAFFING			
10	New starters		
	<p>Examination of new employee records highlighted:</p> <ul style="list-style-type: none"> pre-employment checks not being undertaken prior to employment commencing Videpay forms for new starters were sent after employment commenced. 	<p>If the appropriate pre-employment checks are not completed prior to the commencement of employment:</p> <ul style="list-style-type: none"> unsuitable appointments may be made. children's' welfare may be put at risk. <p>Late submission of Videpay instructions could result in the late payment of salary</p>	<p>Prior to employment commencing the schools will ensure:</p> <ul style="list-style-type: none"> all pre-employment checks are completed all appropriate paperwork is submitted to Schools Personnel Service.
ASSETS			
11	Inventory records		
	<p>Examination of inventory records highlighted:</p> <ul style="list-style-type: none"> Items listed in the inventory records not being found in the school 	<p>If the asset register is incomplete or inaccurate, this could limit the school's ability to track its assets and the school may be unable to make an</p>	<p>The school will ensure that the inventory records are kept up to date and are reviewed for old and obsolete items.</p> <p>The school will undertake an independent inventory count annually. Records relating to the inventory count will be signed,</p>

Finding	Risk	Action
<ul style="list-style-type: none"> • physical assets in the school not listed in the inventory records. • No evidence of a full independent check of inventory being undertaken annually 	<p>accurate insurance claim should the need arise.</p> <p>If annual inventory checks are not undertaken, misappropriated or lost items of equipment may not be identified, and corrective action may not be possible.</p> <p>Any missing equipment may impact the ability to deliver key functions.</p>	<p>dated and retained as evidence of the count.</p>

APPENDIX 3 - Definition of Risk and Assurance Ratings

Risk rating	
Critical 	<p>Life threatening or multiple serious injuries or prolonged work place stress. Severe impact on morale & service performance. Mass strike actions etc.</p> <p>Critical impact on the reputation or brand of the organisation which could threaten its future viability. Intense political and media scrutiny i.e. front-page headlines, TV. Possible criminal, or high profile, civil action against the Council, members or officers.</p> <p>Cessation of core activities, Strategies not consistent with government's agenda, trends show service is degraded. Failure of major Projects – elected Members & SMBs are required to intervene</p> <p>Major financial loss – Significant, material increase on project budget/cost. Statutory intervention triggered. Impact the whole Council; Critical breach in laws and regulations that could result in material fines or consequences</p>
High 	<p>Serious injuries or stressful experience requiring medical many workdays lost. Major impact on morale & performance of staff.</p> <p>Significant impact on the reputation or brand of the organisation; Scrutiny required by external agencies, Audit Commission etc. Unfavourable external media coverage. Noticeable impact on public opinion</p> <p>Significant disruption of core activities. Key targets missed, some services compromised. Management action required to overcome med – term difficulties High financial loss Significant increase on project budget/cost. Service budgets exceeded. Significant breach in laws and regulations resulting in significant fines and consequences</p>
Medium 	<p>Injuries or stress level requiring some medical treatment, potentially some workdays lost. Some impact on morale & performance of staff.</p> <p>Moderate impact on the reputation or brand of the organisation; Scrutiny required by internal committees or internal audit to prevent escalation. Probable limited unfavourable media coverage.</p> <p>Significant short-term disruption of non-core activities. Standing Orders occasionally not complied with, or services do not fully meet needs. Service action will be required.</p> <p>Medium financial loss - Small increase on project budget/cost. Handled within the team. Moderate breach in laws and regulations resulting in fines and consequences</p>
Low 	<p>Minor injuries or stress with no workdays lost or minimal medical treatment. No impact on staff morale</p> <p>Internal Review, unlikely to have impact on the corporate image. Minor impact on the reputation of the organisation</p> <p>Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule. Handled within normal day to day routines.</p> <p>Minimal financial loss – Minimal effect on project budget/cost. Minor breach in laws and regulations with limited consequences</p>
Advisory 	<p>Advisory findings or observation that would help to improve the system or process being reviewed or align it to good practice seen elsewhere.</p> <p>Does not require a formal management response.</p>

Level of assurance	
Substantial 	No significant improvements are required. There is a sound control environment with risks to key service objectives being well managed. Any deficiencies identified are not cause for major concern.
Reasonable 	Scope for improvement in existing arrangements has been identified and action is required to enhance the likelihood that business objectives will be achieved.
Limited 	The achievement of business objectives is threatened and action to improve the adequacy and effectiveness of the risk management, control, and governance arrangements is required. Failure to act may result in error, fraud, loss or reputational damage.
No 	There is a fundamental risk that business objectives will not be achieved and urgent action is required to improve the control environment. Failure to act is likely to result in error, fraud, loss or reputational damage.