



Powys County Council

Annual Report and Opinion 2018-19

Internal Audit ■ Risk ■ Special Investigations ■ Consultancy

Contents

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

Purpose

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

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

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

Three lines of defence

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

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

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

Scope

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

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work of the service is based on the Annual Plan agreed by Senior Management and this Committee. This report summarises the activity of the Internal Audit team for the 2018/19 year.

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



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

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Annual Opinion

Senior Management and Members are ultimately responsible for ensuring an effective system of internal control. The purpose of internal control is to manage risk rather than eliminate it. Getting the balance of internal control right is essential for organisational success. Under control could expose the Council to unacceptable risk, whilst over control takes valuable resources and can lead to inefficiency. Therefore, the internal control environment needs to maintain the correct balance to help Powys County Council to deliver its Services with decreasing resources.

The Annual Report gives the opinion of the Head of Internal Audit on the adequacy and effectiveness of internal control. Opinions are a balanced reflection, not a snapshot in time. Information to support this assessment is obtained from multiple engagements and sources. The results of these engagements, when viewed together, provide an understanding of the Council's risk management processes and their effectiveness.

The opinion is based on the following sources of information:

- Completed Audits in 2018/19
- Observation from any advisory/ investigative work
- Material risk where management has not accepted the need for mitigating action
- Follow up of previous audits
- Notable changes to the organisation's strategy, objectives or organisational structure

Over the year, the Internal Audit Team have found Senior Management of Powys County Council to be generally supportive of Internal Audit findings and responsive to the recommendations made. In addition, there is a good relationship with Management whereby they feel they can approach the Head of Audit openly in areas where they perceive potential problems. However, during the course of 18/19 the Council transitioned to a new Senior Management structure that resulted in periods when the key leads for audit projects became unavailable for a significant period. Whilst the audit team tried to minimise any disruption, the managerial absence and lack of continuity impacted on the ability to deliver some of the audit assignments.

Annual Opinion Continued

81% of completed audits received Substantial or Reasonable opinions in relation to the control environment. Of the assignments completed in 2018/19 (57 in total, there are 7 areas that have been awarded partial or No assurance in relation to their control environment (none of them Fundamental Systems). The findings within these audits with moderate and major risk exposure have, on the whole, been appropriately addressed by management. Any outstanding weaknesses in the governance, risk and control framework will continue to be followed up by Internal Audit as part of the 2019/20 Plan and by the Internal Audit Working group. Further details of audits with Partial Assurance opinions can be found in Appendix A on page 8.

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

The Council exists in a complex and ever-changing environment. As result, the Internal Audit work programme has remained flexible to ensure that new and emerging areas are undertaken such as special investigations and consultancy as directed by the Council.

There were no material concerns in relation to fraud risk and there have been no significant losses identified in internal audit investigations in the year.

The summary of outcomes of audit work for 2018/19 were:

- mostly medium risk rated weaknesses identified
- isolated high rated risks identified
- no critical weakness identified
- broadly satisfied with Managements approach to resolving significant issues.

Internal Audit cannot review all risks and assurances relating to Powys County Council and cannot provide absolute assurance on the internal control environment. However, based on the risk based work undertaken, I am able to offer annual opinion of:

REASONABLE ASSURANCE: The control framework is adequate and controls to mitigate key risks are generally operating effectively, although a number of controls need to improve to ensure business objectives are met.

Definitions of Corporate Risk

High Risk

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

Medium Risk

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

Low Risk

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

High Corporate Risk

For those audits which have reached report stage through the year, none have been assessed as 'High' i.e. No Assurance

Those risk that are significant (Partial Assurance) have been reported to the Audit Committee and have been tracked by the Internal Audit Working Group.

Partial Assurance Summary

The following final audits received a Partial assurance opinion in respect of their control environments in 2018/19. These audits have been or will be reviewed by the Internal audit working group for follow-up.

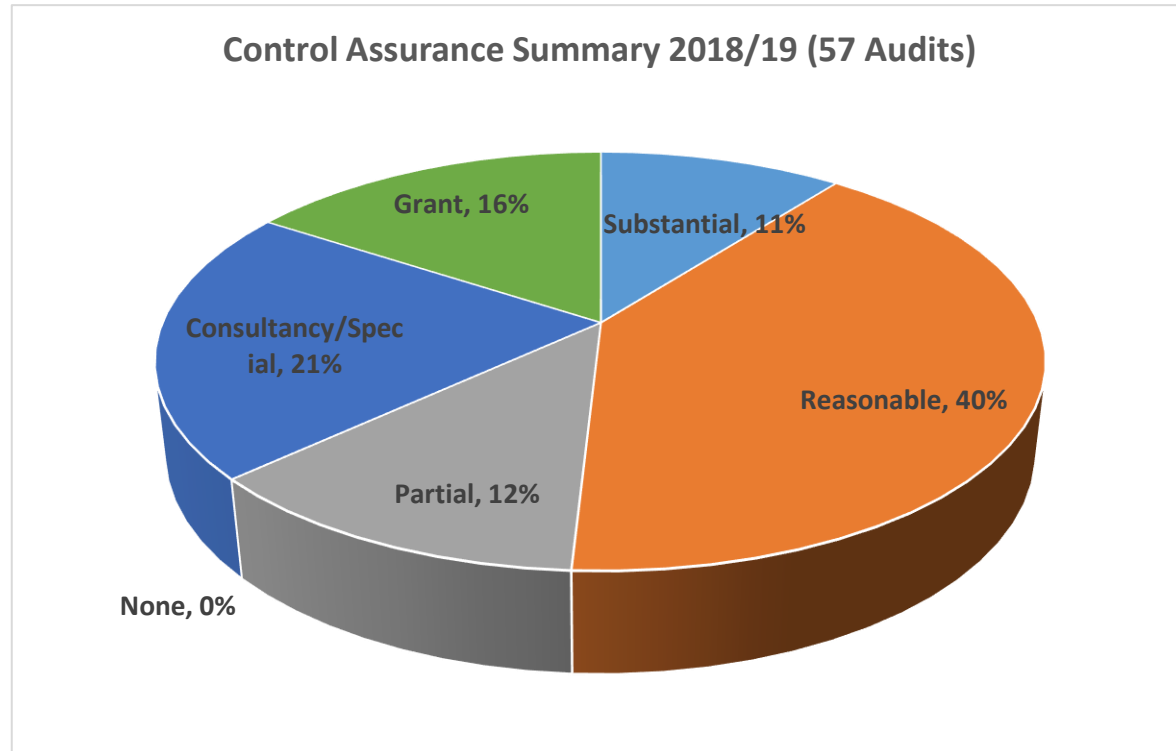
| Audit Name | Key Issues |
|---------------------------|---|
| Crickhowell High School | Ineffective budget management and health and safety issues. |
| Llanfyllin Primary School | Governance records, financial delegation, school funds, payments, banking and health and safety. |
| Members Travel Expenses | Training and awareness of the system and policies. VAT receipts. |
| Officers Travel Expenses | Failure to delivery corporate objective of reducing mileage. VAT receipts. |
| Risk Management Follow-up | Failure to deliver key aspects of the revised risk management strategy. |
| Section 33 | Failure to have agreements in place to support past and current joint service. Partnership board not ensuring agreements are in place. |
| Software Licensing | The Council do not reconcile the software it has on its hardware for non-Microsoft products. Unapproved installations occur that may be in breach of the legislation. |

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

Assurance Definitions

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

Summary of Control Assurance Opinions



When you consider only those audits that offer an opinion, 81% of audit work received a favourable opinion in 2018/9. The proportion of favourable reports for 2017/18 was 75%.

Value Added

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



Value Added

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

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

- *Attended Management Teams and forums to advise on control issues e.g. Powys School forum*
- *Circulated Fraud alerts that we become aware of through professional networks e.g. Bank mandate fraud*
- *Participation in knowledge sharing and benchmarking requests across partnership e.g. election, waste, sickness*
- *Sharing of significant risk across the partnership*
- *Attendance at working groups. e.g. IA working group*
- *Representing Powys at the Welsh Chief Auditor Network*
- *Facilitated Members Training Day in Crickhowell*
- *Presented to Council on "Lesson Learned from Northamptonshire Council"*

| AREA | SUB AREA | TYPE | ASSIGNMENT NAME | PLANNED START | STATUS | OPINION | RECOMMENDATIONS | | |
|---|-----------------------------------|--------------------------------|--|---------------|--------|----------------------|-----------------|------------|------------|
| | | | | | | | Priority 1 | Priority 2 | Priority 3 |
| | | | | | | | | | |
| SERVICES DELIVERED FOR LESS | | | | | | | | | |
| *Management | Project management | Governance, Fraud & Corruption | Projects Benefits Realisation | Apr-19 | Draft | Partial | 3 | 2 | 1 |
| *Finance | Financial transactions management | Governance, Fraud & Corruption | National Anti-Fraud Initiative | April 2018 | Final | Advisory- No Opinion | N/A | N/A | N/A |
| | | | | | | | | | |
| SUPPORTING PEOPLE IN THE COMMUNITY | | | | | | | | | |
| *Adult care services | Supporting adults | Operational | Payment Process - Social Care | April 2018 | Final | Reasonable | 0 | 4 | 3 |
| *Children and families services | Supporting children | Consultancy | Children Services- Agency Payments* | Jul-18 | Final | Advisory- No Opinion | N/A | N/A | N/A |
| *Adult care services | Supporting adults | Grant Certification | Supporting People Grant 18/19 PCC | January 2019 | Final | Certified | N/A | N/A | N/A |
| *Finance | Accounts and audit | Grant Certification | Grant Certification - Travellers Grant | April 2018 | Final | Certified | N/A | N/A | N/A |
| *Housing | Managing tenancies | Operational | Housing Rent System - PCC | October 2018 | Final | Reasonable | 0 | 1 | 1 |

| *Housing | Housing stock | Operational | Housing Repairs and Maintenance | October 2018 | Final | Reasonable | 0 | 1 | 2 |
|--|-----------------------|---------------------|---|---------------|-----------------|----------------------|-----------------|------------|------------|
| *Children and families services | Supporting children | Grant Certification | Grant Certification - NTSB Grant 2017/8 | April 2018 | Final | Certified | N/A | N/A | N/A |
| *Adult care services | Supporting adults | Operational | Brokerage | July 2018 | Final | Reasonable | 0 | 1 | 1 |
| *Adult care services | Carers | Operational | Safer Recruitment | Jan-19 | Carried Forward | Due to staff illness | | | |
| *Housing | Managing tenancies | Grant Certification | Enable Grant 16/17 | Oct-18 | Final | Certified | N/A | N/A | N/A |
| * Replaces Looked after Children Audit | | | | | | | | | |
| | | | | | | | | | |
| AREA | SUB AREA | TYPE | ASSIGNMENT NAME | PLANNED START | STATUS | OPINION | RECOMMENDATIONS | | |
| | | | | | | | Priority 1 | Priority 2 | Priority 3 |
| | | | | | | | | | |
| DEVELOPING THE ECONOMY | | | | | | | | | |
| *Management | Preparing business | Follow up | Partnership and Collaboration - Follow up | October 2018 | Final | Reasonable | 0 | 1 | 0 |
| | | | | | | | | | |
| IMPROVING LEARNER OUTCOMES | | | | | | | | | |
| *Education and skills | Management of schools | School | Llanfyllin High School 18/19 | October 2018 | Final | Reasonable | 0 | 3 | 4 |
| *Education and skills | Management of schools | School | Crickhowell High School | January 2019 | Final | Partial | 3 | 3 | 0 |

| | | | | | | | | | |
|---------------------------------|-----------------------|-----------------------|---|---------------|-------|------------------------|-----|-----|-----|
| *Education and skills | Management of schools | School | Llandrindod High School Budget Management | July 2018 | Final | Advisory - Non Opinion | N/A | N/A | N/A |
| *Education and skills | Management of schools | School | Ysgol Llanerfyl 18/19 | July 2018 | Final | Substantial | 0 | 0 | 3 |
| *Education and skills | Management of schools | School | Ysgol Pontrobert 18/19 | July 2018 | Final | Reasonable | 0 | 1 | 4 |
| *Education and skills | Management of schools | Special Investigation | Llanfyllin Primary School 18/19 | November 2018 | Final | Partial | 2 | 5 | 7 |
| *Education and skills | Management of schools | School | Leighton C.P 18/19 | Jul-18 | Final | Reasonable | 0 | 0 | 1 |
| *Education and skills | Management of schools | School | Ysgol Cedewain | October 2018 | Final | Reasonable | 0 | 3 | 2 |
| *Education and skills | Management of schools | School | Guilsfield CP | Apr-18 | Final | Reasonable | 0 | 1 | 3 |
| *Education and skills | Management of schools | School | Mount Street CP | Apr-18 | Final | Reasonable | 0 | 1 | 5 |
| *Education and skills | Management of schools | School | Llanfaes CP | Apr-18 | Final | Reasonable | 0 | 2 | 0 |
| *Education and skills | Management of schools | School | Hay on Wye CP | Oct-18 | Final | Reasonable | 0 | 1 | 1 |
| *Education and skills | Management of schools | School | School Theme - Property and Health and Safety PCC | January 2019 | Final | Substantial | 0 | 0 | 1 |
| *Education and skills | Management of schools | School | School Theme - Financial Administration PCC | July 2018 | Final | Reasonable | 0 | 2 | 0 |
| *Children and families services | Supporting children | Grant Certification | Welsh Gov -18/19 - EIG & PDG Q1 | April 2018 | Final | Certified | N/A | N/A | N/A |
| *Children and families services | Supporting children | Grant Certification | Welsh Gov - 18/19 - EIG & PDG Q2 | July 2018 | Final | Certified | N/A | N/A | N/A |
| *Children and families services | Supporting children | Grant Certification | Welsh Gov - Schools - EIG & PDG Q3 | Oct-18 | Final | Certified | N/A | N/A | N/A |
| *Children and families services | Supporting children | Grant Certification | Welsh Gov - Schools - EIG & PDG Q4 | Jan-19 | Final | Certified | N/A | N/A | N/A |

| CORPORATE GOVERNANCE | | | | | | | | | |
|---|---------------------------------------|--------------------------------|---|---------------|-------------|-------------|-----------------|------------|------------|
| * Healthy Organisation | Governance Framework | Governance, Fraud & Corruption | Healthy Organisation Review 18/19 PCC | April 2019 | In Progress | 19/20 | | | |
| *Information and communication technology | Information Security Management | Follow Up | General Data Protection Regulations Follow Up - PCC | April 2018 | Final | Reasonable | 0 | 0 | 0 |
| *Finance | Accounts and audit | Governance, Fraud & Corruption | Serious and Organised Crime Audit | Jun-18 | Final | Reasonable | 0 | 2 | 0 |
| AREA | SUB AREA | TYPE | ASSIGNMENT NAME | PLANNED START | STATUS | OPINION | RECOMMENDATIONS | | |
| | | | | | | | Priority 1 | Priority 2 | Priority 3 |
| FINANCIAL MANAGEMENT | | | | | | | | | |
| *Finance | Capital Accounting / Asset Management | Governance, Fraud & Corruption | Capital Accounting | October 2018 | Draft | Partial | 0 | 3 | 0 |
| *Finance | Payroll and pensions | Governance, Fraud & Corruption | Payroll | October 2018 | Final | Substantial | 0 | 1 | 2 |
| *Finance | General Ledger / Main Accounting | Governance, Fraud & Corruption | Main Accounting - PCC (See Note 1) | July 2018 | Deferred | 19/20 | | | |
| *Finance | Accounts Receivable | Key Control | Debtors- Credit Notes 18/19- PCC | April 2018 | Final | Substantial | 0 | 0 | 1 |
| *Finance | Financial provisions management | Governance, Fraud & Corruption | PCC - Budgeting 18/19 | October 2018 | Draft | Reasonable | 0 | 4 | 1 |

| *Education and skills | Management of schools | Follow up | Schools - Cashless Systems - Follow up | July 2018 | Final | Reasonable | 0 | 0 | 1 |
|---|-----------------------------------|--------------------------------|--|---------------|----------|-----------------------|-----------------|------------|------------|
| *Finance | Financial transactions management | Operational | Income Generation | July 2018 | Deferred | 19/20 | | | |
| *Management | Project management | Operational | Members Expenses | April 2018 | Final | Partial | 4 | 2 | 1 |
| *Finance | Payroll and pensions | Key Control | Travel Expenses (Officers) | October 2018 | Final | Partial | 1 | 4 | 0 |
| *Finance | Accounts Receivable | Operational | Debtors System | May 2018 | Final | Reasonable | 0 | 2 | 6 |
| Note 1- A new main accounting system is being implemented on the 01/04/2019. The audit has been deferred until after the new system is operational. | | | | | | | | | |
| | | | | | | | | | |
| RISK and PERFORMANCE MANAGEMENT | | | | | | | | | |
| *Risk management and insurance | Risk Management | Governance, Fraud & Corruption | Risk Management 18/19 - Follow Up PCC | January 2019 | Final | Partial | 0 | 3 | 3 |
| *Management | Quality and performance | Governance, Fraud & Corruption | Performance Management 18/19 - PCC | January 2019 | Final | Advisory - No Opinion | N/A | N/A | N/A |
| | | | | | | | | | |
| AREA | SUB AREA | TYPE | ASSIGNMENT NAME | PLANNED START | STATUS | OPINION | RECOMMENDATIONS | | |
| | | | | | | | Priority 1 | Priority 2 | Priority 3 |
| | | | | | | | | | |
| COMMISSIONING and PROCUREMENT | | | | | | | | | |

| | | | | | | | | | |
|---|------------------------------------|-------------|---|--------------|-------------|-----------------------|---|---|---|
| *Procurement | Tendering | Operational | Commissioning - Options Appraisal / Decommissioning | Jan-19 | Not started | 19/20 | | | |
| *Procurement | Contracting | Follow up | Commercial Services - Follow up | July 2018 | Final | Reasonable | 0 | 1 | 0 |
| *Partnerships | Contract Management | Operational | Section 33 | Apr-18 | Final | Partial | 1 | 0 | 0 |
| *Procurement | Contracting | Operational | HOWPS Contract Management | October 2018 | WIP | Carried forward 19/20 | | | |
| *Procurement | Contracting | Operational | Freedom Leisure Contract Management | October 2018 | Final | Reasonable | 0 | 1 | 2 |
| | | | | | | | | | |
| INFORMATION MANAGEMENT | | | | | | | | | |
| *Information and communication technology | Information Security Management | ICT | Software Licensing - 18/19 PCC | July 2018 | Final | Partial | 2 | 2 | 2 |
| *Information and communication technology | Information Security Management | | End Point Security - 18/19 PCC | Oct-18 | Final | Reasonable | 0 | 2 | 2 |
| *Information and communication technology | System support | ICT | Change Control | April 2018 | Deferred | WIP 19/20 | | | |
| *Information and communication technology | Asset and Configuration Management | ICT | ICT Procurement | July 2018 | Final | Reasonable | 0 | 1 | 0 |
| *Information and communication technology | Strategy and Governance | ICT | Crisis Management | April 2018 | Final | Substantial | 0 | 0 | 2 |
| | | | | | | | | | |
| PROGRAMME and PROJECT MANAGEMENT | | | | | | | | | |

| | | | | | | | | | |
|------------------------------------|-----------------------------------|--------------------------------|--|----------------|----------|-----------------------|-----|-----|-----|
| *Management | Project Management | Governance, Fraud & Corruption | Project Governance Arrangements | October 2018 | deferred | 19/20 | | | |
| | | | | | | | | | |
| PEOPLE and ASSET MANAGEMENT | | | | | | | | | |
| *Human resources | Administering employees | Operational | Sickness Management 2018 | April 2018 | Final | Reasonable | 0 | 1 | 5 |
| *Human resources | Workforce planning | Follow up | Workforce Planning 18/19 PCC | Jan-19 | Deferred | 19/20 | | | |
| *Human resources | Training | Operational | Role of the Powys Manager | April 2018 | Final | Substantial | 0 | 0 | 1 |
| *Health and safety | Monitoring | Operational | Corporate Health and Safety | July 2018 | Deferred | WIP 19/20 | | | |
| | | | | | | | | | |
| ADDITIONAL UNPLANNED WORK | | | | | | | | | |
| Governance | Democracy | Special Investigation | Monitoring Officer Investigation | Jun-18 | Final | Advisory - No Opinion | | | |
| *Housing | Managing tenancies | Grant Certification | Enable Grant 17/18 | Jan-19 | Final | Certified | | | |
| *Education and skills | Management of schools | School | Crickhowell High- Financial Administration | Mar-19 | Deferred | Audit initiated 19/20 | | | |
| *Finance | Payroll and pensions | Special Investigation | Travel Expenses Follow Up Work | September 2018 | Final | Advisory- No Opinion | N/A | N/A | N/A |
| *Finance | Financial transactions management | Special Investigation | Highways Transaction Investigation | May 2018 | Final | Advisory- No opinion | N/A | N/A | N/A |
| *Housing | Contracting | Special Investigation | SWG Contractor Complaint | Apr-18 | Final | Advisory- No opinion | N/A | N/A | N/A |

| | | | | | | | | | |
|-----------------------|-------------------------|-----------------------|----------------------------------|---------|-------|----------|--|--|--|
| *Recreation & leisure | Catering and Cleaning | Client Request | Void Clearances | Dec-19 | Final | Complete | | | |
| Corporate | Property | Client Request | Office Move | Oct-18 | Final | Complete | | | |
| Governance | Democracy | Special Investigation | Travel Review | Feb-19 | Final | Complete | | | |
| Governance | Democracy | Special Investigation | Anon Complaint Review – F system | Feb-19 | Final | Closed | | | |
| *Adult care services | Supporting disabilities | Operational | Standby Payments | Jan-19 | WIP | | | | |
| Housing | Private Sector | Special Investigation | ECCO2 T | Jan -19 | Final | Complete | | | |

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

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

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

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