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INTERNAL AUDIT PERFORMANCE



Audit and Governance Committee
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Laura A. Williams MA CPFA
Head of Internal Audit

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1. Introduction

- 1.1 The purpose of this report is to provide a summary of Internal Audit work completed in the second quarter of 2019-20, in respect of the Internal Audit Plan 2019-20.
- 1.2 The report is prepared for the Audit and Governance Committee so as to facilitate the Committee's obligations, as defined in its Terms of Reference, in monitoring the effectiveness of the LCRCA's internal audit arrangements. It highlights the outcomes of Internal Audit work as a source of assurance on the effectiveness of the LCRCA's governance, risk and internal control environment.
- 1.3 Internal Audit is defined as: "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes." (Public Sector Internal Audit Standards 2017)
- 1.4 The mission of Internal Audit is to: "To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight".
- 1.5 This report includes:
 - A summary of Internal Audit Plan delivery for the period;
 - Details of work undertaken, and key items of note in respect of corporate systems, Liverpool City Region Combined Authority specific systems and Merseytravel specific systems;
 - An update on internal audit performance with reference to the key performance indicators detailed in the Quality Assurance and Improvement Programme (QAIP); and
 - An update on the service's compliance with the Public Sector Internal Audit Standards (PSIAS).

A section on Fraud and Corruption is not included in this report, as there is a detailed update report included elsewhere on the agenda for this meeting.

2. Summary of Internal Audit Plan Delivery

2.1 Audits Completed

2.1.1 In the second quarter of the year, nine audits were completed. These are shown in Table 1 (those shown in italics are at draft stage):

Audit Title	Organisational Risk Opinion	Entity		
		Corporate System	LCRCA	Merseytravel
Carbon Reduction Commitment	Negligible	X		
Waste Management Contract	Minor	X		
Catering Concession - Contract Management	Minor			X
Term Maintenance Contract	Minor	X		
Service / Maintenance Contracts	Minor	X		
Street Furniture Contract	Minor			X
<i>Beatles Story - Admissions</i>	Minor			X
<i>Ancillary Income and Debt Recovery</i>	Minor	X		
<i>Bus Provider Failure</i>	Minor			X

Table 1

2.2 Review of Internal Audit Plan

2.2.1 Since the last meeting, three pieces of audit work have been removed from the Internal Audit Plan: Tunnel Strategy and Mersey Ferries New Vessel. In terms of the Tunnel Strategy, the original scope of the audit was felt to no longer be relevant, and so the more generic elements, relating to the governance arrangements for strategies, has been included within the scope of the audit of Democratic Services. The Mersey Ferries New Vessel work has been deferred to 2020/21's Internal Audit Plan as this represents more appropriate timing for the work. The work on Insurance has become a Proactive Counter-Fraud job, reviewing the highest areas of fraud risk regarding claims.



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2.2.2 Appendix A gives a detailed breakdown of the Internal Audit Plan 2019-20, showing the status of each item of audit work that was contained with the Plan as approved by this Committee on 20 March 2019, and the risk rating of each piece of work as it was assessed at the time of the planning process.

3. Corporate Systems

3.1 Background

3.1.1 Five of the audits completed in the period were of corporate systems that are provided by Merseytravel to both Merseytravel and LCRCA. Reporting of the outcomes from the audit work in these areas formally falls within the remit of the Merseytravel Audit, Risk and Governance Board, but as the LCRCA is a “recipient” of these services, the audit findings will also be reported to the Audit and Governance Committee. This is to provide assurance that the risks associated with these are being managed effectively.

3.2 Organisational Risk Opinion

3.2.1 All of these audits of Corporate Systems received an organisational risk opinion of “Minor” or “Negligible” which means that a satisfactory level of assurance on the effectiveness of the internal controls reviewed can be derived, and that the risk presented to the organisation by the recommendations made is at a low level.

3.3 Recommendations of Note

3.3.1 The audits completed within the period identified one recommendation classed as “high priority”.

3.3.2 This recommendation is detailed in Table 2:

Audit Title	Recommendation	Action Planned by Management
Ancillary Income and Debt Recovery	The location of the missing promissory note books should be investigated as soon as possible.	Comments awaited

Table 2

3.3.3 The implementation of recommendations is subject to ongoing monitoring and where dates of agreed action have passed and confirmation of implementation has not been received, Internal Audit contacts managers to establish progress, confirm actions completed or agree revised implementation dates, if appropriate.

3.3.4 Table 3 provides a summary of progress in respect of the implementation of previously reported recommendations made in respect of corporate systems:

Audit Name	Assurance Rating	Organisational Impact	Priority	Required	Advisory	Completed	In Progress	Overdue	Comment
2017-18									
Ethical Policy Framework	Reasonable	Medium	0	10	2	2	10	4	Revised implementation date requested
Offsite Document Archive Storage	Limited	High	3	16	4	21	2	0	
Tunnel Tours	Limited	Medium	3	7	3	13	0	0	
Customer Feedback	Reasonable	Medium	1	14	2	8	9	9	Revised implementation date requested
Ancillary Income and Debt Recovery	Limited	Medium	2	13	0	15	0	0	
Absence Management	Reasonable	Medium	0	5	6	10	1	0	
Mobile Phone Monitoring	Substantial	Low	0	3	3	5	1	0	
Fleet Management	Limited	Medium	3	20	1	10	14	0	
Investigation - A Procurement	n/a	n/a	0	4	3	6	1	0	
Asset Register	Reasonable	Medium	0	2	3	4	1	0	
Collaborative Working TAG	Reasonable	Medium	0	2	3	0	5	0	
Procurement	Reasonable	Medium	0	8	7	7	8	2	Revised implementation date requested
IT - Information Governance	Reasonable	Medium	0	4	1	4	1	1	Revised implementation date requested
IT - Database Management	Limited	Medium	1	1	0	1	1	1	Revised implementation date requested
IT - Business Continuity	Limited	High	7	2	0	5	4	4	Revised implementation date requested
IT Strategy	Limited	Medium	1	0	0	0	1	0	
Corporate Risk Management	Satisfactory	n/a	0	7	0	4	3	0	
2018-19									
Creditors & Cheque Control	Reasonable	Medium	tbc	tbc	tbc	n/a	n/a	n/a	
Debtors	Reasonable	Low	0	2	0	2	0	0	
Main Accounting System	Reasonable	Medium	tbc	tbc	tbc	n/a	n/a	n/a	
Procurement Cards	Limited	Medium	1	5	2	7	1	1	Revised implementation date requested
Treasury Management	Reasonable	Medium	tbc	tbc	tbc	n/a	n/a	n/a	
VAT	Reasonable	Medium	tbc	tbc	tbc	n/a	n/a	n/a	
Delegated Decisions	Reasonable	Low	1	2	2	1	4	0	
Gifts & Hospitality	Reasonable	Medium	0	11	0	0	11	0	
Severance, Redundancy	Substantial	None	0	0	0	n/a	n/a	n/a	
Travel, Accommodation & Expenses	Limited	Medium	tbc	tbc	tbc	n/a	n/a	n/a	
Payroll	Reasonable	Medium	1	4	0	4	1	0	
Mail Services	Limited	Medium	1	13	1	12	3	2	Revised implementation date requested
Fast Tag Account Management	Reasonable	Medium	0	7	0	5	2	0	
Tunnels Concessionary Travel Scheme	Reasonable	Low	2	5	0	4	3	2	Revised implementation date requested
IT - Information Security Policies	Satisfactory	n/a	0	5	0	0	5	0	
IT - Cyber Security	Satisfactory	n/a	3	10	0	2	11	0	
IT - Network Management	Satisfactory	n/a	0	6	0	2	4	0	
IT - E-mail / Communications	Satisfactory	n/a	0	4	0	2	2	0	
IT - Mobile Working	Satisfactory	n/a	2	7	1	3	7	0	
IT - ITIL Service Management	Satisfactory	n/a	0	5	0	0	5	0	
IT - IT Asset Control (CMDB)	Satisfactory	n/a	0	6	0	0	6	0	

Cont'd

Audit Name	Organisational Risk Opinion	High	Medium	Advisory	Completed	In Progress	Overdue	Comment
2019-20								
Concierge & Portering Contract	Minor	0	2	1	2	1	0	
Waste Management Contract	Minor	0	0	1	1	0	0	
Term Maintenance Contract	Minor	0	7	0	0	7	0	
Service / Maintenance Contracts	Minor	0	1	0	0	1	0	
Ancillary Income and Debt Recovery	Minor	1	3	2				

Table 3

3.3.5 A number of recommendations have had their implementation dates revised, and these are shown in the Comments column in table 3 above. These movements have been the subject of discussions with internal audit, and the explanations provided were deemed to be reasonable. Ongoing attention paid to these recommendations to ensure that timely implementation occurs.

4. Liverpool City Region Combined Authority: Specific Systems

4.1 Background

4.1.1 None of the audits completed in the period were of systems that are specific to LCRCA. However, work has been ongoing of an advice and guidance nature, and routine audit work has commenced. There was also work undertaken on certification of grant claims. From a governance perspective, these fall entirely within the remit of the Audit and Governance Committee, and would not be routinely reported to the Merseytravel Audit, Risk and Governance Board.

4.2 Work Completed

4.2.1 During the period, work has commenced on Households into Work, and early discussions regarding the scoping of work in the Investment Team have also taken place. It is expected that such work will accelerate in Quarter 3.

4.2.2 Work has also continued during the period to advise on Housing First and Adult Education Budget, in both cases being involved in advising on the financial controls that need to be in place prior to the projects going live. Housing First has moved into the delivery phase in June 2019, and the Adult Education Budget system is launched in September 2019, and formal audit work to appraise the controls will be undertaken to coincide with these commencement dates.

4.3 Grant Certification

4.3.1 In the period, the following grant claims were reviewed, so as to confirm compliance with grant conditions:

Grant Name	Number of Claims Audited Q2	Value Audited Q2 (£)	Number of Claims Audited Year to Date	Value Audited Year to Date (£)
Careers and Enterprise (LEP)	2	57,160	4	113,510
Growth Hub (LEP)	1	73,821	2	213,732
Low Energy Hub (LEP)	1	53,395	2	105,102
Strategic Investment Fund (SIF)	13	1,095,385	26	2,382,605
TOTAL	17	1,279,790	34	2,814,949

Table 4

5. Merseytravel Specific Systems

5.1 Background

5.1.1 Four of the audits completed in the period were of systems that are specific to Merseytravel. From a governance perspective, these fall entirely within the remit of the Audit, Risk and Governance Board, and so are reported to this Committee for information and transparency.

5.2 Organisational Risk Opinion

5.2.1 All of these audits received an organisational risk opinion of “Minor” or “Negligible”, which means that a satisfactory level of assurance on the effectiveness of the internal controls reviewed can be derived, and that the risk presented to the organisation by the recommendations made is at a low level.

5.3 Recommendations of Note

5.3.1 The audit completed of Merseytravel specific systems within the period identified no recommendations classed as “high priority”.

5.3.2 The implementation of recommendations is subject to ongoing monitoring and where dates of agreed action have passed and confirmation of implementation has not been received, Internal Audit contacts Managers to establish progress, confirm actions completed or agree revised implementation dates, if appropriate.

5.3.3 Table 5 provides a summary of progress in respect of the implementation of previously reported recommendations made in respect of Merseytravel specific systems:

Audit Name	Assurance Rating	Organisational Impact	Priority	Required	Advisory	Completed	In Progress	Overdue	Comment
2017-18									
Rail Concession Benefit Share	Reasonable	Medium	0	11	1	7	5	5	Revised implementation date requested
Investigation - Concessionary Ticket Application	n/a	n/a	1	4	0	4	1	0	
Mersey Ferries - Walk Up Sales	Reasonable	Medium	1	17	2	20	0	0	
Travel Centres	Reasonable	Medium	2	14	2	17	1	1	Revised implementation date requested
LSP Concession	Substantial	Low	1	6	0	7	0	0	
Newton Le Willows Interchange Project	Substantial	None	0	0	2	2	0	0	
2018-19									
Concessionary & Prepaid Travel	Substantial	Low	1	3	0	4	0	0	
Vehicle Tracking System	Reasonable	Low	1	3	4	3	5	3	Revised implementation date requested
Beatles Story - Governance	Reasonable	Low	0	7	0	6	1	0	
Travel Centres - Stock / Income	Reasonable	Medium	3	8	0	8	3	0	
Contact Centre	Reasonable	Low	3	4	2	2	7	0	
Audit Name	Organisational Risk Opinion		High	Medium	Advisory	Completed	In Progress	Overdue	Comment
2019-20									
Rail Operators - Ticket Stock Control	Minor		0	8	3	7	4	0	
Catering Concession - Contract Management	Minor		0	5	2	1	6	0	
Street Furniture Contract	Minor		0	1	1	0	2	0	
Beatles Story - Admissions	Minor		0	7	1				
Provider Failure	Minor		0	1	1				

Table 5

5.3.4 A number of recommendations have had their implementation dates revised, and these are shown in the Comments column in table 3 above. These movements have been the subject of discussions with internal audit, and the explanations provided were deemed to be reasonable. Ongoing attention paid to these recommendations to ensure that timely implementation occurs.

5.4 Grant Certification

5.4.1 In the period, the following grant claims were reviewed, so as to confirm compliance with grant conditions:

Grant Name	Number of Claims Audited Q2	Value Audited Q2 (£)	Number of Claims Audited Year to Date	Value Audited Year to Date (£)
Halton Curve	3	1,579,485	3	1,579,485
Newton Le Willows Railway Station (Contribution Only)			2	0
Key Route Network	1	15,201	4	83,393
TOTAL	4	1,594,686	9	1,662,878

Table 6

6. Quality Assurance and Improvement Programme

6.1 Performance Update

6.1.1 The Public Sector Internal Audit Standards (PSIAS) require that the service maintains a Quality Assurance and Improvement Programme (QAIP) which includes a series of performance measures and associated targets.

6.1.2 Performance measures defined in the QAIP are also included within the 2019/20 Internal Audit Service Plan and are thus reported to senior management in accordance with the corporate quarterly performance reporting process. This provides senior management oversight of performance and of any remedial actions required to meet identified targets.

6.1.3 Table 8 below details the performance measures and the results for the period:

Description and Purpose	Target	Actual	Variance and Explanation
<p>Compliance with Public Sector Internal Audit Standards (PSIAS) This measures the extent to which the Internal Audit Service complies with the requirements set out in the Standards and the Local Government Application Note.</p>	100%	83%	<p>Negative variance The results of self-assessment reveal that the service continues to “generally comply” with the Standards, but the updated assessment reflects the requirements of the new LGAN and reflects the accelerated improvement journey being undergone by the service.</p>
<p>Percentage of the Internal Audit Plan 2019/20 completed This measures extent to which the Audit Plan is being delivered. The delivery of the Plan is vital in ensuring that an appropriate level of assurance is being provided across the organisation’s systems.</p>	40% See graph below	19% See graph below	<p>Negative variance There has been a negative knock-on effect of protracted completion of 2018-19 work, which has impacted on this year’s plan. There is a significant amount of work in progress to be completed in quarter 3.</p>
<p>Percentage of recommendations made that have been agreed to be implemented by management</p>	100%	100%	<p>No variance Acceptance of recommendations is generally high.</p>

Description and Purpose	Target	Actual	Variance and Explanation
This measures the extent to which managers feel that the recommendations made are appropriate and valuable in strengthening the control environment.			
Percentage of client survey responses indicating a "very good" or "good" opinion This measures the feedback received on the service provided, and seeks to provide assurance that Internal Auditors conduct their duties in a professional manner.	100%	100%	No variance Worthy of note that return levels are generally low. The questionnaire has been streamlined so as to boost return levels.
Percentage of annual senior management survey responses indicating satisfaction with the Internal Audit service provided This measures the feedback received from Directors and Heads of Service on the service provided, and seeks to provide assurance that Internal Audit is adding value at a strategic level.	100%	N/A	Exercise of obtaining senior management feedback is undertaken in Quarter 4.

Table 7

6.1.4 Chart 1 below gives a more detailed breakdown of the performance indicator “percentage of the Internal Audit Plan 2019-20 completed”. This has been profiled to show the percentage of the Plan that is the target for completion each quarter.

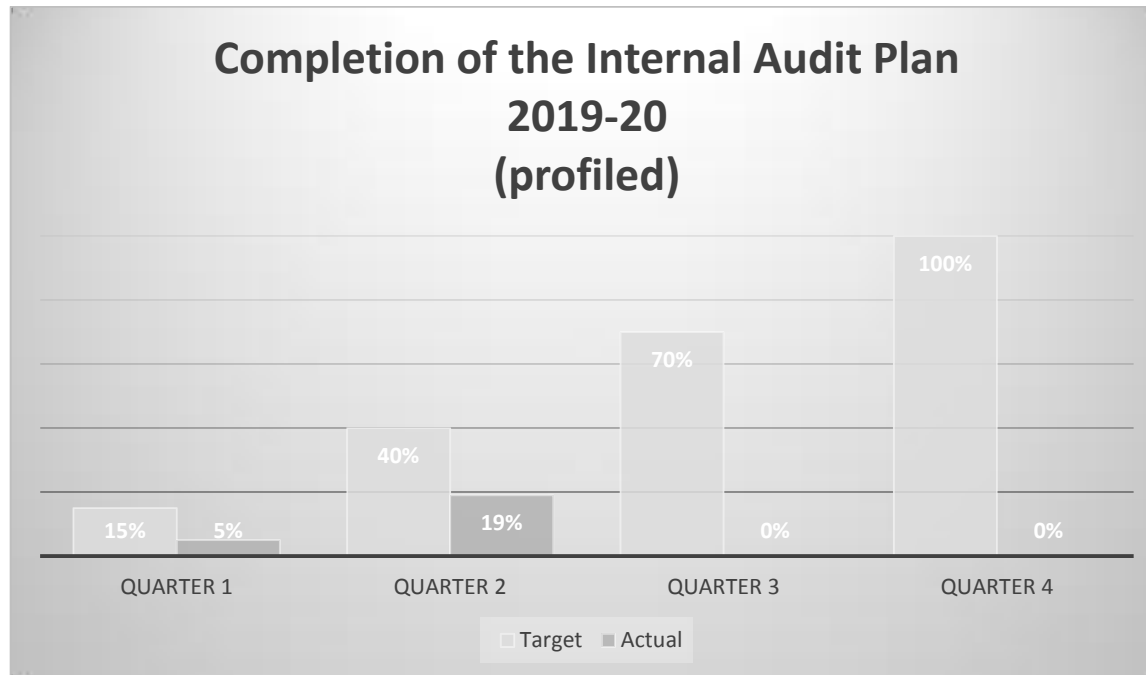


Chart 1

6. Public Sector Internal Audit Standards (PSIAS)

6.1 Internal Assessment

- 6.1.1 The PSIAS Local Government Application Note (LGAN), the document which assists in translating the requirements of the Public Sector Internal Audit Standards into a local government setting, has been reviewed, and a refreshed document issued by CIPFA in February 2019. It is important to state that this document does not introduce new requirements emanating from the Standards, but is more useful in assisting local authorities to assess their own compliance with the Standards.
- 6.1.2 An exercise has been undertaken to review and refresh the self-assessment of the service against the updated LGAN.
- 6.1.3 The self-assessment indicated 83% compliance with its requirements. Whilst this is still a very positive level of compliance, and still indicates that the service “generally complies” with the Standards. However, it is a reduction from the previous assessment undertaken in early 2018, when it was assessed that there was full compliance with the PSIAS, as all actions arising from the external assessment were deemed to have been implemented. This more prudent assessment is more reflective of the current level of compliance, and the huge amount of work done to modernise the service, developing an explicit risk focus and higher standards of work and reporting.
- 6.1.4 There were a number of actions arising from the self-assessment, and these fell into two categories – those felt to be essential to compliance with the PSIAS, and secondly, those felt to be improvements that could be made so as to continue the development of the service. The actions arising from the self-assessment are detailed in the following table:

Ref	Action	Implementation Due Date
1	Complete the Assurance Mapping exercise.	March 2020
2	Consulting Engagements need to be included, and adequately defined, within the Audit Manual.	March 2020
3	Archived records that are past their retention period should be deleted. It is noted that such records are only accessible to the audit team.	March 2020
4	Update QAIP document and Audit Manual to reflect 2019-20 performance indicators.	December 2019
Areas for Development		
1	Ensure that the appointment to the Risk Manager post further enhances the safeguards relating to roles and responsibilities that fall outside of internal auditing.	January 2020
2	Embed the process of auditor and manager discussion re scope/most pertinent risks/available time budget; and pre-audit discussions with client to aid the process of scoping the audit review.	March 2020
3	Enhance the process of discussing draft reports through embedding face-to-face meetings with the client.	March 2020
4	Embed the Post-Audit Assessment in the team, so as to encourage ongoing improvement and development of the service, to support the Quality Assurance and Improvement Programme.	March 2020

Table 8

6.2 External Assessment

6.2.1 It is a requirement of the PSIAS that the service must be subject to an external assessment of its compliance with the Standards every five years. The service was subject to such an external assessment (peer review validation of self-assessment) against the requirements of the Public Sector Internal Audit Standards (PSIAS) in June 2017.



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- 6.2.2 The overall outcome of this assessment was that the service conforms to the PSIAS. All actions arising from the report have subsequently been completed.
- 6.2.3 The internal assessment is kept updated until the next scheduled external review, which would take place in 2022.

Appendix A: Internal Audit Plan 2019-20 Status Update

Audit Title	Entity			Status	Risk Level
	Corporate System	LCRCA	Merseytravel		
Investment Models		X		Early scoping discussion held	Moderate
SIF2 Assurance Framework		X			Moderate
Mayoral Programme - Digital		X		Not yet commenced	Moderate
Mayoral Programme - Tidal		X		Not yet commenced	Moderate
Housing First		X		Not yet commenced	Moderate
Households into Work		X		Commenced	Moderate
Corporate Planning, Performance and Data Quality	X			Commenced	Major
Adult Education Budget		X		Not yet commenced	Major
Lessons Learned ESIF		X		Not yet commenced	Moderate
PMO	X			Commenced	Moderate
Project Pipeline		X		Commenced	Moderate
LEP Governance Annual Review		X		Not yet commenced	Moderate
LEP Risk and Control Review		X		Not yet commenced	Moderate
Annual Governance Statement Review 2019-20		X		Not yet commenced	Moderate
Network Rail Interface			X	Not yet commenced	Moderate
Introduction into Service			X	Not yet commenced	Moderate
Manufacturing			X	Not yet commenced	Moderate
Payroll	X			Not yet commenced	Moderate
Absence Management	X			Not yet commenced	Moderate
Health and Safety	X			Not yet commenced	Moderate
Recruitment and Selection	X			Not yet commenced	Moderate
Phone Monitoring	X			Not yet commenced	Moderate

Audit Title	Entity			Status	Risk Level
	Corporate System	LCRCA	Merseytravel		
Internet Monitoring	X			Not yet commenced	Moderate
Application Control	X			Not yet commenced	Moderate
Vessel Maintenance			X	Not yet commenced	Moderate
Facilities Services Contract	X			Commenced	Moderate
Wallasey Stores	X			Commenced	Moderate
Term Maintenance Contract	X			Completed	Moderate
Street Furniture Contract			X	Final Report Issued	Moderate
Asset Register	X			Not yet commenced	Moderate
Service / Maintenance Contracts	X			Final Report Issued	Major
Tenancies	X			Commenced	Moderate
Waste Management Contract	X			Completed	Moderate
Building Security	X			Not yet commenced	Moderate
Tunnel Strategy	X			Withdrawn	Moderate
Frameworks	X			Not yet commenced	Moderate
Bus Services - Contracts			X	Commenced	Major
Provider Failure			X	Draft Report Issued	Moderate
Bus Services - Development			X	Commenced	Moderate
Supported Services - Dynamic Purchasing			X	Not yet commenced	Moderate
Alternative Delivery Models			X	Not yet commenced	Moderate
Bus Ancillary Contracts			X	Not yet commenced	Moderate
Beatles Story - Admissions			X	Draft Report Issued	Moderate
Business Continuity	X			Early scoping discussion held	Moderate
Fast Tag Account Management	X			Not yet commenced	Moderate
Ancillary Income and Debt Recovery	X			Draft Report Issued	Moderate
Ticketing			X	Commenced	Moderate

Audit Title	Entity			Status	Risk Level
	Corporate System	LCRCA	Merseytravel		
Mersey Ferries - Governance (MF Programme Board)			X	Commenced	Moderate
Mersey Ferries - New Vessel			X	Withdrawn	Moderate
Travel Centres - Income / Stock Reconciliation			X	Not yet commenced	Moderate
Tunnels Toll Recording and Reconciliation	X			Commenced	Moderate
Catering Concession – Contract Management			X	Completed	Moderate
Electric Vehicle Charging Points			X	Withdrawn	Moderate
Rail Concession Agreements Annual Assessment - Merseyrail and LSP			X	Not yet commenced	Moderate
NNLNG - Maghull			X	Not yet commenced	Moderate
Efficient Operator Review			X	Not yet commenced	Moderate
Operator of Last Resort			X	Not yet commenced	Moderate
Special Rail Grant			X	Commenced	Moderate
Debtors	X			Not yet commenced	Major
Main Accounting System	X			Not yet commenced	Major
Creditors and Cheque Control	X			Not yet commenced	Moderate
Treasury Management	X			Not yet commenced	Moderate
Carbon Reduction Commitment	X			Completed	Moderate
Budget Monitoring	X			Not yet commenced	Moderate
Cashiers	X			Not yet commenced	Moderate
Capital Programme	X			Not yet commenced	Moderate
Concessionary and Prepaid Travel			X	Not yet commenced	Moderate
Risk Management	X			Not yet commenced	Major
Democratic Services	X			Not yet commenced	Moderate
Insurance	X			Withdrawn	Moderate
Extensions to Contract	X			Not yet commenced	Moderate
Variations to Contract	X			Not yet commenced	Moderate

Audit Title	Entity			Status	Risk Level
	Corporate System	LCRCA	Merseytravel		
Commissioning	X			Commenced	Moderate
Procurement	X			Commenced	Moderate
Annual Governance Statement Review 2019-20			X	Not yet commenced	Moderate

Appendix B: Organisational Risk Opinions and Recommendation Priority Levels

Organisational Risk Opinions	Recommendation Priority Levels
<p>Major The risks identified in the review could, if they materialised, have a major impact on the organisation as a whole.</p>	<p>High The recommendation is essential to the management of risk within the area under review.</p>
<p>Moderate The risks identified in the review could, if they materialised, have a moderate impact on the organisation as a whole.</p>	<p>Medium The recommendation is important to the management of risk within the area under review.</p>
<p>Minor The risks identified in the review could, if they materialised, have a minor impact on the organisation as a whole.</p>	<p>Advisory The recommendation is a suggestion intended to enhance the existing management of risk within the area under review.</p>
<p>Negligible No risks were identified within the review.</p>	