



# Strategic Plan (2020/23) and Operational Plan (2020/21)

Guildford Borough Council – Internal Audit

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# Content

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This plan is provided pursuant to the terms of our proposed engagement letter. We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in our engagement letter. This plan is for the sole benefit of Guildford Borough Council .

In preparing this plan we have not taken into account the interests, needs or circumstances of anyone apart from Guildford Borough Council even though we may have been aware that others might read this plan. This plan is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than Guildford Borough Council) for any purpose or in any context. Any party other than Guildford Borough Council that obtains access to this plan or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through Guildford Borough Council's Publication Scheme or otherwise) and chooses to rely on this plan or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this plan to any party other than Guildford Borough Council.

Any disclosure of this plan beyond what is permitted under our engagement letter may prejudice substantially our commercial interests. A request for our consent to any such wider disclosure may result in our agreement to these disclosure restrictions being lifted in part. If Guildford Borough Council receives a request for disclosure of the product of our work or this plan under the Freedom of Information Act 2000 or the Freedom of Information (Scotland) Act 2002, having regard to these actionable disclosure restrictions Guildford Borough Council should let us know and should not make a disclosure in response to any such request without first consulting KPMG LLP and taking into account any representations that KPMG LLP might make.

# Summary



This document outlines our proposed internal audit strategy for the period 2020/23 (our strategic plan). It also includes our annual operational plan for the period 2020/21. It provides a strategic objective and risk based analysis of the Council's operations as a basis for our work. Our response to key questions to the Corporate Governance and Standards Committee should consider are set out below.

<p><b>How does this audit plan consider our strategy?</b></p>	<p>We reviewed Corporate Plan 2018/23 and used this to structure our overall audit universe. This has been combined with our assessment of those systems which are internally or externally driven and stable or changing.</p>	<p><b>Page 7 – 10</b></p>
<p><b>What flexibility have you allowed to respond to in year changes?</b></p>	<p>It might be necessary to update our plan in year, should the Council's risk profile change and different risks emerge that could benefit from internal audit input. We will ensure that senior audit sponsors, our contract manager and the Corporate Governance and Standards Committee approve any amendments to this plan.</p>	<p><b>Page 8</b></p>
<p><b>Who are the team working on my audit?</b></p>	<p>The Head of Internal Audit, responsible for the delivery of the 2020/21 strategic plan is Neil Hewitson. Taryn Retief, is the engagement manager. Neil and Taryn will attend Corporate Governance Standards Committee meetings, and provide updates on the progress of our work and presentation of our findings. Individual audits will be completed by either staff from our local government audit team or specialists in the subjects being reviewed.</p>	<p>-</p>
<p><b>How do you comply with Internal Audit regulations?</b></p>	<p>Our internal audit services are performed in accordance with KPMG's internal audit methodology which conforms to Public Sector Internal Audit Standards (PSIAS). PSIAS require that we comply with applicable ethical requirements, including independence requirements, and that we plan and perform our work to obtain sufficient, appropriate evidence on which to base our conclusion.</p> <p>PSIAS requires that an internal audit charter is in place. The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.</p>	<p><b>Page 12 - 18</b></p>

# Summary



<b>How many reviews will be completed as part of the plan?</b>	<p>We are in the first year of our three year audit plan, based upon the requirements of the completion of core audit reviews for the Head of Internal Audit opinion annually. We have scheduled 18 reviews to be completed in the 2020/21 period.</p> <p>These reviews allow us to meet our annual responsibilities to have reviewed aspects of your financial, risk, governance and data management systems as well as having considered how well your systems of control are designed to allow you to achieve value for money as you spend public funds.</p>	<b>Page 8 - 10</b>
<b>Will there be any change in the audit timeline?</b>	<p>We have assigned the audits into a work programme which is structured to allow the progression of our delivery to be reported at Corporate Governance and Standards Committee meetings. This will ensure audits addressing the same objectives are completed in tandem, reducing the impact and disruption within Council teams to a minimum.</p>	<b>Page 8</b>

# Methodology and assessment



Our methodology starts with understanding your vision, mission and strategy. This is then combined with an understanding of your operations. Together this allows us to identify and organise your auditable systems (referred to as the audit universe) in a manner which allow us to determine the most appropriate systems for review in any given audit period. This overall methodology is shown over the next two pages:

## What we do

## How we go about doing it

### Understanding your operations

In developing our risk assessment and plan for 2020/21 we review your vision and mission, as set out below, as well as your strategy:

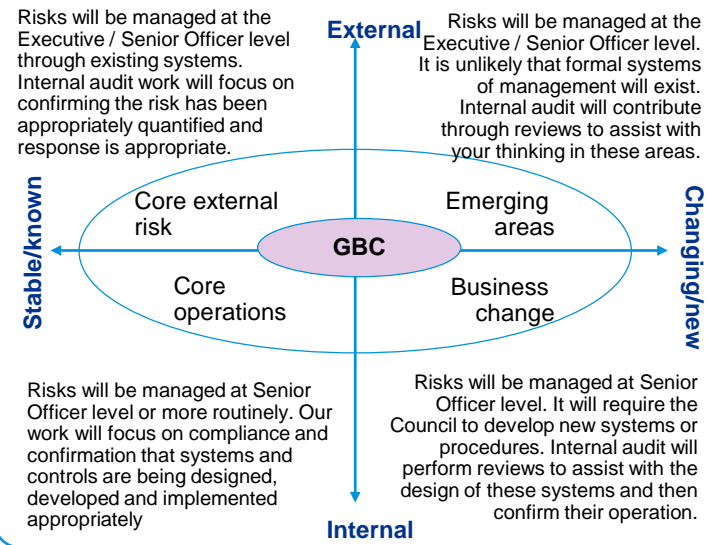
- Vision: You have a vision for Guildford to be a town and rural borough that is the most desirable place to live, work and visit in South East England. A centre for education, healthcare, innovative cutting edge businesses, high quality retail and wellbeing. A county town set in a vibrant rural environment which balances the needs of urban and rural communities alike. Known for your outstanding urban planning and design, and with infrastructure that will properly cope with your needs .
- Mission statement: Guildford Borough Council's mission is to be a forward looking, efficiently run Council, working in partnership with others and providing first class services that give our society value for money, now and for the future.
- We have then drawn on your corporate documentation (such as Council minutes and your Corporate Plan 2018 - 2023) and our knowledge of you to drive our risk assessment for 2020/21. We have set out below some of the key areas in which we have aligned our risk assessment to based on the Council's current operations and objectives:
  - *Future Guildford* – The Council has embarked on a transformation programme to improve services and customer care, modernise services and systems, introduce efficiencies, deliver savings and develop a culture that collectively adapts and changes to address challenges. We understand the importance of getting the basic controls right and ensuring these are introduced into the newly developed processes. We will deliver four financial control reviews that focus on ensuring you have the right processes and controls in place.
  - *Covid-19* – The Covid-19 pandemic represents the largest disruption to day to day operations that has been seen in years. It has meant that some of the Council's services have been disrupted. It has meant the Council has quickly had to adapt new ways of working, and implement business continuity plans and incident response teams. We have therefore suggest two reviews which it may be beneficial for management and the Corporate Governance Standards Committee to consider.
  - *Data and analytics* – we have systematically built in an expectation of where we will use data and analytics in our work to understand the effectiveness of your controls.

**What we do**

**How we go about doing it**

**Completed our internal audit risk assessment**

Drawing on your risk register, our knowledge of the systems you operate, the audit work performed in prior years, and our wider knowledge of the local government sector we have categorised your auditable systems as shown below:



We consider how the auditable areas we review link to providing you assurance on the achievement of your strategic objectives, so have performed a planning analysis to demonstrate that link as follows:

Strategic Goals	Auditable system	
Strategic Objective 1	Auditable system	
Strategic Objective 2	Auditable system	
Strategic Objective 3		Auditable system
Strategic Objective 4	Auditable system	
Strategic Objective 5		Auditable system
Strategic Objective 6	Auditable system	Auditable system

**Design the strategic and operational audit plans**

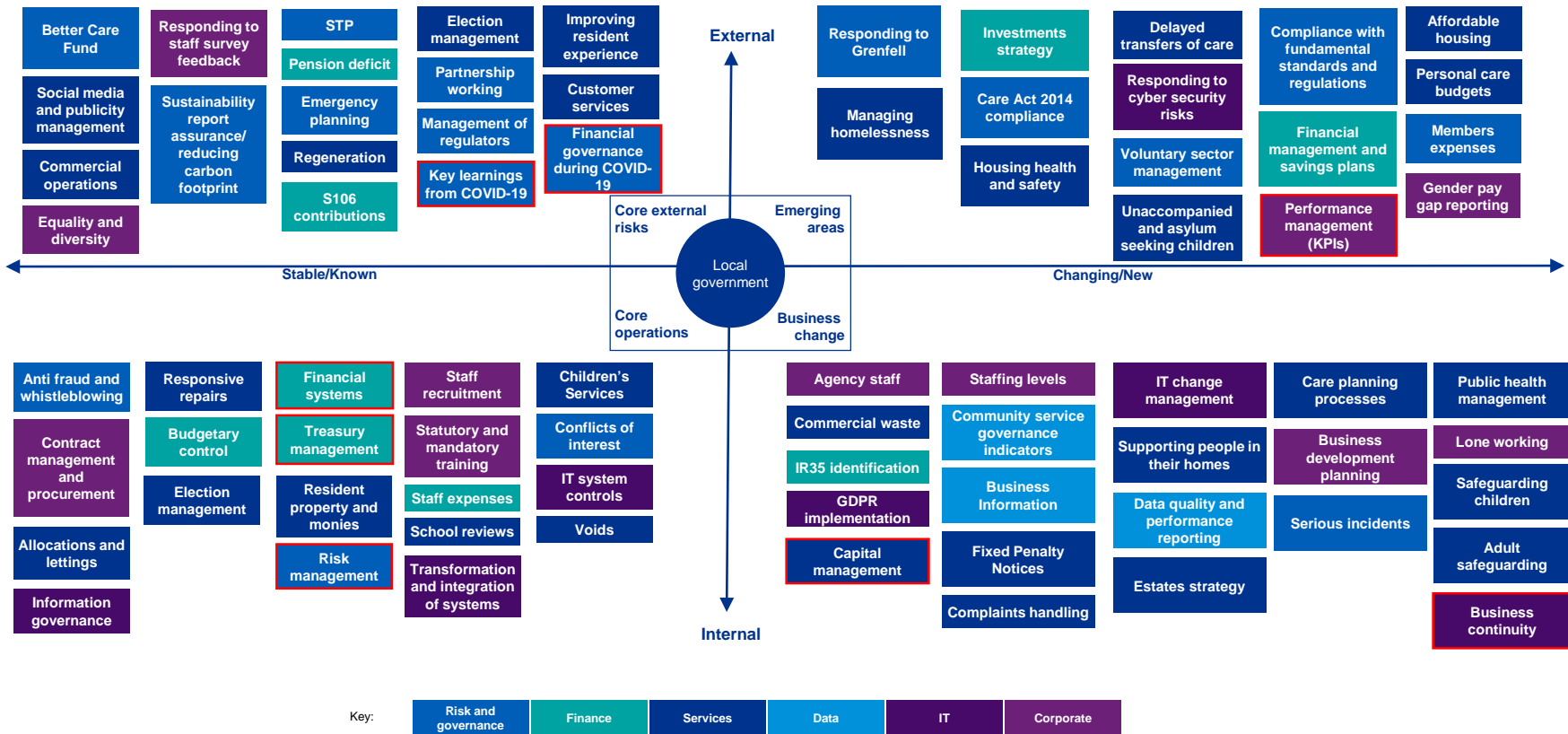
We combine our assessment of the overall risks you face with a more traditional internal audit assessment of inherent risk, control risk and materiality to identify the sequence in which we will perform our work. To ensure that we track the type of work we are performing we have identified whether the work is based on a cyclical review of your systems to provide the Head of Internal Audit Opinion, or in response to a one off risk within Guildford Borough Council.

**The content and timing of the individual reviews**

At the conclusion of our planning process we also provide an initial summary of the scope of each review we are proposing and the timing of our work. These details are finalised in advance of the detailed fieldwork being completed as part of the Terms of Reference process we complete with audit sponsors (we have an Executive Sponsor for each review) and auditees (those who will be involved in more detail with our fieldwork).

# Strategic Plan 2020/23

Drawing on your risk register, our knowledge of the systems you operate, the audit work performed in prior years, and our wider knowledge of the local government sector we have categorised your auditable systems as shown below:



# Operational Plan 2020/21

## Timing of review

In response to COVID 19 we have agreed to suspend all internal audit activity for the first quarter of the year. While we had an agreed plan for delivery in that period we acknowledge as the resilience of the Council has been tested and priorities for the year ahead have changed it will be necessary to revisit the relevance and timing of future reviews.. We have suggested two reviews which it may be beneficial for management and the Corporate Governance and Standards Committee to consider.

Review	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr
<b>Core assurance reviews</b>													
Financial controls – Treasury management													
Financial controls – Payroll													
Financial controls – Income and accounts receivable													
Financial controls – Expenditure and accounts payable													
Performance monitoring – KPI review one													
Performance monitoring – KPI review two													
Performance monitoring – KPI review three													
Local risk management													
<b>Value for money reviews</b>													
Capital management													
Seven follow up reviews													
<b>Response to COVID-19 reviews</b>													
Key learnings from COVID-19 response													
Financial governance and control during Covid-19													





Review and Sponsors	Issues/controls being reviewed
<b>Financial controls</b>	<p>We will undertake our work on financial systems on a cyclical basis, reviewing separate systems each year to provide coverage across all systems across our internal audit strategy.</p> <p>In 2020/21 we will undertake a review across your financial systems designed to assess the robustness of controls implemented. We will work with the finance team to develop shared process documentation of the control systems that can be utilised in forthcoming periods.</p> <p>We will develop data analytics routines to assess the consistency with which controls have operated as designed. We will complete the routines and undertake sample testing across potential anomalies identified for the accounts payable and payroll systems.</p>
<b>Data quality: Performance monitoring (KPIs)</b>	<p>We will review the arrangements to manage and monitor performance across the Council by looking at three key performance indicators as selected by the Council.</p> <p>As part of this, we will consider overall management of performance; including collation and reporting of data. We will consider the frequency of performance meetings, escalation of identified issues and tracking of actions</p> <p>For each of the key controls identified, we will test the operating effectiveness. Through the use of data analytics, we will also consider the quality of data used to monitor performance of each of the selected KPIs.</p>
<b>Local risk management and tracking of mitigating actions</b>	<p>We will review the process for identifying, capturing and escalating local risks.</p> <p>We will review the design of the process for managing local risks, and assess how these feed in to the Council's ongoing risk management processes.</p> <p>For a sample of risks across services, we will assess whether they have been scored and managed in line with the Council's risk management policy. We will select a wider sample to assess whether the quality of risk action updates is appropriate, timely, and whether there is evidence to support the implementation of the action.</p>
<b>Capital management</b>	<p>We will review the processes and controls around capital management, specifically:</p> <ul style="list-style-type: none"> <li>• Approval and recording of additions;</li> <li>• Maintenance of the fixed asset register; and</li> <li>• Monitoring and write-off of obsolete assets.</li> </ul> <p>For each of the key controls identified, we will test the operating effectiveness for a sample of assets across the Council.</p>
<b>Follow up reviews</b>	<p>We will deliver seven follow up reviews specifically following up on previously audited areas. We will follow up on all reviews that were given an assurance rating of partial assurance with improvements required. Additionally, we will follow up on a sample of previously audited areas that were given an assurance rating of significant assurance with minor improvement opportunities as selected by the Council.</p>



**Review and Sponsors**

**Issues/controls being reviewed**

**Financial governance and control during COVID-19**

The Covid-19 outbreak has several implications for financial governance at the Council, including members of staff working remotely from home, meaning physical authorisation is no longer possible. It is important that the Council maintains a robust control environment to protect its resources, but that it remains responsive to the community given the fast-moving nature of the outbreak. This review will assess how the Council has balanced the need to remain responsive whilst maintaining appropriate financial control.

We will review the design of changes made to the financial control environment to assess whether they are appropriately set up to maintain an appropriate level of control. In particular we will consider:

- How authorisation controls have been amended, and how these operate electronically where physical authorisation was previously used;
- How segregation of duties is maintained where staff are unavailable; and
- How procurement controls have been amended to ensure value for money whilst being responsive to need.

We will review the operating effectiveness of the controls identified in objective one for a sample of transactions that have occurred since revised controls were implemented.

**Key learning from COVID-19 response**

The COVID-19 pandemic represents the largest disruption to day to day operations that has been seen in years. It has meant that some of the Council's services have been disrupted.. It has meant the Council has quickly had to adapt new ways of working, and implement business continuity plans and incident response teams. We will support the Council in conducting a 'lessons learned' exercise to identify where processes and controls operated effectively in the circumstances, and where improvements might be made to current processes to ensure the Council is well equipped to deal with future incidents.

We will support the Council in undertaking a 'lessons learned' exercise to assess the effectiveness of the Council's processes during Covid-19. As part of this we will consider:

- How effectively business continuity plans were used, and whether they captured the necessary events to respond to the pandemic;
- How customers were contacted to amend / cancel services where appropriate, and how the decision to do so was made; and
- How staff were redeployed to areas of priority across the Council.



# Annex

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# Internal Audit Charter



## Purpose of this document

A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.

From 1 April 2017 a common set of Public Sector Internal Audit Standards (PSIAS) were adopted across the public sector. These standards require all internal audit service providers to develop an internal audit charter. This is a formal document that defines the activities, purpose, authority and responsibilities of internal audit at Guildford Borough Council. It also ensures the internal audit service we provide to you meets the requirements of both Professional Internal Auditing Standards and KPMG's own Internal Audit Manual.

Approval of this internal audit charter is the responsibility of the Council of Guildford Borough Council.

## Public Sector Internal Audit Standards

The PSIAS are based on the three mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF):

### Definition of Internal Auditing

Internal audit can be 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*'.

As a public sector organisation, you are required to have an internal audit service in place which conforms to the standards set out in PSIAS.

### Compliance with the Code of Ethics

Internal auditors in UK public sector organisations are required to comply with the Code of Ethics set out in PSIAS. This promotes an ethical, professional culture and requires internal auditors to have regard to the Committee on Standards of Public Life's Seven Principles of Public Life. All KPMG staff are required to ensure their compliance with this code, which is consistent with the code of ethics set out by the code of ethics set out by internal auditors' own professional bodies' and KPMG's own standards in respect of ethics, independence and integrity.

### International Standards for the Professional Practice of Internal Auditing

In common with the Institute of Internal Auditors (IIA) International Professional Practices Framework, on which they are based, PSIAS comprise Attribute and Performance Standards. The Attribute Standards address the characteristics of organisations and parties performing internal audit activities. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated.

The PSIAS apply to all internal audit service providers, whether in-house, shared Services or outsourced.

# Internal Audit Charter



## Internal Audit Charter

This Internal Audit Charter is the framework within which the Internal Audit function operates and formalises the arrangements approved by the Corporate Governance and Standards Committee for the internal audit service provided by KPMG.

### Roles and responsibilities

The objectives of Internal Audit are to assist all levels of your management and the Corporate Governance and Standards Committee in the effective discharge of their responsibilities relating to risk management and internal control by providing you with appraisals, recommendations, and other relevant information concerning your activities. We also aim to promote effective internal control at a reasonable cost and to facilitate the risk management process throughout the organisation and help embed this process. We set out below, both your responsibilities, and those of the Head of Internal audit.

#### *Role and responsibilities of the Head of Internal audit:*

The key role of internal audit is to assist the Guildford Borough Council in discharging its governance responsibilities. As your Head of Internal Audit will ensure:

- the independence and objectivity of the internal audit service, as well as the individual independence and objectivity of members of the audit team;
- the development of an annual audit plan and three year audit strategy. In conjunction with Guildford Borough Council we will establish a three year audit strategy to determine the priorities for internal audit work which are consistent with the organisation's goals. From this strategy risk-based annual internal audit plans will be determined. This will outline the assignments to be carried out in any one year, their respective priorities and the estimated resources needed. The annual internal audit plan will be flexible and kept up to date with the organisation and its changing risks and priorities. Any changes to the plan will be reported to the Corporate Governance and Standards Committee for approval;
- internal audits are planned and conducted in a manner designed to fulfil the objectives as approved by the Corporate Governance and Standards Committee and that high standards and a consistent approach are adopted by internal audit staff. The process for the delivery of individual assignments is set out later in this document;
- all members of the audit team have the skills, experience and competencies needed to deliver an effective internal audit service. This includes the need to ensure the continuing professional development of all members of the team;
- the implementation of KPMG's quality assurance programme, compliance with internal and external assessments, and delivery of arrangements to ensure the continued improvement of the internal audit service;
- compliance with all relevant international standards for the professional practice of internal auditing;
- the reporting of key findings and recommendations arising following internal audits to the managers responsible for the area being audited, to the Director of Finance and to the Corporate Governance and Standards Committee;

# Internal Audit Charter



- regular and appropriate liaison with external audit to ensure optimal audit coverage to Guildford Borough Council;
- assistance in the design of new controls and the understanding of internal control principles by management and other staff, affording regular consideration to the adequacy of internal control processes; and
- the delivery of an annual internal audit opinion and report that can be used by Guildford Borough Council to inform its governance statement. The annual report will incorporate:
  - the Head of Internal Audit opinion;
  - a summary of the work that supports the opinion; and
  - a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

## ***Roles and responsibilities of Guildford Borough Council***

*You are responsible for maintaining effective internal audit activity on an ongoing basis. This includes:*

- Monitoring and reviewing the effectiveness of the internal audit function;
- Reviewing and assessing the internal audit strategy and annual internal audit plan and its progress;
- Ensuring the internal audit function is adequately resourced, has appropriate reporting lines, and enjoys appropriate standing within the organisation; and
- Consideration of management's response to internal audit recommendations and progress in their implementation.

## **Independence and objectivity**

The independence of internal audit is assured by KPMG's Head of Internal Audit, Neil Hewitson reporting to the Resources Director of Guildford Borough Council.

KPMG's Head of Internal Audit also has direct access to the Chair of the Corporate Governance and Standards Committee, to whom all significant concerns relating to the adequacy and effectiveness of risk management activities, internal control and governance are reported.

Where independence is impaired in fact or appearance KPMG's Head of Internal Audit will report the details to the Chair of the Corporate Governance and Standards Committee and the Resources Director. The nature of the disclosure will depend upon the impairment.

However, it is important that our independence in reporting to the management and the Corporate Governance and Standards Committee does not appear to be compromised but equally that Guildford Borough Council should not be deprived of expertise where it is needed and can be leveraged from KPMG as a whole.

# Internal Audit Charter



## **Fraud and irregularities**

It is a management responsibility to maintain systems and to ensure that resources are properly applied in an appropriate manner on approved activities. This includes responsibility for the prevention and detection of fraud and other illegal acts.

Internal audit staff shall have regard to the possibility of such malpractice and should seek to identify serious defects in internal control which might permit the occurrence of such events.

KPMG's Head of Internal Audit should be advised of any discovery or suspicions of malpractice by management or the Corporate Governance and Standards Committee. Likewise KPMG's Head of Internal Audit is responsible for notifying management, the appointed Local Counter Fraud Specialist or the Corporate Governance and Standards Committee in the event of internal audit staff discovering evidence or suspicion of malpractice.

Guildford Borough Council shall determine any action to be taken.

## **Liaison with other auditors**

The internal audit function extends to activities which should be of interest and benefit to the external auditors; in particular through the review and evaluation of financial systems and investigations relating to key business risks.

Internal audit plans and assignment reports will be issued to your external auditor via the circulation of the Corporate Governance and Standards papers, as your external auditors on a regular basis to actively plan and avoid:

- Clashes in visits;
- Duplication of effort;
- Unnecessary disruption to business and supporting areas.

Periodic meetings will be held between internal audit staff and the external auditors to discuss liaison matters and ensure an appropriate dialogue to identify, and take action on, areas where liaison can achieve time savings or improved performance. External audit should be explicitly requested to review the annual plan and comment thereon formally to the Corporate Governance and Standards Committee.

Internal audit working papers will be made available to external audit for review at mutually convenient times.

# Internal Audit Charter



## Operating principles – The assignment process

We will utilise a risk-based approach to the individual reviews in line with the KPMG internal audit methodology. This involves:

- identifying the risks that may impact on the systems achieving their objectives;
- identifying and evaluating the systems of internal control designed by management;
- compliance testing of the operation of controls;
- making appropriate recommendations and advising management on how systems of internal control may be streamlined or strengthened.

The different delivery stages of the audit process are shown opposite: our approach to individual reviews recognises that different approaches will be required in different circumstances, for example in some cases as systems are being developed or revised it may be beneficial for us to defer detailed testing until a later date, but instead focus on understanding and contributing to the development of the design of the control framework.

## Reporting

On completion of our individual reviews, we will produce a report for management that will outline the objectives and scope of our work, risks considered during our review, an assessment of the effectiveness of internal controls and considerations for performance improvements. Each report will include an implementation plan.

We undertake follow up work in subsequent periods to track the implementation of agreed recommendations. A Progress Report will be presented to each Corporate Governance and Standards Committee providing a summary internal audit activities and progress on the implementing agreed recommendations.

Following our internal audit work for the year we will produce an annual internal audit report. This will summarise the work completed and will provide an overall opinion in respect of risk, control and governance arrangements.





# Internal Audit Charter



Internal auditors in UK Public sector organisations must conform to the Code of Ethics. These are based on four principles: Integrity; Objectivity Confidentiality; and Competency.

Internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.

## **Integrity Principle**

Internal auditors:

- 1.1 Shall perform their work with honesty, diligence and responsibility;
- 1.2 Shall observe the law and make disclosures expected by the law and the profession;
- 1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation; and
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

## **Objectivity Principle**

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Internal auditors:

- 2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation;
- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement; and
- 2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

# Internal Audit Charter



## **Confidentiality Principle**

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Internal auditors:

- 3.1 Shall be prudent in the use and protection of information acquired in the course of their duties; and
- 3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

## **Competency Principle**

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Internal auditors:

- 4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience;
- 4.2 Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing; and
- 4.3 Shall continually improve their proficiency and effectiveness and quality of their services.

# Assurance levels we provide



We use the following as the basis of the levels of assurance that we provide you with for our core reports around financial systems, risk, governance and data quality. As set out on the following page we do not provide classifications for our reviews in value for money areas.

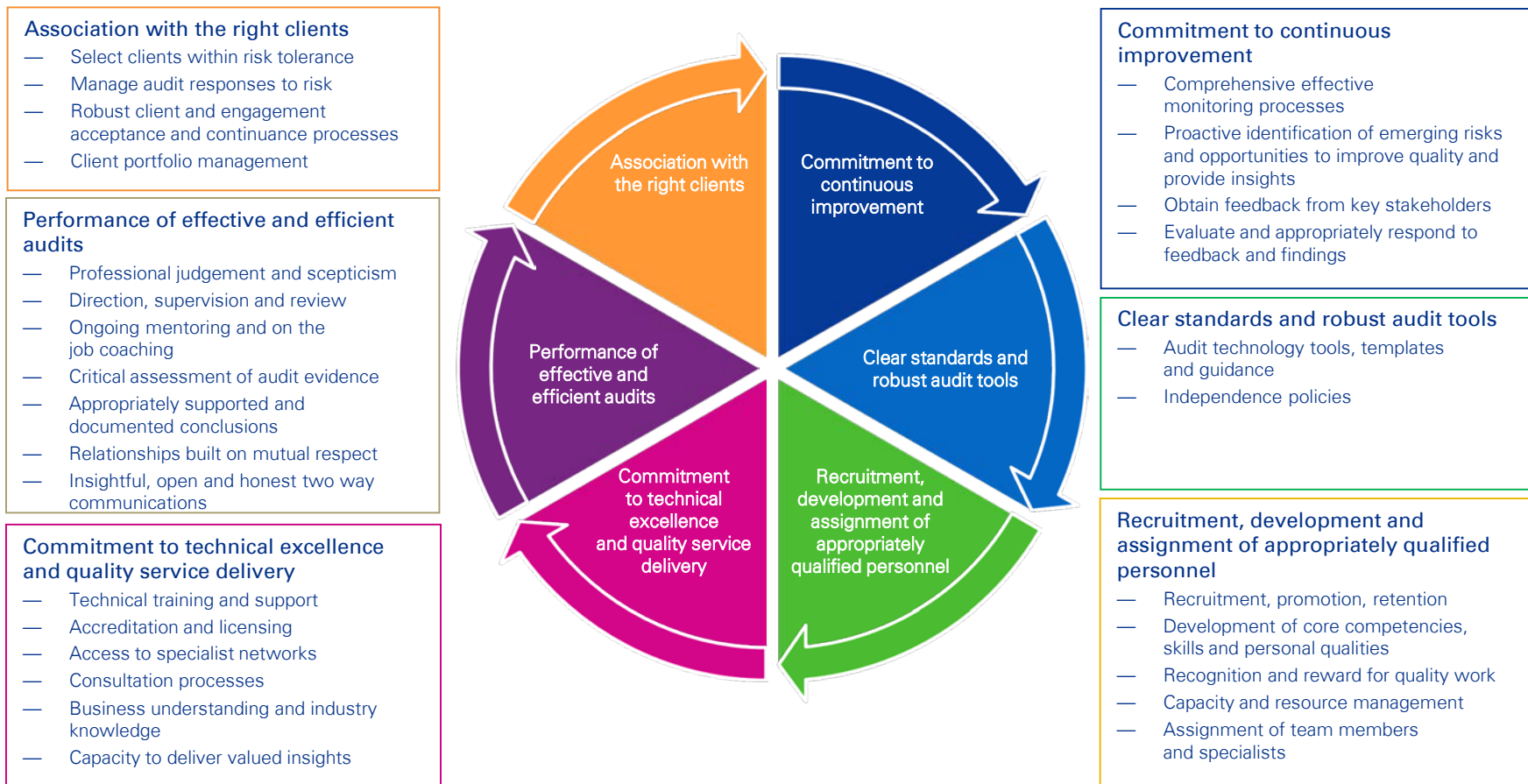
Assurance Level	Classification
Significant assurance	Means the system is well designed and only minor low priority recommendations have been identified related to its operation. Might be indicated by priority three only, or no recommendations (i.e. any weaknesses identified relate only to issues of good practice which could improve the efficiency and effectiveness of the system or process).
Significant assurance with minor improvement opportunities	Means the systems is generally well designed however minor improvements could be made and some exceptions in its operation have been identified. Might be indicated by one or more priority two recommendations. (i.e. there are weaknesses requiring improvement but these are not vital to the achievement of strategic aims and objectives - however, if not addressed the weaknesses could increase the likelihood of strategic risks occurring).
Partial assurance with improvements required	Means both the design of the system and its effective operation need to be addressed by management. Might be indicated by one or more priority one, or a high number of priority two recommendations that taken cumulatively suggest a weak control environment. (i.e. the weakness or weaknesses identified have a significant impact preventing achievement of strategic aims and/or objectives; or result in an unacceptable exposure to reputation or other strategic risks).
No assurance	Means the system has not been designed effectively and is not operating effectively. Audit work has been limited by ineffective system design and significant attention is needed to address the controls. Might be indicated by one or more priority one recommendations and fundamental design or operational weaknesses in the area under review. (i.e. the weakness or weaknesses identified have a fundamental and immediate impact preventing achievement of strategic aims and/or objectives; or result in an unacceptable exposure to reputation or other strategic risks).

We provide the following definitions for the priority of the recommendations that we may raise within our reports

Priority	Description
Red – priority 1	A significant weakness in the system or process which is putting you at serious risk of not achieving its strategic aims and objectives. In particular: significant adverse impact on reputation; non-compliance with key statutory requirements; or substantially raising the likelihood that any of your strategic risks will occur. Any recommendations in this category would require immediate attention.
Amber – priority 2	A potentially significant or medium level weakness in the system or process which could put you at risk of not achieving its strategic aims and objectives. In particular, having the potential for adverse impact on your reputation or for raising the likelihood of your strategic risks occurring.
Green – priority 3	Recommendations which could improve the efficiency and / or effectiveness of the system or process but which are not vital to achieving your strategic aims and objectives. These are generally issues of good practice that the auditors consider would achieve better outcomes.

# Our quality framework

Audit quality is at the core of everything we do at KPMG and we believe this is not just about reaching the right conclusion, but how we reach that conclusion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent internal audit service, we have developed our global Audit Quality Framework.





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