

The Highland Council

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| Agenda Item | 6 |
| Report No | AC/04/25 |

Committee: Audit Committee

Date: 5 February 2025

Report Title: Global Internal Audit Standards Update – revised Internal Audit Charter and new Internal Audit Strategy

Report By: Strategic Lead (Corporate Audit)

1. Purpose/Executive Summary

1.1 An update on the introduction of the new Global Internal Audit Standards (GIAS) was provided to the November Committee meeting. This included references to the need to revise the current Internal Audit Charter and production of a new Internal Audit Strategy. This has now been undertaken.

2. Recommendations

2.1 Members are asked to

- i. **Approve** the revised Internal Audit Charter, which includes the Mandate and the new Internal Audit Strategy.
- ii. **Note** that these will come into effect from 1 April 2025 in order to conform with the Global Internal Audit Standards in the UK Public Sector.

3. Implications

3.1 **Resource:** There are no direct resource implications arising from this report. However, both documents include references to resources as required by the GIAS.

3.2 **Legal:** The Local Authority Accounts (Scotland) Regulations 2014 requires that “A local authority must operate a professional and objective Internal Auditing service in accordance with recognised standards and practices in relation to Internal Auditing.” The recognised standards are now the Global Internal Audit Standards in the UK Public Sector and conformance with these is required (see 3.3).

3.3 **Risk:** A failure to be able to conform (or have a plan of action to enable conformance) or adequately explain areas of non-conformance with the Global Internal Audit Standards in the UK Public Sector could reduce the ability to place reliance on the Corporate Audit Service and its work in support of the Audit Committee.

3.4 **Health and Safety (risks arising from changes to plant, equipment, process, or people):** There are no implications.

3.5 **Gaelic:** There are no implications.

4. Impacts

- 4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children's Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.
- 4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.
- 4.3 This is an update report and therefore an impact assessment is not required.

5. GIAS update

5.1 Introduction

An update on the introduction of the Global Internal Audit Standards (GIAS) was provided to Committee in November 2024. This report can be accessed here: https://www.highland.gov.uk/download/meetings/id/84251/item_11_update_on_the_global_internal_audit_standards

Since the last report, in December CIPFA as the "Relevant Internal Audit Standard Setter" for local government in the UK issued the Application Note for the Global Internal Audit Standards in the UK Public Sector. The Application Note is applicable from 1 April 2025.

The GIAS came into effect in January 2025 and work is ongoing to evidence conformance with its requirements. To date this has included revising the previous Internal Audit Charter and producing a new Internal Audit Strategy. It is intended that these will be applied from 1 April to accord with the Application Note.

5.2 Internal Audit Charter

The revised Internal Audit Charter is provided at **Appendix 1**. The GIAS provided a model charter, and this has been used as this will assist in clearly demonstrating conformance. Reference was also made to the Application Note as some changes for the public sector were required.

5.3 Internal Audit Strategy

The Internal Audit Strategy is attached as **Appendix 2**. Again, this has been prepared in accordance with the GIAS requirements and to demonstrate conformance with the Global Internal Audit Standards in the UK Public Sector.

Designation: Strategic Lead (Corporate Audit)

Date: 15 January 2025

Author: Donna Sutherland, Strategic Lead (Corporate Audit)

Highland Council Internal Audit Charter

Purpose

The purpose of the Internal Audit service is to strengthen the Council's ability to create, protect, and sustain value by providing the Audit Committee and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The Internal Audit service should enhance the Council's:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

The Internal Audit service is most effective when:

- Internal Auditing is performed by competent professionals in conformance with the IIA's Global Internal Audit Standards (GIAS) in the UK Public Sector.
- The Internal Audit service is independently positioned with direct accountability to the Audit Committee.
- Internal Auditors are free from undue influence and committed to making objective assessments.

Commitment to Adhering to the Global Internal Audit Standards in the UK Public Sector

The Council's Internal Audit service will adhere to the requirements of the GIAS subject to the interpretations and additional requirements set out in the CIPFA Application Note on the Global Internal Audit Standards in the UK Public Sector. The CAE will report annually to the Audit Committee and senior management regarding the Internal Audit service's conformance with the Global Internal Audit Standards in the UK Public Sector which will be assessed through a quality assurance and improvement program.

Mandate

Authority

The Local Authority Accounts (Scotland) Regulations 2014 requires that "A local authority must operate a professional and objective Internal Auditing service in accordance with recognised standards and practices in relation to Internal Auditing."

This requirement is addressed within the Council's Financial Regulations which sets out the following mandate for Internal Audit:

The scope of Internal Audit work allows for unrestricted coverage of the Council's activities and unrestricted access to any information necessary during the course of an audit review/ investigation including:

- the right of access of all reasonable times to all records, assets, personnel and premises including those of partner organisations, where relevant;
- the requirement to receive such explanations as are necessary concerning any matter under examination.

Independence, Council Position, and Reporting Relationships

The Chief Audit Executive (CAE) is positioned at a level in the Council that enables Internal Audit services and responsibilities to be performed without interference from management, thereby establishing the independence of the Internal Audit service. The CAE reports functionally to the Audit Committee and administratively to the Chief Officer – Legal and Governance. The current CAE is the Strategic Lead (Corporate Audit) who is also a member of the Council's Corporate Management Team. This positioning provides the Council authority and status to bring matters directly to senior management and escalate matters to the Audit Committee, when necessary, without interference and supports the Internal Auditors' ability to maintain objectivity.

The CAE will confirm to the Audit Committee, at least annually, the Council independence of the Internal Audit service. Whilst the Strategic Lead (Corporate Audit) has other areas of responsibility outside of the Internal Audit function, there are appropriate safeguards in place to ensure that no conflict of interest occurs. For example, where any of these areas are subject to an internal audit, then the Strategic Lead (Corporate Audit) will adopt the role of audit client, and the Corporate Audit Manager will cover for the CAE.

The CAE will disclose to the Audit Committee any interference Internal Auditors encounter related to the scope, performance, or communication of Internal Audit work and results. The disclosure will include communicating the implications of such interference on the Internal Audit service's effectiveness and ability to fulfill its mandate.

Changes to the Mandate and Charter

The mandate and charter will be reviewed annually to ensure that they remain up to date. Any amendments will be approved by the Audit Committee.

Audit Committee Oversight

- Receive communications from the CAE about the Internal Audit service including its performance relative to its plan.

- Ensure a quality assurance and improvement program has been established and review the results annually.
- Make appropriate inquiries of senior management and the CAE to determine whether scope or resource limitations are inappropriate.

CAE Roles and Responsibilities

Ethics and Professionalism

The CAE will ensure that Internal Auditors:

- Conform with the GIAS in the UK Public Sector, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the Council and be able to recognise conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture in the Council based upon the Seven Principles of Public Life (Nolan Principles).
- Report behavior that is inconsistent with the Council's ethical expectations, as described in applicable policies and procedures.

Objectivity

The CAE will ensure that the Internal Audit service remains free from all conditions that threaten the ability of Internal Auditors to carry out their responsibilities in an unbiased manner, including matters of review selection, scope, procedures, frequency, timing, and communication. If the CAE determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal Auditors will maintain an unbiased mental attitude that allows them to perform reviews objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

Internal Auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, Internal Auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:

- Assessing specific activities for which they had responsibility within the previous year.
- Performing operational duties for the Council or any partners.
- Initiating or approving transactions external to the Internal Audit service.

- Directing the activities of any Council employee that is not employed by the Internal Audit service, except to the extent that such employees have been appropriately assigned to Internal Audit teams or to assist Internal Auditors.

Internal Auditors will:

- Disclose impairments of independence or objectivity, in fact or appearance, at least annually to the CAE.
- Exhibit professional objectivity in gathering, evaluating, and communicating information.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

Managing the Internal Audit Service

The CAE has the responsibility to:

- At least annually, develop a risk-based Internal Audit plan that considers the input of the Audit Committee and senior management. Discuss the plan with the Audit Committee and senior management and submit the plan to the Audit Committee for review and approval.
- Communicate the impact of resource limitations on the Internal Audit plan to the Audit Committee and senior management.
- Review and adjust the Internal Audit plan, as necessary, in response to changes in the Council's business, risks, operations, programs, systems, and controls.
- Communicate with the Audit Committee and senior management if there are significant interim changes to the Internal Audit plan.
- Ensure Internal Audit reviews are performed, documented, and communicated in accordance with the GIAS in the UK public sector.
- Follow up on review findings and confirm the implementation of recommendations or action plans and communicate the results of Internal Audit services to the Audit Committee and senior management and for each review as appropriate.
- Ensure the Internal Audit service collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the GIAS in the UK public sector and fulfill the Internal Audit mandate.
- Identify and consider trends and emerging issues that could impact on the Council and communicate to the Audit Committee and senior management as appropriate.
- Consider emerging trends and successful practices in Internal Auditing.

- Establish and ensure adherence to methodologies designed to guide the Internal Audit service.
- Ensure adherence to the Council's relevant policies and procedures unless such policies and procedures conflict with the Internal Audit charter or the GIAS in the UK public sector. Any such conflicts will be resolved or documented and communicated to the Audit Committee and senior management.
- Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the CAE cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and if necessary escalated to the Audit Committee.

Communication with the Audit Committee and Senior Management

The CAE will report to the Audit Committee and senior management regarding:

- The Internal Audit service's mandate.
- The Internal Audit plan and performance relative to its plan.
- Significant revisions to the Internal Audit plan and budget.
- Potential impairments to independence, including relevant disclosures as applicable.
- Results from the quality assurance and improvement program, which include the Internal Audit service's conformance with the GIAS in the UK public sector action plans to address the Internal Audit service's deficiencies and opportunities for improvement.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the Audit Committee that could interfere with the achievement of the Council's strategic objectives.
- Results of assurance and advisory services.
- Resource requirements.
- Management's responses to risk that the Internal Audit service determines may be unacceptable or acceptance of a risk that is beyond the Council's risk appetite.

Quality Assurance and Improvement Program

The CAE will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the Internal Audit service. The program will include external and internal assessments of the Internal Audit service's conformance with the GIAS in the UK public sector, as well as performance measurement to assess the Internal Audit service's progress toward the achievement of its objectives and promotion

of continuous improvement. If applicable, the assessment will include plans to address the Internal Audit service's deficiencies and opportunities for improvement.

Annually, the CAE will communicate with the Audit Committee and senior management about the Internal Audit service's quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Council. The assessor or at least one member of the team must be suitably qualified and experienced which can be demonstrated by:

- Holding a professional qualification either the CMIIA or a CCAB qualification, and;
- Suitable internal audit experience.

Scope and Types of Internal Audit Services

The scope of Internal Audit services covers the entire breadth of the Council, including all of its activities, assets, and personnel. The scope of Internal Audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the Audit Committee and management on the adequacy and effectiveness of governance, risk management, and control processes for the Council.

In addition to the work undertaken for the Council, Internal Audit is also responsible for undertaking assurance work and providing an annual audit opinion respect of the following:

- The Pension Fund
- The Valuation Joint Board
- Hi-Trans.

Internal Audit work is also undertaken on behalf of High Life Highland as provided for within the Service Level Agreement between High Life Highland and the Highland Council.

The nature and scope of advisory services may be agreed with the party requesting the service, provided the Internal Audit service does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory reviews. These opportunities will be communicated to the appropriate level of management.

Internal Audit reviews may include evaluating whether:

- Risks relating to the achievement of the Council's strategic objectives are appropriately identified and managed.

- The actions of Council employees, contractors or other relevant parties comply with Council policies, procedures, and applicable laws, regulations, and governance standards.
- The results of activities are consistent with established goals and objectives.
- Activities are being carried out effectively, efficiently and economically, and best value can be demonstrated.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact upon the Council.
- The integrity of information and the means used to identify, measure, analyse, classify, and report such information is reliable.
- Resources and assets are acquired economically, used efficiently and sustainably, and adequately protected.

Approved by the Audit Committee on

Highland Council Internal Audit Strategy 2025-2030

1. Introduction

Purpose of the Internal Audit Strategy

The purpose of this internal audit strategy is to outline the direction and focus of the Highland Council's internal audit service, ensuring alignment with the Council's strategy and conformance with the Global Internal Audit Standards in the UK Public Sector. It sets out how internal audit will support and promote improvements in governance, risk management and control underpinned by the Internal Audit Charter which describes the mandate, purpose, authority, responsibility and position of the Council's internal audit service. The Internal Audit Strategy also helps guide the internal audit service in developing staff training and competencies, integrating technology to enhance the audit process and improve the internal audit function as a whole.

Strategic Context

The Highland Council Programme 2022-2027 'Our Future Highland' makes commitments to secure social and economic transformation on behalf of Highland communities. The operational Delivery Plan defines how these commitments will be delivered, through a major programme of transformation for our people and places, working in collaboration with others to create a vibrant and sustainable Highland area. The operational delivery plan is also the means by which the Council will deliver on its three-year budget strategy (2024–2027).

Risk Environment

The Highland Council serves a third of the land area of Scotland, including the most remote and sparsely populated parts of the United Kingdom. The Highlands has the 7th highest population of the 32 authorities in Scotland (235,540) while having the lowest population density at 8 persons per square kilometre. The Council reported expenditure of £729m for 2023/24 of which staff costs were £394m. For 2024/25 the Council has a budgeted forecast for employees of 8,277 FTE. The majority of the Council's income comes from the annual grant settlement from the Scottish Government with the remainder from Council fees and charges. Any difference between the total forecast income and forecast expenditure results in a budget gap which needs to be addressed each year as the Council is required to set a balanced budget. As part of its medium-term financial strategy 2024/25 – 2026/27, the Council acknowledged that the scale of the budget gap, requires a strategic, transformative and multi-year approach to its financial challenges. The current scale and model of service delivery was not sustainable and therefore the Council needed to align its service delivery and operating models to the resources it has available and significantly change the services it delivers, and how they are delivered. The Council's Delivery Plan sets out a roadmap for

transformation, delivering savings and investment over the next 3 years. The Council agreed in February 2024 a £54.6m package of savings over 3 years. In May 2024 the Council agreed a new approach to develop sustainable local services and communities for the future. The Highland Investment Plan sets out a plan for development of communities across Highland, with over £1bn of capital investment in local service provision, including schools and roads, over the first 10 years.

Alignment with Council Objectives

This strategy aligns internal audit activity with the overall mission and strategic objectives of the Council by ensuring that internal audit plans, allocated resources are prioritised to provide assurance over areas of strategic importance and highest risk to assist the Council in achieving its objectives.

Global Internal Audit Standards requirements

The Global Internal Audit Standards establish the following requirements regarding an internal audit strategy.

‘The chief audit executive must develop and implement a strategy for the internal audit function that supports the strategic objectives and success of the organization and aligns with the expectations of the board, senior management, and other key stakeholders.

An internal audit strategy is a plan of action designed to achieve a long-term or overall objective. The internal audit strategy must include a vision, strategic objectives, and supporting initiatives for the internal audit function.

An internal audit strategy helps guide the internal audit function toward the fulfilment of the internal audit mandate. The chief audit executive must review the internal audit strategy with the board and senior management periodically’.

Internal Audit Resources

The Corporate Audit Team’s establishment consists of 5 full time Auditors, 2 Investigators and the Corporate Audit Manager. The available resources are detailed in the Annual Internal Audit Plan together with information as to whether these are sufficient to provide the annual audit opinion.

2. Purpose, Vision and Mission

Purpose

The purpose of the internal audit function is to strengthen the Council’s ability to create, protect, and sustain value by providing the Council and management with independent, risk-based, and objective assurance, advice, insight, and foresight. The internal audit function enhances the Council’s:

- Successful achievement of its objectives.

- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

Vision

To be a trusted independent advisor to Council and management, recognised for delivering, risk-based audit solutions that drive continuous improvement and add value.

Mission

To provide independent, objective assurance designed to add value and improve the effectiveness of risk management, control, and governance processes.

3. Strategic Objectives

| Objective | Activity | Outcome |
|--|--|--|
| (1) Enhancing Council governance, risk management and control processes. | Carrying out independent and objective evaluation and assessment to identify opportunities to improve the effectiveness of governance, risk management, control, processes. | Improved Council governance risk management and control processes through timely implementation of agreed actions. |
| (2) Supporting Council Strategic Initiatives. | Where appropriate provide assurance and advisory services for strategic projects and initiatives, advising on governance, risk management and control to assist achievement of objectives. | Improved governance risk management and control processes for strategic projects and initiatives through early engagement, insight and communication of lessons learned. |
| (3) Improving the internal audit process. | Identify opportunities for process improvements and operational efficiencies across the internal audit function. Utilising appropriate technology to inform and improve the audit process. | Greater use of appropriate technologies to assist the audit process. |

| Objective | Activity | Outcome |
|---|---|--|
| (4) Recruit, train and further develop the Corporate Audit Team. | Promote the wider benefits of Highland life and Council employment to aid recruitment. Actively support and fund staff training, development and CPD. Seek opportunities to increase auditors' digital literacy. | Staff training completed. Improved staff knowledge, skills and experience. |
| (5) Raise profile of internal audit through improved communication and collaboration with stakeholders. | Update website information on internal audit. Improve awareness and communication of internal audit planning, auditing processes, reporting and action tracking. Improved engagement through stakeholder surveys. | More informed understanding of the value and benefit of internal audit across the Council. |

4. Strategy review and reporting

The strategy will be kept under review and reporting on progress will be included in the Internal Audit Annual Report.

Approved by the Audit Committee on