



Item: 2

Monitoring and Audit Committee: 2 April 2026.

Internal Audit Strategy and Plan 2026/27.

Report by Chief Internal Auditor.

1. Overview

- 1.1. This report presents the Internal Audit Strategy and Plan 2026/27, for members' approval.
- 1.2. The Global Internal Audit Standards in the UK Public Sector include a requirement for the Chief Internal Auditor to prepare a strategy and a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.
- 1.3. The Internal Audit Strategy and Plan 2026/27, attached as Appendix 1, details how the Internal Audit Service will be developed and delivered in accordance with the Internal Audit Charter. The Strategy provides the links to organisational objectives and priorities.
- 1.4. The Audit Plan must incorporate, or be linked to, a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the Internal Audit Charter and how it links to the organisational objectives and priorities.
- 1.5. The annual Audit Plan is based on the following contributing factors:
 - Consultation with the Chief Executive, Directors and Heads of Service to complete a risk assessment of all service areas and to identify and consider areas of concern which could possibly merit audit attention.
 - Review of the Corporate and Service Risk Registers.
 - Review of the Corporate Governance Self-Assessment Process and Certificates of Assurance.
 - Review of all service plan actions and service performance indicators.
 - External auditor's previous recommendations and plans.
 - Previous Internal Audit work.
 - Relevant changes to legislation and other external factors.
 - Consultation with the Chair and Vice Chair of the Monitoring and Audit Committee.

- 1.6. The plan is based on the assumption that the audit team will be fully resourced throughout the year.
- 1.7. Audit planning is a continuous process, and the plan can be reviewed and adjusted as required in response to changes in business, risks, operations and priorities.

2. Recommendations

- 2.1. It is recommended that members of the Committee:
 - i. Approve the Internal Audit Strategy and Plan 2026/27, attached as Appendix 1 to this report.

For Further Information please contact:

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Implications of Report

1. **Financial:** None directly related to the recommendations in this report.
2. **Legal:** None directly related to the recommendations in this report.
3. **Corporate Governance:** None directly related to the recommendations in this report.
4. **Human Resources:** None directly related to the recommendations in this report.
5. **Equalities:** An Equality Impact Assessment is not required.
6. **Island Communities Impact:** An Island Communities Impact report is not required.
7. **Links to Council Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:
 - Growing our economy.
 - Strengthening our Communities.
 - Developing our Infrastructure.
 - Transforming our Council.
8. **Links to Local Outcomes Improvement Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:
 - Cost of Living.
 - Sustainable Development.
 - Local Equality.
 - Improving Population Health.

9. **Environmental and Climate Risk:** None directly related to the recommendations in this report.
10. **Risk:** Internal Audit evaluates the effectiveness and contributes to the improvement of the risk management processes.
11. **Procurement:** None directly related to the recommendations in this report.
12. **Health and Safety:** None directly related to the recommendations in this report.
13. **Property and Assets:** None directly related to the recommendations in this report.
14. **Information Technology:** None directly related to the recommendations in this report.
15. **Cost of Living:** None directly related to the recommendations in this report.

List of Background Papers

Global Internal Audit Standards in the UK Public Sector.

Appendix

Appendix 1: Internal Audit Strategy and Plan 2026/27.



Internal Audit

Internal Audit Strategy and Plan 2026 to 2027

Issue date: 9 March 2026

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Introduction

Purpose of the Internal Audit Strategy

The purpose of this strategy is to outline the direction and focus of the 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 and responsibility of the Internal Audit Service. The strategy also guides Internal Audit in developing staff, integrating new technology into the audit process and improving the internal audit function as a whole.

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 and 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 in the UK Public Sector 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 organisation 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 Audit Team consists of one Internal Auditor, two Trainee Internal Auditors and the Chief Internal Auditor. The annual planning process includes a review of the resourcing requirements of the Internal Audit Team and assumes that the team is fully staffed throughout the year.

Purpose, Vision and Mission

Purpose

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

The Internal Audit Service 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 help the Council achieve its objectives by providing independent and objective assurance, and to improve the effectiveness of risk management, control and governance processes.

Internal Audit Objectives

The table below details the objectives of the Audit Team. These are reviewed annually to ensure they remain relevant.

Objective	Action	Outcome
Enhancing Council governance, risk management and control.	Carrying out independent and objective evaluation and assessment to identify opportunities to improve the effectiveness of governance, risk management and control processes.	Improved Council governance, risk management and control processes through timely implementation of agreed actions.
Supporting Council Strategic Initiatives.	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 review of lessons learned.
Improving Internal Audit Processes.	Identify opportunities for process improvements and operational efficiencies across internal audit. Utilising appropriate technology to inform and improve the audit process.	Greater use of appropriate technologies such as data analytics and artificial intelligence to assist the audit process.
Develop Internal Audit skill sets.	Support and fund staff training, development and Continuous Professional Development. Seek opportunities to increase auditors' digital skills.	Improved staff knowledge, skills and experience.
Raise the profile of Internal Audit through stakeholder engagement.	Improve awareness of internal audit planning, auditing processes, reporting and action tracking. Improve engagement through stakeholder surveys.	More informed understanding of the value and benefit of Internal Audit across the Council.

Planning Process

The Audit Plan is prepared on an annual basis and is continually reviewed. The plan may be adjusted as necessary in response to changes in the Council's risk profile.

The audit planning process is based on the following contributing factors.

- Consultation with the Chief Executive, Directors and Heads of Service to risk assess service areas and to identify areas of concern which would merit audit attention.
- Reviewing the Corporate Risk Register and Directorate Risk Registers.
- A review of the Corporate Governance self-assessment process and the Certificates of Assurance completed by each member of the Corporate Leadership Team.
- A review of service plan actions and service performance indicators.
- A review of the external audit annual report.
- Audit work previously undertaken, and the conclusions reached as to whether the systems examined were sound, or that there were weaknesses in the internal controls.
- Any known relevant changes in legislation and other external factors.
- Known strengths and weaknesses in the internal control system.
- Consultation with the Chair and Vice Chair of the Monitoring and Audit Committee.

The planning process takes account of the work of other assurance providers both within and external to the Council. If we intend to rely on any work of another provider, we will review the reports and procedures employed.

The audit plan details specific areas of audit which will be subject to review. Following each review, audit reports are issued in draft format, initially to provide management with the opportunity to agree the factual accuracy of the audit findings. Copies of final audit reports are passed to the Director and to any other senior officer or manager of the Council who is responsible for acting on the recommendations.

The outcomes of audit reports feed into the Internal Audit Annual Report and Assurance Statement which is presented to the Monitoring and Audit Committee.

The audit plan is prepared each year by the Chief Internal Auditor and is approved by the Council's Monitoring and Audit Committee at the start of the financial year. The plan includes sufficient flexibility to allow the Chief Internal Auditor to direct internal audit resources as required so that new local or national issues and risks can be appropriately reviewed, where considered necessary.

Whilst managing the risk of fraud and corruption is the responsibility of senior management, internal audit work is planned to consider and to minimise the risks and exposures that could allow fraud or corruption to occur.

Service Delivery

The provision of the Internal Audit Service is through an in-house Internal Audit Team. This method of service delivery maintains a core of in-house knowledge and, providing that the team is fully staffed, the resources are deemed to be appropriate to carry out the plan.

Given the range and complexity of areas to be reviewed, it is important that suitable, qualified, experienced and trained individuals are appointed to internal audit positions. The Global Internal Audit Standards in the UK Public Sector require that the Chief Internal Auditor must hold a professional qualification such as CMIIA (Chartered Member of the Institute of Internal Auditors), CCAB (Consultative Committee of Accountancy Bodies qualified accountant) or equivalent and be suitably experienced.

The Internal Auditors must also have IIA qualifications or be CCAB qualified accountants or equivalent. The skills and knowledge of Internal Auditors are kept up to date through a range of in-house and specialist training courses and seminars.

Internal Auditors are required to conform to the Codes of Ethics of the professional accountancy bodies of which they are members and to the Code of Ethics and Standards included within the Global Internal Audit Standards in the UK Public Sector. Internal Auditors must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.

The Internal Audit Team is independent and does not have any operational responsibilities. It does not 'own' any system or have any responsibility for any aspect of work subject to audit. Auditors are not assigned assurance work in areas where they have had any recent operational or other involvement.

Internal Audit Plan 2026 to 2027

Financial Systems

This section covers systems classified as the Council's financial systems. The reviews of finance systems are on a rolling programme which takes account of the risks associated with the process and the outcomes of previous audits. This year we will review the following financial systems:

Housing Benefits and Council Tax Reduction

The objectives of this audit are to review whether entitlements being paid are supported by appropriate documentary evidence, that controls around the calculations are adequate and adhered to and that Housing Benefit and Council Tax Reductions have been properly recorded.

Staff Travel and Expenses

The objective of this audit is to review the system of internal controls over the booking of travel and accommodation and the completion, processing, and payment of expenses to staff, including agency staff, to ensure that they are operating effectively.

Budget Monitoring Process

This review will look at the procedures and controls in place around the process of budgetary management within the Council.

Pension Administration

The objective of this audit is to review whether processes and controls for pensions administration within the Council are operating effectively.

Systems Audits

School Establishment Audits – Orphir Primary School, Stenness Primary School, and Stromness Academy.

These are reviews of the procedures followed within the schools, including areas such as school administration, financial management, human resource management, school funds, risk assessments and security.

School Transport Contracts

This audit will look at value for money aspects of school transport contracts and the methods used to monitor contract delivery.

Care and Repair

The purpose of this audit is to provide assurance that the care and repair arrangements are effective and compliant with funding and regulatory expectations.

Refuse Collection and Street Cleansing

The purpose of this audit is to review the Council's arrangements for the operation and management of refuse collections and street cleansing.

Development Management and Planning

This purpose of this audit is to provide assurance that the development management and planning function has appropriate controls and procedures to ensure compliance with legal requirements, Council policies and industry standards and that decisions are consistent with these and appropriately documented.

Environmental Health

This audit will review the procedures and controls in place to ensure that the environmental health function operates effectively and in line with legislation and Council Policies.

Management of Health and Safety

This audit will evaluate the effectiveness of controls and procedures in place to ensure that the Council complies with health and safety legislation.

Elderly Residential Care

This audit will review procedures followed within a residential care home, including areas such as administration, financial management, human resource management and security.

Contract Managed Services (OHAC)

OHAC commissions various specialist groups to provide support and care through a framework agreement. This audit will review governance processes around the procurement of care contracts and the methods employed to monitor contract performance.

Scottish Parliamentary Election Expenses

This audit will review the Returning Officer's expenses claim forms for the Scottish Parliamentary Election to ensure the amounts claimed are in accordance with the election expenses guidance from the Scottish Government Election Team.

Project Reviews

Strategic Projects

Failure of a project can have a significant impact on the Council's reputation and the confidence of its stakeholders. This review will provide an independent opinion on the efficiency and effectiveness of project governance, risk management and control throughout the stages of strategic projects.

Annual Audits

UHI Orkney - College Credits and Discretionary and Childcare Funding

UHI Orkney is required to provide returns for Further Educational Statistical (FES) and Discretionary and Childcare Funding to the Scottish Funding Council (SFC) annually. The FES return details student activity data for the academic year, which is used to determine the activity which is fundable by the SFC and then to calculate the grant-in-aid allocation for the next academic year. The Discretionary and Childcare return is checked to confirm that the information included agrees with the underlying records. Audit certificates and audit reports are prepared annually for the returns to comply with SFC requirements.

Statutory Performance Indicators

This audit involves checking the systems from which information is produced for a sample of indicators, to assess the reliability of the data included. An analytical review of all indicators is also performed.

Stock Checks

Each year, as part of the financial year end procedures, stock takes are carried out to confirm that stocks have been correctly counted and recorded for the financial year end. This includes stock takes carried out at the Hatston Depot, the Marine Services Store, Cursiter Quarry and The Orkney and Scapa Flow Museums.

Miscellaneous Grant Claims

Audit work includes the checking and certification of grant claims as required by grant agreements.

Corporate Reviews

The Global Internal Audit Standards in the UK Public Sector require the Chief Internal Auditor to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.

Whilst all audit work contributes to providing this opinion, periodic reviews of corporate governance and risk management arrangements are carried out.

Corporate Governance

The objective of this audit is to provide assurance that there is a robust process followed for the annual corporate governance self-assessment and that the Annual Governance Statement is issued on time and in accordance with the relevant guidance.

Risk Management

The objective of this audit is to provide assurance that there is an effective procedure for the identification and management of risk throughout the Council and that the policies, procedures and activities that form the system of internal control are designed and operated to ensure that risk is maintained at an acceptable level.

Assurance Providers - Consultation

This review will provide a clear, consolidated picture of how the Council's key risks are being managed and who is providing assurance over them. It will determine whether assurance is adequate, effective, and efficient and where gaps or overlaps exist. This review will also look at how assurance is reported and to whom with the aim of avoiding duplication and streamlining processes.

Follow up of Audit Actions

Performance Management and Risk Software (Ideagen Risk Management) is used to track the implementation of agreed internal audit recommendations. The progress on implementing agreed actions is checked via this system on a three-monthly basis. Progress on the implementation of actions is reported quarterly to the Corporate Leadership Team and every six months to the Monitoring and Audit Committee.

The Internal Audit Section will review the assessments provided by responsible officers and where any recommendations have been marked as complete, we will complete checks to confirm the assessments. Where it is confirmed that actions have been completed, the recommendations will be archived on the system.

The Follow-Up Audits below will also be performed to provide assurance that recommendations made during the initial audits have been actioned:

KGS School Establishment Follow Up Audit

Sickness Absence Management Follow Up Audit

Fleet Management Follow Up Audit

Integration Joint Board (IJB)

OIC Internal Audit Team and NHS Orkney Internal Audit will provide internal audit resource to support completion of the IJB internal audit plan.

Orkney and Shetland Valuation Joint Board (VJB)

The role of the VJB Chief Internal Auditor is fulfilled by the OIC Chief Internal Auditor. The OIC Internal Audit Team will provide resource to complete the VJB internal audit plan.

Contingency Allocation

A contingency allowance has been included for any unplanned or additional audit or consultancy work required during the year. The UHI Shetland College Credits Audit is planned as part of this allocation.