



Item: 4

Monitoring and Audit Committee: 3 April 2025.

Internal Audit Charter 2025/26.

Report by Chief Internal Auditor.

1. Overview

- 1.1. The Institute of Internal Auditors Global Internal Audit Standards in the UK Public Sector comes into effect on 1 April 2025 replacing the Public Sector Internal Audit Standards. As part of this change the Internal Audit Charter has been revised and is attached as Appendix 1.
- 1.2. The Charter establishes the position of Internal Audit within the Council, including the Chief Internal Auditor's functional reporting line to the Monitoring and Audit Committee.
- 1.3. The Charter contains the purpose, mandate and responsibilities of Internal Audit and the scope of services provided, it also details the authority of Internal Audit to access records, personnel and physical properties relevant to the performance of audit engagements and defines the scope of internal audit activity.
- 1.4. The new standards require that the Charter is reviewed annually and approved by the Monitoring and Audit Committee.
- 1.5. The Charter is based on the Institute of Internal Auditors model charter and conforms with the Global Internal Audit Standards in the UK Public Sector.

2. Recommendations

- 2.1. It is recommended that members of the Committee:
 - i. Approve the Internal Audit Charter for 2025/26, 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 relating 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 Charter 2025/26.



Internal Audit

Internal Audit Charter 2025 to 2026

Issue date: 7 March 2025

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Purpose

The purpose of the Internal Audit Service is to strengthen Orkney Islands 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.

The Internal Audit Service is most effective when:

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

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 Chief Internal Auditor (CIA) will report annually to the Monitoring and Audit Committee and senior management regarding conformance with the Global Internal Audit Standards in the UK Public Sector which will be assessed through a quality assurance and improvement programme.

Mandate

Authority

The Council's Internal Audit Service mandate is contained in The Local Authority Accounts (Scotland) Regulations 2014 as follows:

A local authority must operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing.

Any officer or member of a local authority must, as required by those undertaking internal auditing:

- make available such documents of that authority which relate to its accounting and other records for the purpose of internal auditing; and
- supply such information and explanation as those undertaking internal auditing consider necessary for that purpose.

The Internal Audit Service's authority is created by its direct reporting relationship to the Monitoring and Audit Committee. Such authority allows for unrestricted access to the Chair of the

Monitoring and Audit Committee. The CIA will also have unrestricted access and accountability to the Chief Executive as required.

The Council's Financial Regulations 2024 set out the authority of Internal Audit at section 17.3, whereby the CIA or their authorised representative will have authority to:

- enter at all reasonable times on any Council premises or land,
- have access to, and remove, all records, documents and correspondence, including computer records, relating to any financial and other transactions of the Council,
- be provided with a separate log-in to any computer system within the Council and have full access to any system, personal computer or other device in the ownership of the Council,
- require and receive such explanations as are necessary concerning any matter under examination,
- require any employee or member of the Council to produce cash, stores or any other Council property under his/her control, and
- examine financial records of Council owned companies, trusts administered by the Council and other organisations funded by the Council.

Independence, Organisational Position, and Reporting Relationships

The CIA will be positioned at a level in the organisation that enables internal audit services and responsibilities to be performed without interference from management, thereby establishing the independence of the Internal Audit Service. The CIA will report functionally to the Monitoring and Audit Committee and administratively to the Head of Legal and Governance. This positioning provides the organisational authority and status to bring matters directly to senior management and escalate matters to the Monitoring and Audit Committee, when necessary, without interference and supports the Internal Auditors' ability to maintain objectivity.

The CIA will confirm to the Monitoring and Audit Committee, at least annually, the organisational independence of the Internal Audit Service. If the governance structure does not support organisational independence, the CIA will document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence.

The CIA will disclose to the Monitoring and 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 fulfil its mandate.

Changes to the Mandate and Charter

The Audit Charter will be reviewed annually to ensure that it remains up to date. Any amendments will be approved by the Monitoring and Audit Committee.

Circumstances may justify a follow-up discussion between the CIA, Monitoring and Audit Committee, and senior management on the Internal Audit Mandate or other aspects of the Internal Audit Charter. Such circumstances may include but are not limited to:

- A significant change in the Global Internal Audit Standards in the UK Public Sector.
- A significant reorganisation within the Council.
- Significant changes in the CIA, Monitoring and Audit Committee, and/or senior management.

- Significant changes to the Council's strategies, objectives, risk profile, or the environment in which it operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

Chief Internal Auditor's Roles and Responsibilities

Ethics and Professionalism

The CIA will ensure that internal auditors:

- Conform with the Global Internal Audit Standards 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 organisation and be able to recognise conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture in the Council based on the Seven Principles of Public Life (the Nolan Principles).
- Report organisational behaviour that is inconsistent with the organisation's ethical expectations, as described in applicable policies and procedures.

Objectivity

The CIA 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 engagement selection, scope, procedures, frequency, timing, and communication. If the CIA 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 engagements 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 operations for which they had responsibility within the previous year.
- Performing operational duties for the Council or its affiliates.
- 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, to the CIA at least annually.
- 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 Function

The CIA has the responsibility to:

- At least annually, develop a risk-based internal audit plan that considers the input of the Monitoring and Audit Committee and senior management and submit the plan to the Monitoring and Audit Committee for review and approval.
- Communicate the impact of resource limitations on the internal audit plan to the Monitoring and 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 Monitoring and Audit Committee and senior management if there are significant interim changes to the internal audit plan.
- Ensure internal audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards in the UK Public Sector and laws and/or regulations.
- Follow up on engagement findings and confirm the implementation of recommendations and communicate the results to the Monitoring and Audit Committee and senior management periodically.
- Ensure the Internal Audit Service collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the Global Internal Audit Standards in the UK Public Sector and fulfil the Internal Audit Mandate.
- Identify and consider trends and emerging issues that could impact the Council and communicate to the Monitoring and 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 Global Internal Audit Standards in the UK Public Sector. Any such conflicts will be resolved or documented and communicated to the Monitoring and 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 CIA cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and if necessary escalated to the Monitoring and Audit Committee.

Communication with the Monitoring and Audit Committee and Senior Management

The CIA will report periodically to the Monitoring and Audit Committee and senior management regarding:

- The Internal Audit Service's Charter.
- 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 Global Internal Audit Standards in the UK Public Sector and 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 Monitoring and 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 Programme

The CIA will develop, implement, and maintain a quality assurance and improvement programme that covers all aspects of the Internal Audit Service. The programme will include external and internal assessments of the Internal Audit Service's conformance with the Global Internal Audit Standards 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. The programme also will assess compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the assessment will include plans to address the Internal Audit Service's deficiencies and opportunities for improvement.

Annually, the CIA will communicate with the Monitoring and Audit Committee and senior management about the Internal Audit Service's quality assurance and improvement programme, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments will be conducted through an agreement through the Scottish Local Authority Chief Internal Auditors' Group (SLACIAG). Peer review assessments are carried out on a five-year cycle using the SLACIAG External Quality Assessment Framework. The allocation of assessors is rotated to ensure independence is maintained.

Scope and Types of Internal Audit Services

The scope of internal audit services covers the entire breadth of the organisation, including all of the Council's 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 Monitoring and 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 in respect of the Orkney Integration Joint Board and the Orkney and Shetland Valuation Joint Board.

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 engagements. These opportunities will be communicated to the appropriate level of management.

Internal audit assessments include evaluating whether:

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

- The actions of the Council's Corporate Directors, Officers, and contractors are in compliance with Council policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programmes are consistent with established goals and objectives.
- Operations or programmes 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 the Council.
- Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently and sustainably, and adequately protected.
- There are adequate governance and risk management arrangements in place for programmes and projects.

Fraud

All Officers and Elected Members of the Council have a duty to report any suspicion of fraud, bribery or irregularity to their Line Manager, Head of Service, Corporate Director or Chief Executive, who must inform the Corporate Director for Enterprise and Sustainable Regeneration and the CIA. Matters can also be reported directly to the Corporate Director for Enterprise and Sustainable Regeneration or CIA. The CIA, in consultation with the Corporate Director for Enterprise and Sustainable Regeneration, will be responsible for the investigation of such matters. Action taken will be in accordance with the Council's Anti-Fraud policy.