

Committee: Cabinet **Date:** 27 March 2025
Title: Internal Audit Strategy 2025-28, Plan 2025-26 and Internal Audit Charter
Report Author: Philip Honeybone, Internal Audit Manager
Portfolio Holder: Cllr Petrina Lees, Leader

Summary

1. This report presents Cabinet with the Internal Audit Strategy 2025-28, the Internal Audit Plan 2025-26 and an updated Internal Audit Charter that is compliant with Global Internal Audit Standards (GIAS).

Recommendations

2. Cabinet are requested to note the contents of this report.

Financial Implications

3. None

Background Papers

4. The following papers were referred to by the author in the preparation of this report and are available for inspection from the author of the report.

Impact

- 5.

Communication/Consultation	This report was sent to CMT on 5 March 2025
Community Safety	None
Equalities	None
Health and Safety	None
Human Rights/Legal Implications	None
Sustainability	None
Ward-specific impacts	None

Workforce/Workplace	None
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Situation

6. The Council has a duty to maintain an effective Internal Audit service that is compliant with the relevant internal audit standards for the UK. From 1 April 2025 this will be GIAS, which replaces Public Sector Internal Audit Standards (PSIAS) so that the Audit Manager can provide an annual report and opinion on the adequacy and effectiveness of the organisation's corporate governance, risk management and internal control. This can be used by the organisation to inform its annual governance statement. GIAS restructures the audit standards and codifies some arrangements where internal audit teams had flexibility in the past ("must" replacing "may"). All aspects of the standards relating to oversight of Internal Audit by CMT and the Audit and Standards Committee are drawn into Domain III (Governing the Audit Function). This emphasises the environment these parties must provide for an internal audit service to be at its most effective. For the most part, this codifies the requirement for open dialogue that currently exists within UDC. More details can be found in the attached briefing note (Appendix A).
7. The Internal Audit Charter (see Appendix B) is a critical document that underpins an effective internal audit service and defines the purpose, authority and responsibilities of Internal Audit. This adapted the IIA's model charter to take account of the legal framework for Internal Audit in UK local government and UDC's specific arrangements. It meets the requirements of GIAS.
8. The Internal Audit Strategy 2025-28 aims to provide UDC with the assurance it requires over its corporate governance, risk management and internal control processes in 2025/26 and as the Council prepares for the anticipated transition caused by Local Government Review.
9. The Internal Audit Strategy outlines the services' approach to providing the assurance UDC needs and ensuring the service has the skills and experience required. This has been used to develop the Internal Audit Annual Plan for 2024/25.

Risk Analysis

10.

Risk	Likelihood	Impact	Mitigating actions
Inadequate audit coverage may lead to failure to provide an annual opinion of the Council's governance, risk and control arrangements; reputational damage and failure to comply with PSIAS	2	2	Monitoring of plan delivery and reporting to CMT and Audit and Standards Committee, contingency built into plan for additional days if required; Quality Assurance and Improvement Programme including an External Quality Assessment of the Internal Audit Service.

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.



**INTERNAL AUDIT STRATEGY
2025-2028
AND
INTERNAL AUDIT PLAN
2025-2026**

1. INTRODUCTION

UDC's Internal Audit service are guided by the Global Internal Audit Standards (GIAS)¹, and UK application note which states:

Internal auditing strengthens the organization's ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

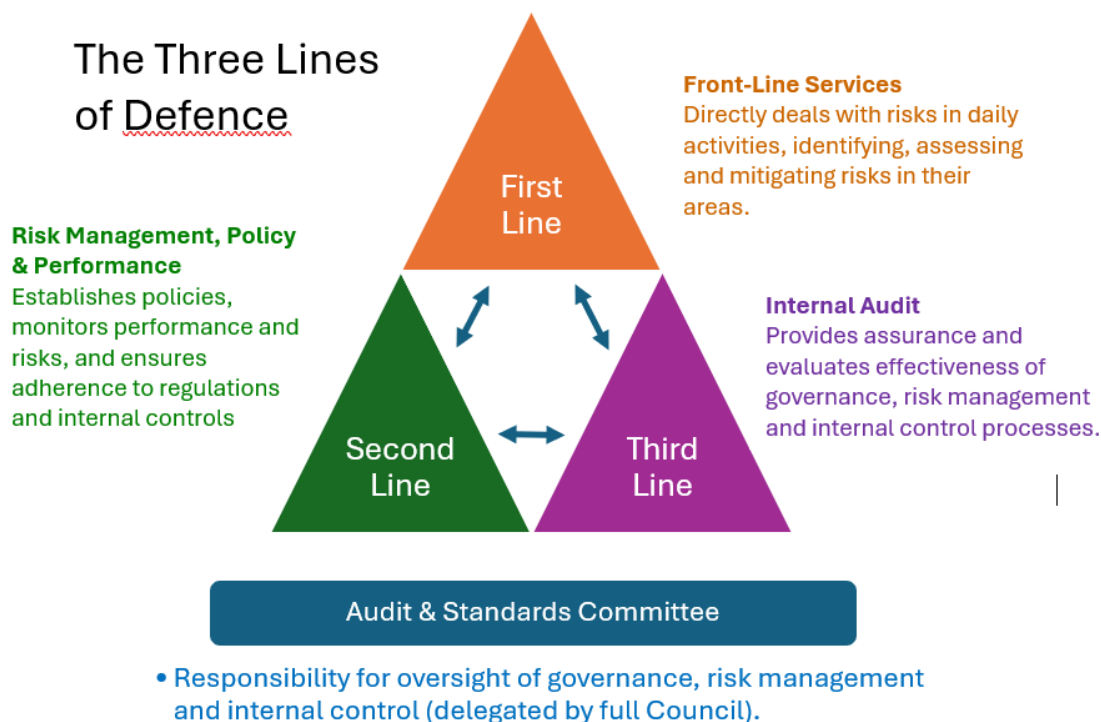
Internal auditing enhances the organization's:

- *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.*

Internal Audit's purpose, authority and responsibilities are set out in our Charter (see Appendix B).

This document provides a framework for providing independent assurance on UDC's governance, risk management and internal control processes over the period from April 2025 to March 2028. It recognises that assurance will need to be provided over preparations for the likely dissolution of UDC and creation of a new Unitary authority in April 2028 as well as assurance over UDC's risk management and control processes in the intervening period.

UDC's Internal Audit uses the "Three Lines of Defence²" in its assurance provision.



2. STRATEGIC OBJECTIVES

Internal Audit has three core strategic objectives to enable achievement of our mission and vision:

2.1 Aligned Priorities

- Internal Audit programmes will be developed in consultation with key clients in order to ensure they are aligned with UDC's core objectives and that key risks have been mitigated effectively. Internal Audit's approach will evolve as UDC's risk management continues to mature.
- Internal Audit will seek to provide timely assurance over the Local Government Review process in order to ensure the risks arising from UDC's likely dissolution and the creation of a new Unitary Council are mitigated effectively.
- Internal Audit plans will provide risk-based coverage over existing services to ensure business as usual to UDC's current stakeholders are not impacted by the transition and internal controls are operating effectively at the point of transition.
- We will consider the work of other assurance providers (e.g. external audit) in order to minimise duplication of work and maximise coverage.
- Cyber-security is recognised as a key risk facing all organisations, including UDC. Auditing in much of this area requires specialist skills which are not cost-effective to small audit teams. We will work with management to ensure that the Council receives appropriate assurance over this critical area.
- The strategy will be reviewed as and when local priorities change, or national initiatives have an impact locally.
- We will take a balanced and pragmatic approach to our work and our reports will emphasise positive findings alongside areas for improvement.
- Our performance measurement and monitoring arrangements will be focused on the aspects of the service most valued by senior management and the Audit and Standards Committee.

2.2 Effective Staff

- The Audit Manager and both Internal Auditors hold relevant professional qualifications and maintain their annual continual professional development requirements. The Audit Manager considers the team to be of appropriate size for the current organisation.
- We will work with the internal audit teams in the other Councils we are merging with to ensure the new Unitary authority has the internal audit resource and skills it needs.
- We will ensure that staff have or develop the skills necessary to provide assurance over the key risks facing UDC and the new Unitary authority. Supervision of work will ensure compliance with the new standards.
- Staff will be supported through the Local Government Review process.
- Our Quality Assurance and Improvement Program (QAIP) will demonstrate conformity with GIAS and will aid continuous development of the service.
- The Audit Manager will perform an annual internal quality assessment of the service against GIAS. This was carried out in January 2025 and an action plan created.
- An external quality assessment (EQA) was completed in November 2024.

2.3 Positive Impact

- We will build strong, positive, professional relationships with key clients and engage with them in the development of our strategies and work plans.
- We will seek to be involved in key projects and working groups to provide assistance on governance, risk and control and also to promote our work and the services we can provide to a wider audience.
- Through our follow-up process, we will seek to ensure that risks have been mitigated effectively.

3. INTERNAL AUDIT CHARTER

The Internal Audit Charter is a key document that defines purpose, authority and responsibilities of the Internal Audit service. It must meet the requirements of GIAS. This year, the Audit Manager has conducted a full review of the Internal Audit charter and ensures it meets both GIAS and UDC's requirements. It is based on the IIA model charter.

The new charter includes extended sections on the Audit and Standards Committee role in oversight of Internal Audit work and the Audit Manager's roles and responsibilities. To a large extent, it codifies existing arrangements. The Internal Audit Charter also establishes Internal Audit's position within UDC, including the Audit Manager's reporting lines, authorisation to access to records, staff and physical properties relevant to the performance of engagements, and also defines the scope of Internal Audit activities.

It is also a reference point for measuring the effectiveness of Internal Audit.

It includes:

- The Purpose of Internal Audit
- The Internal Audit Authority and Mandate
- Audit and Standards Committee Oversight
- Audit Manager Roles and Responsibilities
- Scope and Types of Internal Audit Services

The Internal Audit Charter is attached in Appendix B for Cabinet to note.

4. INTERNAL AUDIT PLAN 2025-26

The Internal Audit plan aims to provide independent assurance on UDC's Risk Management, Control and Governance processes and provide the evidence base for the 2025/26 Internal Audit Opinion. This plan has been developed by a review of the corporate risk register, discussions with senior management and through Internal Audit's risk assessment.

In October 2024, Cabinet approved a revised risk management policy and noted the corporate risks that were recorded in an updated corporate risk register. This risk register captures those risks and opportunities that are, in CMT's judgement, requiring monitoring at the organisational level. It does not capture inherent risks where CMT considers residual risk to be mitigated sufficiently by current internal control processes. It also does not include service level risks.

Each year, the IIA surveys heads of Internal Audit across all sectors in Europe to gauge their views on the highest risk areas impacting their organisations. The results are published in an annual report (Risk in Focus³). This provides a framework for an internal audit risk assessment which, together with knowledge of the council's activities, provided a sense-check of the Corporate Risk Register. 16 broad risk areas were identified:

- Information Governance and Cybersecurity
- People
- Regulatory Compliance
- New ways of working
- Macroeconomic and geopolitical uncertainty
- Climate Change
- Business Continuity and operational resilience
- Contracts and partnership management
- Financial Risk
- Organisational culture
- Governance and corporate reporting
- Fraud, bribery and corruption
- Reputation

- Communications, reputation, and stakeholder relations
- Health, Safety and wellbeing
- Local Government Review

The Internal Audit risk assessment mapped these risk areas to UDC's services to determine the highest priorities for assurance.

Internal audit has allocated time for work to support transitions arising from the Local Government Review in the second half of the financial year. The exact needs will be assessed in the later part of the year and clarifications / revisions to the plan will be brought to the Audit and Standards Committee at that time.

The proposed Internal Audit Plan for 2024/25 is shown in Appendix C. The first section of the plan shows the proposed audit work which will result in a formal opinion. Section 2 is a reserve plan which will be used if other audit work is delayed for operational reasons.

Progress on all recommendations carried forward from previous years alongside those made in 2025/26 will be monitored until they are completed, superseded or risks are formally accepted. Significant issues will be escalated through line management where necessary, with periodic reporting on outstanding recommendations to CMT and Audit and Standards Committee.

Cabinet is asked to note the proposed audit plan.

5. INTERNAL AUDIT PLANS 2026-28

The Audit Manager anticipates that the Local Government Review will require increased audit resource as more assurance will be required as UDC prepares for the creation of the new unitary authority.

A capital monitoring audit a possibility for the 2025/26 audit plan. This was discussed with the Strategic Director of Finance Commercialisation and Corporate Services, and it was decided that it would be better audited in 2026/27 to tie in better with the capital programme.

The remainder of the audit plans in 2026-28 will seek to ensure that internal controls are operating effectively in all services transitioning to the new authority.

6. CONSULTING, COUNTER FRAUD AND ADVISORY SERVICES

UDC's Internal Audit Charter defines the scope and types of services the team may deliver. This includes advisory services which would be agreed with the party requesting the service, provided the internal audit function does not assume management responsibility. These may take the form of ad hoc answers to queries that are addressed through a short conversation or email. More substantive activities will be included in the audit plan.

The Internal Audit Annual Report and the Corporate Governance Audit provide an evidence base that supports the Council's Annual Governance Statement.

UDC's Internal Audit Charter also states that the Audit Manager oversees Counter Fraud and Corruption Strategy and action plan.

7. QUALITY ASSURANCE IMPROVEMENT PROGRAMME (QAIP)

In complying with GAIAS, UDC's Internal Audit has established a QAIP. According to PSIAS:

The chief audit executive must develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function.

There are five key elements of UDC's QAIP:

- Internal quality reviews of each audit assignment to ensure it meets the required standards. 1:1s incorporate an opportunity to reflect on each audit to identify successes and learn lessons for future audit work.
- Monitoring against KPIs. KPIs are in place to measure quality as well as quantity of audit work. These are key client questionnaires for each assignment and a senior stakeholder survey to measure the overall standing and impact of Internal Audit.
- UDC's annual appraisal process
- Annual Internal Quality Assessment (IQA) to demonstrate conformance with PSIAS. The most recent IQA was completed in January 2025. The results of the IQA are shown in Appendix D. Appendix E presents the actions identified as a result of the exercise and progress to date.
- An External Quality Assessment (EQA) every five years to provide independent verification that PSIAS have been complied with. The most recent EQA was completed in November 2024 and was presented to Audit and Standards Committee in February 2025. This showed UDC's Internal Audit service was generally compliant. Actions have been combined with those arising from the IQA in Appendix E.