

# 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 5 February 2025**