

Report To: Audit Committee

Date: 26 June 2025

Report By: Chief Internal Auditor

Report No: FIN/34/25

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Subject: INTERNAL AUDIT ANNUAL STRATEGY AND PLAN – 2025-26

1.0 PURPOSE

- 1.1 ☒ For Decision ☐ For Information/Noting
- 1.2 The purpose of this report is to present the Internal Audit Annual Strategy and Plan for 2025-2026.

2.0 RECOMMENDATIONS

- 2.1 It is recommended that Members approve the Internal Audit Annual Strategy and Plan for 2025-26.

Andi Priestman
Chief Internal Auditor

3.0 BACKGROUND AND CONTEXT

- 3.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising governance, risk management and control by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- 3.2 The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to operate a professional and objective internal auditing service which is provided in accordance with recognised internal auditing standards and practices. These standards and practices are set out in the Global Internal Audit Standards (UK public sector) and require Internal Audit to have suitable operational independence from the organisation.
- 3.3 The Global Internal Audit Standards include the requirement for the Chief Internal Auditor to prepare a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.
- 3.4 It is intended that audit work will be focused on areas of greater risk taking into account management's own view of risk and meetings have been held with Directors and Heads of Service as appropriate. Each area has been assessed against a broad range of risk criteria and a risk score has been generated based on probability factors such as current control environment, results of last audit and time since the last audit.
- 3.5 Account has also been taken of the risks identified in the Council's Corporate, Directorate and Service Risk Registers.
- 3.6 Outlined below are the current risk factors influencing our proposed audit coverage for 2025-2026:
- Payroll is a complex process and employee costs form a significant part of the Council's expenditure and it is therefore important to have robust and effective controls in place. Internal Audit will review the adequacy and effectiveness of the payroll process.
 - The Council has recently updated its supplier management process which aims to provide a consistent and effective approach when managing suppliers. Internal Audit will review the adequacy and effectiveness of the supplier management process in place across the Council.
 - Records management is a key element of information governance and management arrangements. Internal Audit will review arrangements in place across Council services to ensure ongoing compliance with relevant policies.
 - The Council's Risk Management Framework was reviewed and updated in November 2023. Internal Audit will review the adequacy and effectiveness of implementation of the revised framework throughout the Council.
 - The Council's Development Management team is responsible for assessing planning applications and ensuring that where development occurs, it is in accordance with the Council's Planning Policies. Internal Audit will review the planning application process to ensure key controls in place are adequate and effective and are being consistently applied.
 - Regularity audits will be carried out in relation to recruitment reference checks and overtime and allowances to ensure that Council policies and procedures are being complied with by services.

- 3.7 Time has also been allocated within the plan to undertake corporate fraud activity including overseeing the National Fraud Initiative 2024 exercise, undertaking whistleblowing and other investigations, and reviewing the ongoing validity of council tax discounts and exemptions.
- 3.8 In accordance with following the public pound, we will undertake an audit of the Inverclyde Leisure Trust. Discussions will take place with senior management regarding the scope of the audit at the planning stage.
- 3.9 The risk scoring system is maintained on a real-time basis and is altered as circumstances change. Regular reviews of the risk scores allow Internal Audit to address the changing risk exposure of the organisation more effectively and ensure audit effort is focused on those areas identified as higher risk.

4.0 PROPOSALS

- 4.1 The Audit Committee is asked to approve the Internal Audit Annual Strategy and Plan 2025-26.

5.0 IMPLICATIONS

- 5.1 The table below shows whether risks and implications apply if the recommendation is agreed:

SUBJECT	YES	NO
Financial		X
Legal/Risk	X	
Human Resources		X
Strategic (Partnership Plan/Council Plan)	X	
Equalities, Fairer Scotland Duty & Children/Young People's Rights & Wellbeing		X
Environmental & Sustainability		X
Data Protection		X

- 5.2 There are no financial implications arising directly from this report.

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend This Report	Virement From	Other Comments

Annually Recurring Costs/Savings

Cost Centre	Budget Heading	With Effect From	Annual Net Impact	Virement From (If Applicable)	Other Comments

5.3 Legal/Risk

The role of Internal Audit is to provide Audit Committee with assurance on the Council's governance, risk management and internal control arrangements. Consideration of this report enables the Audit Committee to discharge its responsibility for approving the Internal Audit Strategy and Plan and monitor its performance.

5.4 Strategic

This report relates to strong corporate governance.

6.0 CONSULTATIONS

- 6.1 Discussions have taken place with the Corporate Management Team in relation to the proposed annual Internal Audit plan coverage.
- 6.2 There will be regular ongoing discussion with External Audit to ensure respective audit plans are reviewed as circumstances change in order to minimise duplication of effort and maximise audit coverage for the Council.

7.0 LIST OF BACKGROUND PAPERS

- 7.1 None.

2025/26 INTERNAL AUDIT ANNUAL STRATEGY AND PLAN**1. Introduction**

- 1.1 The Global Internal Audit Standards (UK Public Sector) set out the requirement for the Chief Internal Auditor to prepare a risk-based audit plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.
- 1.2 The Chief Internal Auditor must review and adjust the plan as necessary in response to changes in the organisation's business, risks, operations and priorities.
- 1.3 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.
- 1.4 The strategy shall be reviewed on an annual basis as part of the audit planning process.

2. Internal Audit Objectives

- 2.1 The purpose of Internal Audit, as defined within Global Internal Audit Standards is to 'strengthen the organisation'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'.
- 2.2 The primary aim of the internal audit service is to provide assurance services which requires 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.
- 2.3 The internal audit service also provides advisory services, generally at the request of the organisation, with the aim of improving governance, risk management and control and contributing to the overall opinion.
- 2.4 The internal audit service supports the interim Chief Financial Officer in her role as Inverclyde Council's (the Council) Section 95 Officer.

3. Risk Assessment and Audit Planning

- 3.1 The internal audit approach to annual audit planning is risk-based and all areas which may be subject to audit review are contained within an Audit Universe which is subject to formal review, at least annually.
- 3.2 The risk scoring system is maintained on a real-time basis and is altered as circumstances change. Regular reviews of the risk scores allow Internal Audit to address the changing risk exposure of the organisation more effectively and ensure audit effort is focused on those areas identified as higher risk.

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- 3.3 The Audit Universe is risk assessed each year to determine the Annual Audit Plan and ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk. Each area within the Audit Universe is assessed for impact against a number of broad risk categories as follows:

Strategy	Risks associated with the setting and achievement of strategic objectives.
Economy	Risks associated with the economy in which the Council operates.
Reputation	Risks associated with threats to the Council's name and standing in the sector.
Customer	Risks associated with customer relationships.
Legal/Regulatory	Risks associated with the requirement to comply with a wide range of statute.
Financial	Risks associated with financial loss or inefficiency.
Technology	Risks associated with application systems, their integrity, security and development.
Management Information	Risks associated with the provision of information for decision-making purposes.
Human Resources	Risks associated with people, e.g. recruitment, succession, development, motivation and morale etc.
Operations	Risks associated with the business operating process.
Business Continuity/Resilience	Risks associated with disaster scenarios which would threaten the continuing operation of the Council.
Security	Risks associated with security over customer and the Council's assets.
Stakeholder	Risks associated with management of stakeholder expectations (e.g. Government or local communities)
Fraud	Risks associated with asset misappropriation, corruption and financial statement fraud.

- 3.4 Account has also been taken of the risks identified in the Council's Risk Registers and risks identified by external scrutiny bodies through local scrutiny arrangements. In relation to the Corporate Risk Register, there are currently 10 key corporate risks which sit above the Council's currently defined acceptable risk boundary and have been considered for audit coverage in 2025/26 as follows:

CRR Reference	Previous Assurance Work	Planned Assurance Work 2025-26
01 Financial Current Risk Score: 16 (January 2025)	Internal Audit Plan: 2024-25 – Budgetary Control 2023/24 – Non-Domestic Rates; Commercial Waste Income – Billing and Collection 2022/23 – Debt Recovery 2021/22 – Insurance 2020/21 – Cash and Banking; Creditors 2019/20 – Sundry Debtors External Audit Annual Audit Plans: 2023/24, 2022/23, 2021/22, 2020/21 and 2019/20	Internal Audit Plan 2025/26 – Payroll Internal Audit follow up exercises External Audit Annual Audit Plan 2024/25

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CRR Reference	Previous Assurance Work	Planned Assurance Work 2025-26
13 High Level Service Demand – Children and Families Current Risk Score: 16 (January 2025)	New corporate risk identified January 2025.	There are a number of management mitigations/ interventions underway including monthly meetings with operational and finance managers to review Children's placements and packages of care; review of IJB financial strategy; and Children and Families Service Redesign. The Internal Audit Annual Plan 2025/26 has contingency days available to provide any ad hoc advice and support if required.
02 Workforce Current Risk Score: 12 (January 2025)	Internal Audit Plan: 2023/24 – Succession Planning; Attendance Management 2022/23 – Workforce Planning Arrangements 2019/20 – Safe Recruitment External Audit Annual Audit Plan 2023/24 – Thematic Review	Internal Audit Annual Plan 2025/26 – Payroll; Internal Audit follow up exercises External Audit Annual Audit Plan 2023/24 – follow up exercise
03 Council Assets Current Risk Score: 12 (January 2025)	External Audit Annual Audit Plans: 2023/24, 2022/23, 2021/22, 2020/21 and 2019/20	External Audit Annual Audit Plan 2024/25
04 ICT Infrastructure Current Risk Score: 12 (January 2025)	Internal Audit Plan: 2024/25 – Chris21 Upgrade project 2023/24 – Cashless Catering Replacement System 2022/23 – SWIFT Replacement System 2021/22 – SWIFT Replacement System 2020/21 – Parent Pay 2019/20 – Business Support Redesign	Internal Audit follow up exercises Ad hoc support to Chris21 Upgrade project
05 Net Zero Current Risk Score: 12 (January 2025)	Internal Audit Plan: 2022/23 – Climate Change – Utilities Management	There are a number of management actions underway and reported through the Environment and Regeneration Committee Delivery and Improvement Plan.
06 Partnership/ Supplier Failure Current Risk Score: 12 (January 2025)	Internal Audit Plan: 2023/24 – Procurement Compliance 2021/22 – Greenock Ocean Terminal 2020/21 – Corporate Procurement – Off Contract Spend 2019/20 – Governance of Community Groups; HSCP Contract Management	Internal Audit Annual Plan 2025/26 – Supplier Management Internal Audit follow up exercises
07 Information Governance Current Risk Score: 12 (January 2025)	Internal Audit Plan: 2022/23 – FOI Arrangements	Internal Audit Annual Plan 2025/26 – Records Management Internal Audit follow up exercises

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CRR Reference	Previous Assurance Work	Planned Assurance Work 2025-26
People – Demographic Changes Current Risk Score: 12 (January 2025)	Internal Audit Plan: 2023/24 – Succession Planning 2022/23 – Workforce Planning 2024/25 – HSCP Delayed Discharges; HSCP Strategic Commissioning; ASN Transport Policy Compliance	Internal Audit follow up exercises
09 Cyber Attack Current Risk Score: 12 (January 2025)	Internal Audit Plan: 2022/23 – Cyber Security Arrangements 2024/25 – Cyber Security Risk Management	Internal Audit follow up exercises

- 3.5 There will be regular ongoing discussion with External Audit to ensure respective audit plans are reviewed as circumstances change in order to minimise duplication of effort and maximise audit coverage for the Council.

4 Corporate Fraud

- 4.1 Managing the risk of fraud and corruption remains the responsibility of management. Internal Audit will, however, be alert in all its work to risks and exposures that could allow fraud or corruption and will investigate allegations of fraud and corruption in line with the Council's Anti-Fraud and Corruption Policy.
- 4.2 The Chief Internal Auditor should be informed of all suspected or detected fraud, corruption or irregularity in order to consider the adequacy of relevant controls and evaluate the impact on the Council's system of internal control.
- 4.3 In addition, Internal Audit will promote an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud. Through the work of the team, Internal Audit will maintain a fraud risk assessment and deliver a programme of proactive and reactive counter fraud services to help ensure that the Council continues to protect its services from fraud loss. This will include leading on the National Fraud Initiative data matching exercise on behalf of the Council.

5 Service Delivery

- 5.1 The provision of the internal audit service is through a directly employed in-house team. The Chief Internal Auditor is provided through a shared management arrangement with West Dunbartonshire Council.

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- 5.2 In relation to the total staff days allocated to the 2025/2026 plan, a resource allocation spreadsheet is completed for each member of staff which is split between annual leave, public holidays, training days, general administration and operational plan days. The combined operational plan is 675 days which will be resourced as follows:

Team Member	Plan Days
Chief Internal Auditor	90
Audit Practitioner	180
Audit Practitioner	180
Senior Corporate Fraud Officer	45*
Corporate Fraud Officer	180
Total Plan Days	675

*Senior Corporate Fraud Officer post is currently vacant but is anticipated to be filled by December 2025.

- 5.3 The Chief Internal Auditor does not directly carry out the assignments included in the annual audit plan but provides the technical quality review and oversight of the delivery of the overall plan. Time is also set side for overall audit planning, reporting on Internal Audit performance and attending Audit Committee. Where there are any resource issues which may impact on delivery of the plan, this will be reported to Audit Committee at the earliest opportunity.
- 5.4 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 UK Public Sector requires that the Chief Internal Auditor must hold a professional qualification such as CMIIA (Chartered Internal Auditor), CCAB or equivalent and be suitably experienced.
- 5.5 Internal audit staff members identify training needs as part of an appraisal process and are encouraged to undertake appropriate training, including in-house courses and external seminars as relevant to support their development. All training undertaken is recorded in a personal training record for CPD purposes.
- 5.6 Internal audit staff members require to conform to the Code of Ethics of the professional body of which they are members and to the Code of Ethics included within the Global Internal Audit Standards. An annual declaration is undertaken by staff in relation to specific aspects of the Code.
- 5.7 Following each review, audit reports are issued in draft format to agree the accuracy of findings and agree risk mitigations. Copies of final audit reports are issued to the relevant Head of Service and Service Manager responsible for implementing the agreed action plan. A copy of each final audit report is also provided to External Audit.
- 5.8 The overall opinion of each audit report feeds into the Internal Audit Annual Report and Assurance Statement which is presented to the Audit Committee and is used by the s95 Officer in the preparation of the Annual Governance Statement.

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6 Proposed Audit Coverage 2025-2026

- 6.1 The proposed audit coverage is set out in the table below. This includes a range of risk-based reviews, compliance reviews and regularity audits.
- 6.2 The Plan contains a contingency provision that will be utilised during the year in response to unforeseen work demands that arise e.g. special investigations and provision of ad hoc advice.

Audit Area	Strategic Area	Staff Days
Risk-Based Reviews		
Payroll	Education, Communities and Organisational Development	30
Supplier Management (b/f 2024/25)	Corporate	30
Risk Management	Corporate	30
Planning Applications	Regeneration and Environment	25
Total		115
Compliance Reviews		
Records Management (b/f 2024/25)	Corporate	30
Total		30
ALEO Review		
Inverclyde Leisure Trust	Education, Communities and Organisational Development	25
Total		25
Regularity Audits		
Education Control Self-Assessment	Education, Communities and Organisational Development	25
Section Payments	HSCP	25
Overtime and other allowances – quarterly review	Corporate	30
Recruitment Reference Checks – quarterly review	Corporate	30
Total		110
Corporate Fraud Activity		
National Fraud Initiative	Corporate	120
Whistleblowing and Other Investigations	-	30
Liaison with DWP	-	10
Council Tax Discounts and Exemptions	Finance	30
Fraud Awareness Training	Corporate	5
Total		195
Other Work		
Audit follow up	Corporate	10
IJB – Internal Audit Service	-	20
Audit Planning	-	10
Performance and Quality Assurance	-	30
Audit Committee – reporting and attendance	-	30
Annual Governance Statement 2024-25	-	10
Global Internal Audit Standards Implementation	-	10
Contingency	-	30
Completion of 2024-2025 Audit Plan – ASN Transport Policy; Vehicle Maintenance; Governance of External Organisations; HSCP Strategic Commissioning	-	50
Total		200
Total Staff Days for 2025/26		675

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7 Quality and Performance

- 7.1 The Global Internal Audit Standards require each internal audit service to maintain an ongoing quality assurance and improvement programme based on an annual self-assessment against the Standards, supplemented at least every five years by a full independent external assessment.
- 7.2 In addition, the performance of Internal Audit continues to be measured against key service targets focussing on quality, efficiency and effectiveness. For 2025/2026 these have been set as follows:

Measure	Description	Target
1. Draft Report	Percentage of draft reports issued within 3 weeks of completion of fieldwork.	90%
2. Final Report	Percentage of final reports issued within 2 weeks of issue of draft report.	100%
3. Audit Plan Delivery	Percentage of audits completed v planned.	85%
4. Audit Budget	Percentage of audits completed within budgeted days.	80%
5. Audit Recommendations	Percentage of audit recommendations agreed.	90%
6. Action Plan Follow Up	Percentage of action plans followed up – Internal and External Audit.	100%
7. Customer Feedback	Percentage of respondents who rated the overall quality of internal audit as satisfactory or above.	100%
8. NFI recommended matches	Percentage of National Fraud Initiative high risk matches investigated within timescales.	100%
9. DWP liaison	Percentage of cases referred to/ actioned for DWP within DWP timescales.	100%
10. Staff compliance with CPD	Number of training hours undertaken to support CPD.	80
11. Management engagement	Number of meetings with CMT and senior management as appropriate.	1 per quarter