

**UHI SHETLAND**

**INTERNAL AUDIT PLAN  
2025-2026 - FINAL**

MAY 2025

IDEAS | PEOPLE | TRUST

# CONTENTS

	Page
INTRODUCTION AND EXECUTIVE SUMMARY	3
INTERNAL AUDIT STRATEGY	4
INTERNAL AUDIT APPROACH	5
INTERNAL AUDIT RESOURCES AND OUTPUTS	7
OUR APPROACH TO PLANNING	8
INTERNAL AUDIT PLAN 2025-2026	10
LINK TO RISK REGISTER	13
INTERNAL AUDIT FOUR-YEAR PROGRAMME 2023-2027	14
APPENDICES:	16
APPENDIX I: INTERNAL AUDIT CHARTER	17
APPENDIX II: WORKING PROTOCOLS	23
APPENDIX III: DEFINITIONS	25

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# INTRODUCTION AND EXECUTIVE SUMMARY

## Introduction

- ▶ Internal auditing strengthens 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.
- ▶ Our approach is to help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Our approach complies with best professional practice, in particular, the principles set out in the Institute of Internal Auditor's (IIA's) International Professional Practices Framework (IPPF) which includes the new Global Internal Audit Standards that became effective from January 2025.
- ▶ The purpose of this paper is to set out, and seek agreement from, the UHI Shetland Audit Committee on the Internal Audit Annual Plan for 2025-26.

## Internal Audit at UHI Shetland

We have been appointed as internal auditors at UHI Shetland to provide the Audit and Committee and the Senior Leadership Team with assurance on the adequacy of risk management, governance and internal control arrangements.

Responsibility for these arrangements remains fully with management who should recognise that Internal Audit can only provide 'reasonable assurance' and cannot give any guarantee against material errors, loss or fraud. Our role is aimed at helping management to improve its risk management, governance and internal control mechanisms, so reducing the effects of any significant risks facing the organisation.

In establishing the internal audit plan for 2025-26 we have sought to further clarify our initial understanding of the organisation's business and risk profile in the context of:

- ▶ Corporate risks
- ▶ Management's priorities and objectives for the coming year
- ▶ The key challenges facing the organisation, by reviewing the significant risk register
- ▶ The internal audit work carried out in prior years
- ▶ Cyclical coverage based on the audit universe

Priorities identified include risk management, governance and compliance, health and safety, business continuity planning, and climate change initiatives, marking significant changes which the organisation faces in the coming years.

## Summary

- ▶ The Internal Audit Plan for 2025-26 is set out within this document and comprises three audits, an annual follow up, and contract management totalling 34 days.
- ▶ The rolling three-year Internal Audit Plan is set out on page 14 onwards and will be subject to review each year.
- ▶ The total cost of the Annual Plan for 2025-26 will depend on the staff mix used, but it is estimated to be around £19,584 according to the tender submission and agreed contract.

# INTERNAL AUDIT STRATEGY

## Internal Audit Vision

Our vision is to be a trusted, agile, and proactive internal audit service that enhances the integrity, efficiency, and effectiveness of the organisation.

## Strategic Objectives

### 1. Enhance Risk Management

Contribute to identifying, assessing and providing assurance over the management of key risks to enhance risk management practices.

### 2. Improve Operational Efficiency

Streamline processes and procedures to enhance operational efficiency and effectiveness.

### 3. Ensure Compliance

Ensure adherence to laws, regulations, and internal policies to maintain high standards of governance.

### 4. Promote Continuous Improvement

Foster a culture of continuous improvement through regular audits and feedback. Enhance audit reporting in order to bring enhanced data insights and focus attention on key messages.

### 5. Strengthen Stakeholder Confidence

Build and maintain trust with stakeholders through transparent and accountable audit practices.

## Supporting Initiatives

### 1. Risk and Assurance mapping

Continue to regularly review organisational risks and work with first and second line to continuously map assurance provision to risks.

### 2. Process Optimisation Reviews

Continue to perform detailed reviews of key processes to identify areas for improvement and implement best practices.

### 3. Compliance Audits

Schedule regular compliance audits to provide assurance that activities meet legal and regulatory requirements.

### 4. Stakeholder Engagement Sessions

Continue to hold regular sessions with stakeholders to discuss audit findings, gather feedback, and build trust, and to collaborate on assurance provision.

### 5. Technology Integration

Leverage advanced audit tools and technologies to enhance the accuracy and efficiency of audit processes.

### 6. Performance Metrics

Continue to monitor and report on key performance indicators (KPIs) to measure the effectiveness of the internal audit function.

By focusing on these strategic objectives and supporting initiatives, we aim to deliver exceptional internal audit services that support the mission and goals of the organisation.

# INTERNAL AUDIT APPROACH

## Background

- ▶ Our risk-based approach to internal audit uses the organisation's risk management processes and risk registers as a starting point for audit planning, as this represents the organisation's own assessment of the risks to it achieving its strategic objectives.
- ▶ The extent to which we can rely on management's own perception of risk largely depends on the maturity and effectiveness of the organisation's own arrangements for managing risk. In estimating the amount of audit resource required to address the most significant risks, we have also sought to confirm that senior management's own assessment of risk accurately reflects the organisation's current risk profile.

In establishing the Internal Audit Strategy, we have sought to further clarify our initial understanding of the operations at the organisation, together with its risk profile in the context of:

- ▶ The overall strategy and objectives of the organisation
- ▶ Key challenges facing the organisation, by reviewing the standing corporate risk register and discussion with Senior Management
- ▶ Key areas where management wish to monitor performance and the manner in which performance is measured
- ▶ Financial and non-financial measurements and indicators of such performance
- ▶ The information required to 'run the organisation'

## Our Risk Based Planning Approach for 2025-2026

The 2025-2026 Internal Audit (IA) plan has been created to exhibit the planned Internal Audits to be conducted within the audit year.

As part of the planning process to align the IA plan to the organisation's needs, the Internal Audit team spent time with Senior Management in the initial three-year programme development and in subsequent years to discuss the key areas of focus and concern for the organisation in 2025-2026. During these discussions, we covered the potential areas of focus in as well as any emerging risks within the organisation. The outputs from these discussions were incorporated into the Internal Audit plan outlined within this document.

The 2025-2026 Internal Audit plan was formed using the information above, the risk register, the organisation's strategic documents, previous audit coverage, along with our own knowledge and understanding of the organisation's priorities, and our own ongoing assessment of risks.

## Planned Approach to Internal Audit 2025-26

- ▶ The suggested Internal Audit Plan for 2025-26 is set out on pages 10 onwards. We will keep the plan under review throughout the year and we will highlight for consideration any significant areas of risk identified during that period that may need to be included as part of the internal audit plan.
- ▶ Where auditable areas correspond to corporate risks, we will take into account the mitigation strategies in place when performing our reviews. This is to ensure that the mitigating controls, as well as the actions that have been identified by management, are in operation and are effective.

## High Risk Areas

There are no significant risks within the organisation's control which are not being covered within the outlined three-year audit programme outlined within this plan.

## Contingency Audits

The audit plan is flexible to allow priority topics and emerging risk areas to be included within the 25-26 coverage.

There are currently no set contingency audits outlined within the programme. However, audits can be moved forward from later years or to cover emerging risks as required.



# INTERNAL AUDIT APPROACH



## Variations to the Plan

We will continue to keep the Internal Audit Plan under review throughout the year. We will highlight for consideration any significant areas of risk identified during that period, which may need to be included as part of the annual plan.

We acknowledge that variations to this plan may arise if the organisation's strategic priorities, risk profile or governance arrangements change. Approval will be sought from the Audit Committee before any changes to the Internal Audit Plan are made.

## Individual Audits

In determining the timing of our individual audits, we will seek to agree a date most convenient to the organisation which ensures the availability of key stakeholders. Once this plan is agreed we will discuss priorities and workloads with management and re-issue the plan including the proposed phasing of our internal audit work.

For each we have set out whether they are an assurance or advisory engagement. For each assurance review, we will identify the key objectives of the area subject to audit and the risks of those objectives not being met. We will assess the 'unmitigated' risk (i.e. before the operation of the controls in place) and, having identified and tested those controls, make an assessment of the 'mitigated' risk. This will enable us to confirm that the control infrastructure does reduce risk to a level the organisation is comfortable with. Each of our audit reports will include two opinions:

- Firstly, on the design of controls that are in place
- Secondly, on the operational effectiveness of those controls in practice.

# INTERNAL AUDIT RESOURCES AND OUTPUTS



## Resourcing

The plan has been drafted giving consideration to the organisation's budget and how coverage can be best obtained. Resource will be adequate to ensure the delivery of agreed reports to time, except where this is outside of our control. BDO has a core group of professionally qualified staff, including Chartered Accountants and The Institute of Internal Auditors qualified staff, as well as other specialists and experienced auditors. Our team is fully attuned with modern internal audit practice and recognised risk and governance standards.

Subject to approval of the budget, we can confirm that we have sufficient human, financial and technological resources to deliver the Internal Audit Plan.

## Core internal audit team

The core team that will be managing the internal audit programme is:

Name	Grade	Qualification	Email
Claire Robertson	Director - Head of RAS Scotland	CA	Claire.Robertson@bdo.co.uk
Deepasri Selvam	Contract Manager	ACMA, CGMA	Deepasri.Selvam@bdo.co.uk

This team will be supported by members of our Risk Advisory Services (RAS) team and wider firm, as and when required.

## Reporting to the Audit Committee

Each year we will submit the Internal Audit Plan for discussion and approval by the Audit Committee. We will liaise with the Director and Audit Sponsor, and other senior officers, as appropriate, to ensure that internal audit reports, summarising the results of our visits, are presented to the appropriate Audit Committee meeting.

## Internal Audit Charter

We have formally defined Internal Audit's purpose, authority and responsibility in an Internal Audit Charter, which can be found in Appendix I. The Charter establishes Internal Audit's position within the organisation and defines the scope of its activities.

## Definitions

We define in Appendix III our approach for grading individual audit findings and overall audit reports. These definitions have been designed to make the ratings clear to both the Internal Audit team and audit stakeholders.

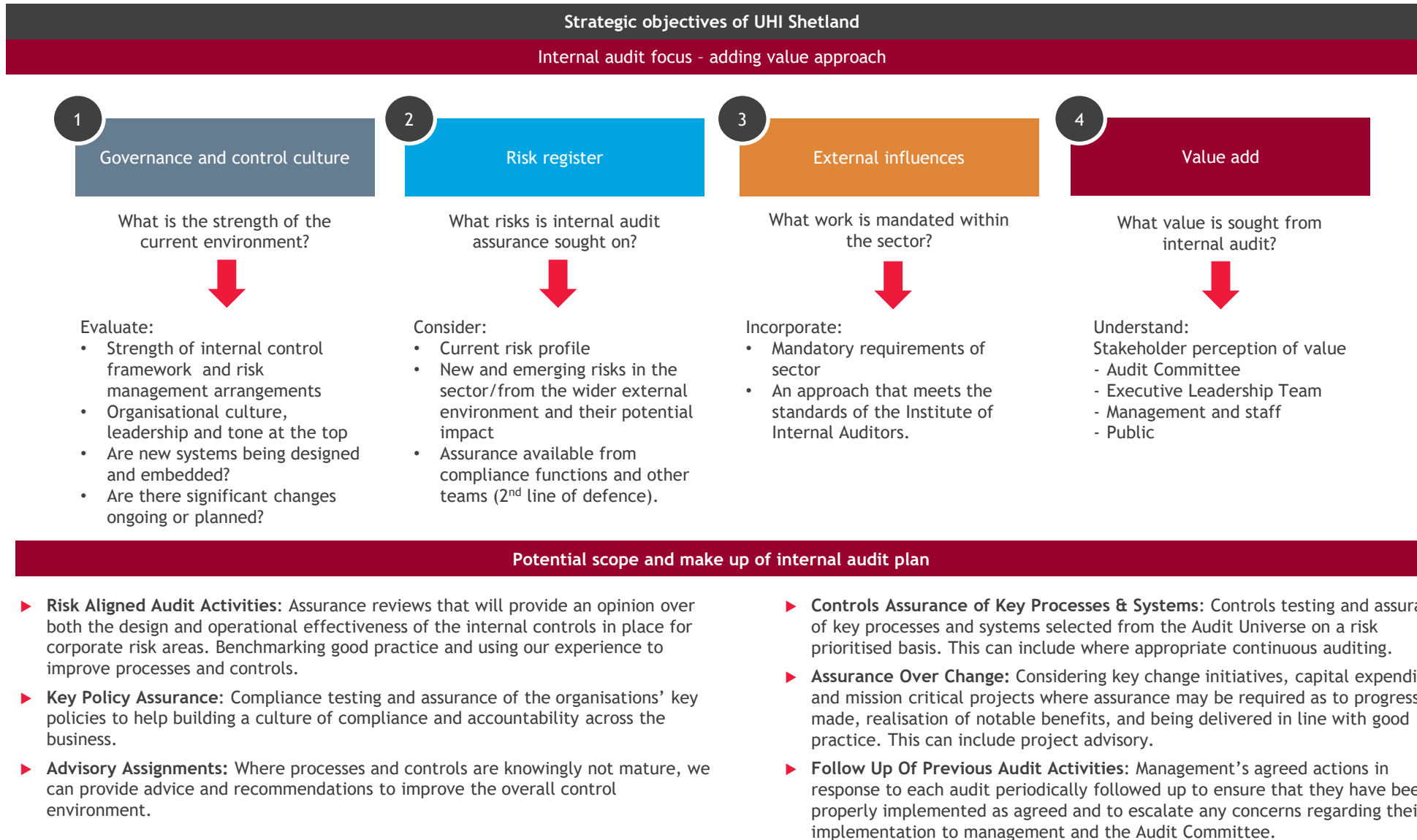
## Working Protocols

We have defined operating protocols for managing each assignment. These can be found in Appendix II. The procedures take account of how we will communicate with stakeholders before, during and after each audit.



# OUR APPROACH TO PLANNING

## Planning approach





# OUR APPROACH TO PLANNING

## Planning approach

1

### Governance and control culture

The governance and control culture is a fundamental consideration when developing the internal audit approach. We believe that governance is not only affected by procedures, rules and regulations (hard controls); another equally important component is the established culture and behaviour of employees within the organisation, as these determine the effectiveness of governance.

We have developed an understanding of these areas through a combination of our discussions with you about your business strategy and through review of documents such as the Strategic Plan, Annual Report, previous internal audit coverage, good governance framework, risk registers.

Assessment of culture and behaviour will be a key theme throughout the delivery of our work and we will look to provide insight into whether these cultural factors support ethical behaviour on an ongoing basis.

In deriving the plan for 2025-26 and onwards we will focus on any planned and ongoing changes to core systems, functions, resource, and processes to respond to the changes in the wider environment.

3

### External influences

Our programme of work is designed to comply with the Global Internal Audit Standards which form part of the International Professional Practice Framework set out by The Institute of Internal Auditors.

We will also consider in our work any externally imposed regulation relating to governance, risk and control.

2

### Current risk register

On an ongoing basis, our audit plan will be based upon a detailed assessment of those risks that affect the achievement of the organisation's strategic objectives. Our audit programme will be designed to ensure that controls are in place such that key risks are appropriately managed and controlled. To understand the organisation's objectives and key risks, we considered the following:

- ▶ UHI Shetland's strategy and objectives
- ▶ Risk registers
- ▶ Financial forecasts and performance
- ▶ Input from other key assurance providers, including External Audit
- ▶ The content of your most recent internal audit reports
- ▶ The internal audit plan and corporate risk register will be periodically reviewed during 2025-26. Should the plan need to change we will seek approval from the Audit Committee.

4

### Value add

We understand that 'value' is perceived differently by each client and therefore we do not seek to have a standard approach to this element of the audit programme.

Our methodology considers the additional value the Audit Committee and management are seeking from internal audit, beyond the assurance our work provides.

We therefore consider this alongside our understanding of the risks. Added value may take a range of forms, from benchmarking and other peer comparisons, to involvement with advising on new systems implementation, advisory assignments and training.

We will clearly set out in the plan which elements of adding value activity we will deliver.

## INTERNAL AUDIT PLAN - 2025-2026

Set out below is the Internal Audit plan for 2025-2026. Executive sponsors have been assigned to each review. The Executive sponsors will be responsible for identifying the relevant colleagues who should be involved in each stage of the Internal Audit review (e.g., planning, fieldwork, reporting, follow up).

The budgeted number of days is subject to change, following the completion of the planning stage of each review and will be charged at the agreed blended day rate. In addition, the detailed significant risks each Internal Audit is associated with can be found on page 13.

REF	AUDIT TOPIC	CORPORATE RISK REGISTER #	LINK TO STRATEGIC VISION	PRIMARY SOURCE & REASON FOR SELECTION	PROPOSED EXECUTIVE SPONSOR(S)	BUDGETED DAYS
UHI/FY25 /01	Fraud Strategy	7	NA	Risk Register, Audit Assessment	Katrina Short	7
UHI/FY25 /02	Professional Development	4	Invest in staff and support development.	Risk Register, Audit Assessment	Kathy MacDonald	7
UHI/FY25 /03	Complaints Management	10	Improve student support and wellbeing access.	Risk Register, Audit Assessment	Kevin Briggs	8
UHI/FY25 /04	Follow Up	NA	NA	NA	Jane Lewis	3
NA	Audit Plan Development	NA	NA	NA	NA	1
NA	Audit Committee Attendance and Preparation	NA	NA	NA	NA	3
NA	Client Liaison	NA	NA	NA	NA	4
NA	Annual Reporting	NA	NA	NA	NA	1
Total						34

## INTERNAL AUDIT PLAN - 2025-2026

For each review which forms part of the proposed Internal Audit plan for 2025-2026, we have outlined a high-level scope for illustration purposes to support the planning phase. Executive sponsors have been assigned to each review. The Executive sponsors will be responsible for identifying the relevant colleagues who should be involved in each stage of the Internal Audit review (e.g., planning, fieldwork, reporting, follow up.).

REF	AUDIT TOPIC	REVIEW TYPE	HIGH LEVEL SCOPE	EXEC SPONSOR(S)
UHI/FY25/01	Fraud Strategy	Assurance	The review will focus on effectiveness of the controls that are in place at the College to safeguard against fraudulent activity, including identifying possible sources of fraud and establishing controls to mitigate the risks, and processes in place to respond to fraud	Katrina Short
UHI/FY25/02	Professional Development	Assurance	The review will assess the professional development processes in place to ensure staff are completing mandatory learning and development requirements. It will also check that the College is providing materials and opportunities for staff to complete appropriate training programmes. Additionally, the review will verify whether there are processes and systems in place for tracking the training undertaken by staff.	Kathy MacDonald
UHI/FY25/03	Complaints Management	Assurance	The review will focus on the effectiveness of the controls that are in place at the College to ensure robust complaints handling and management.	Kevin Briggs
UHI/FY25/04	Follow Up	Assurance	The effectiveness of internal control systems may be compromised if management fails to implement agreed audit recommendations. Our follow up work will provide the Audit Committee with assurance that recommendations are implemented within the expected timescales.	Jane Lewis

# INTERNAL AUDIT SCHEDULE - 2025-2026

The chart below sets out the proposed delivery schedule for the 2025-2026 Internal Audit plan.

REF	INTERNAL AUDIT	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	TARGET AC
UHI/FY25/01	Fraud Strategy													NOV 2025
UHI/FY25/02	Professional Development													MAR 2026
UHI/FY25/03	Complaints Management													JUN 2026
UHI/FY25/04	Follow Up													SEP 2026



## LINK TO RISK REGISTER

We have linked the UHI Shetland's corporate risk register to the audits in our Internal Audit Plan (as of March 2025)

RISK #	RISK DESCRIPTION	GROSS RISK	RESIDUAL RISK	2024-25	2025-26	2026-27	OTHER ASSURANCE
1	College does not achieve allocated HE student number targets.	8	6				Reporting To LTR Committee
2	College does not achieve allocated FE Credit targets.	20	16				Reporting To LTR Committee
3	The institution has a poor reputation.	9	4				Students Admission Survey
4	Disruption to services/projects and/or partnership working resulting from loss of a key staff member.	9	6		Professional Development	Staff Welfare	
5	Non-compliance with relevant statutory regulations	9	4			Freedom Of Information	Annual Audit Of Data Register
6	Governance Failure	15	9				UHI Corporate Governance Report
7	Financial failure/operating loss. Inability to achieve a balanced budget.	20	12	Procurement Contract Management	Fraud Strategy	Financial Planning/ Budgetary Control	External Audit Reporting To FP&G Committee
8	College estate not fit for purpose.	12	6	Estates Management			Capital Planning Group
9	Academic quality is sub-standard	9	4	Curriculum Planning			Reporting To LTR Committee
10	Poor Student Experience	9	4		Complaints Management		Reporting To LTR Committee
11	Research outputs are sub standard	9	6				
12	Institutional, personal and sensitive data is corrupted, lost, stolen or misused or services are disrupted through malicious and illegal activities by external individuals or bodies.	12	6				Asset Database Mandated Training
13	Failure to act appropriately and timeously regarding progressing actions designed to achieve obligations to reduce emissions and to achieve net zero in the context of the climate emergency and in relation to all UHI activities and operations.	12	9				
14	Business continuity plan - local risk	10	4				

## INTERNAL AUDIT THREE-YEAR PROGRAMME 2024-2027

The table below outlines our proposed three-year internal audit programme against the areas of the organisation's Audit Universe for 2024-2027. Audits included in Year 3 are indicative of what might be included based on our initial discussions with management, the current risk register, and our audit needs assessment, but will be subject to a formal review towards the end of each audit year.

AUDIT AREA	LAST AUDITED	PREVIOUS RATING		2024-25	2025-26	2026-27	OTHER ASSURANCE
		DESIGN	EFF.				
Finance, Governance and Risk							
Risk Management	2022-23	LIM	LIM				
Strategic Planning	2024-25	MOD	MOD				
General Financial Controls	2022-23	MOD	MOD				
Fraud Strategy							
Payroll	2023-24	MOD	MOD				
Research Governance & Management	2022-23	MOD	MOD				
Financial Planning/ Budgetary Control							
Procurement and Contract Management							
IT, Digital and Compliance							
Business Continuity Planning	2022-23	LIM	LIM				
Cyber Security	2023-24	MOD	MOD				
Data Protection	2023-24	MOD	MOD				
Freedom of Information							
Operations							
Estates Management	2024-25	LIM	LIM				
Student Recruitment	2022-23	SUB	MOD				
Student Support	2023-24	MOD	MOD				

# INTERNAL AUDIT THREE-YEAR PROGRAMME 2024-2027

AUDIT AREA	LAST AUDITED	PREVIOUS RATING		2024-25	2025-26	2026-27	OTHER ASSURANCE
		DESIGN	EFF.				
Operations							
Staff Welfare							
Professional Development							
Curriculum Planning	2024-25	MOD	MOD				
Staff Recruitment	2022-23	MOD	MOD				
Complaints Management							
Health & Safety	2022-23	LIM	LIM				
Management action plans follow up	Annual						
Planning, liaison, management, committee attendance and reporting	Annual						
Contingency							



An aerial photograph of a rural landscape at sunset. The scene is dominated by vibrant green fields, some of which are divided by stone walls or hedgerows. A winding road or path cuts through the fields. In the distance, a small cluster of buildings is visible, and the sun is setting on the horizon, creating a warm, golden glow across the entire scene. The sky is a mix of orange and yellow, with some clouds catching the low light.

# APPENDICES



# APPENDIX I: INTERNAL AUDIT CHARTER

## Internal Audit's Purpose and Mandate

### Purpose

The purpose of the internal audit function 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.

The internal audit function enhances the organisation'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

UHI Shetland's internal audit function is most effective when:

- ▶ Internal auditing is performed by competent professionals in conformance with the Institute of Internal Audit's Global Internal Audit Standards™, which are set in the public interest.
- ▶ The internal audit function is independently positioned with direct accountability to the board.
- ▶ Internal auditors are free from undue influence and committed to making objective assessments.

### Mandate

#### Authority

The board grants the internal audit function the mandate to provide the board and senior management with objective assurance, advice, insight, and foresight.

The internal audit function's authority is created by its direct reporting relationship to the board. Such authority allows for unrestricted access to the board.

The board authorises the internal audit function to:

- ▶ Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to carrying out internal audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information.
- ▶ Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives.
- ▶ Obtain assistance from the necessary organisation's personnel in relevant engagements, as well as other specialised services from within or outside the organisation to complete internal audit services.

### Independence, position, and reporting relationships

The Head of Internal Audit (HoIA) HoIA 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 function.

The HoIA will report functionally to the board and administratively to the Senior Leadership Team.

This positioning provides the organisational authority and status to bring matters directly to senior management and escalate matters to the board, when necessary, without interference and supports the internal auditors' ability to maintain objectivity.

The HoIA will confirm to the board, at least annually, the organisational independence of the internal audit function.

The HoIA will disclose to the board 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 function's effectiveness and ability to fulfil its mandate.

# APPENDIX I: INTERNAL AUDIT CHARTER

## Board Oversight

To establish, maintain, and ensure the organisation's internal audit function has sufficient authority to fulfil its duties, the board will:

- ▶ Discuss with the HoIA and senior management the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the internal audit function.
- ▶ Ensure the HoIA has unrestricted access to and communicates and interacts directly with the board, including in private meetings without senior management present.
- ▶ Discuss with the HoIA and senior management other topics that should be included in the internal audit charter.
- ▶ Participate in discussions with the HoIA and senior management about the “essential conditions,” described in the Global Internal Audit Standards, which establish the foundation that enables an effective internal audit function.
- ▶ Review and approve the internal audit function's charter annually, which includes the internal audit mandate and the scope and types of internal audit services.
- ▶ Approve the risk-based internal audit plan.
- ▶ Approve the internal audit function's human resources administration and budgets.

- ▶ Collaborate with senior management to determine the qualifications and competencies the organisation expects in a chief audit executive.
- ▶ Authorise the appointment and removal of the chief audit executive and out-sourced internal audit provider.
- ▶ Approve the fees paid to the out-sourced internal audit provider.
- ▶ Review the chief audit executive's and internal audit function's performance.
- ▶ Receive communications from the HoIA about the internal audit function 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 HoIA to determine whether scope or resource limitations are inappropriate.

### Changes to the Mandate and Charter

Circumstances may justify a follow-up discussion between the chief audit executive, board, 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.
- ▶ A significant acquisition or reorganisation within the organisation.
- ▶ Significant changes in the chief audit executive, board, and/or senior management.
- ▶ Significant changes to the organisation's strategies, objectives, risk profile, or the environment in which the organisation operates.
- ▶ New laws or regulations that may affect the nature and/or scope of internal audit services.



# APPENDIX I: INTERNAL AUDIT CHARTER

## HolA Roles and Responsibilities



### Ethics and Professionalism

The HolA will ensure that internal auditors:

- ▶ Conform with the Global Internal Audit Standards, 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 organisation.
- ▶ Report organisational behaviour that is inconsistent with the organisation's ethical expectations, as described in applicable policies and procedures.

### Objectivity

The HolA will ensure that the internal audit function 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 HolA 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.

Internal auditors will have no direct operational responsibility or authority over any 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

Internal auditors will:

- ▶ Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the chief audit executive, board, management, or others.
- ▶ 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.

# APPENDIX I: INTERNAL AUDIT CHARTER

## HolA Roles and Responsibilities



### Managing the Internal Audit Function

The HolA has the responsibility to:

- ▶ At least annually, develop a risk-based internal audit plan that considers the input of the board and senior management. Discuss the plan with the board and senior management and submit the plan to the board for review and approval.
- ▶ Communicate the impact of resource limitations on the internal audit plan to the board and senior management.
- ▶ Review and adjust the internal audit plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls.
- ▶ Communicate with the board 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.
- ▶ Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of internal audit services to the board and senior management periodically and for each engagement as appropriate.
- ▶ Ensure the internal audit function collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the Global Internal Audit Standards and fulfil the internal audit mandate
- ▶ Identify and consider trends and emerging issues that could impact the organisation and communicate to the board 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 function
- ▶ Ensure adherence to relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to the board and senior management
- ▶ Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the HolA cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and if necessary escalated to the board.



# APPENDIX I: INTERNAL AUDIT CHARTER

## HolA Roles and Responsibilities

### Communication with the Board and Senior Management

The HolA will report as required or where appropriate to the board and senior management regarding (see appendix II for an example of proposed working protocols):

- ▶ The internal audit function's mandate
- ▶ The internal audit plan and performance relative to its plan
- ▶ Internal audit budget
- ▶ 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 function's conformance with the IIA's Global Internal Audit Standards and action plans to address the internal audit function's deficiencies and opportunities for improvement
- ▶ Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the board
- ▶ Results of assurance and advisory services
- ▶ Resource requirements
- ▶ Management's responses to risk that the internal audit function determines may be unacceptable or acceptance of a risk that is beyond the organisation's risk appetite.



### Quality Assurance Improvement Programme (QAIP)

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

The program will include external and internal assessments of the internal audit function's conformance with the Global Internal Audit Standards, as well as performance measurement to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement.

The plan will assess the efficiency and effectiveness of internal audit and identify opportunities for improvement.

Annually, the HolA will communicate with the board and senior management about the internal audit function'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 BDO; qualifications must include at least one assessor holding an active Certified Internal Auditor credential.

# APPENDIX I: INTERNAL AUDIT CHARTER

## Scope and Types of Internal Audit Services

### Scope and Types of Internal Audit Services

- ▶ The scope of internal audit services covers the entire breadth of the organisation, including all UHI Shetland 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 board and management on the adequacy and effectiveness of governance, risk management, and control processes for the organisation.
- ▶ The nature and scope of advisory services may be agreed with the party requesting the service, provided the internal audit function 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 engagements may include evaluating whether:

- ▶ Risks relating to the achievement of the organisation's strategic objectives are appropriately identified and managed.
- ▶ The actions of UHI Shetland's directors, management, employees, and contractors or other relevant parties comply with organisational policies, procedures, and applicable laws, regulations, and governance standards.
- ▶ The results of operations and programs are consistent with established goals and objectives.
- ▶ Operations and programs are being carried out effectively and efficiently.
- ▶ Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the organisation.
- ▶ 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 protected adequately.



## APPENDIX II - WORKING PROTOCOLS AND PERFORMANCE

The tables opposite set out the principal communication and reporting points between and Internal Audit, which are subject to regular review. Any future changes to the communication and reporting points are reported to the Audit Committee for approval.

Table One: Liaison Meetings Between the organisation and Internal Audit and with External Audit

MEETING	FREQUENCY	AUDIT COMMITTEE	AUDIT SPONSOR	MANAGEMENT TEAM	RELEVANT STAFF	EXTERNAL AUDIT
Internal audit liaison meeting with management	As required		✓	✓	✓	
Internal audit update meetings	As required		✓	✓		
Quality Assurance Meeting	As required		✓			
Liaison meeting with Chair of the Audit Committee	As required	✓				
ARAC to discuss audit progress	Quarterly	✓				
Meetings to raise immediate concerns	As necessary	✓	✓	✓	✓	
Meetings with external audit	As necessary					✓

Table Two: Key Reporting Points Between the organisation and Internal Audit

MEETING	AUDIT COMMITTEE	AUDIT SPONSOR	MANAGEMENT TEAM	RELEVANT STAFF
Annual Internal Audit Plan	✓	✓	✓	✓
Individual internal audit planning documents		✓	✓	✓
Draft Internal Audit Reports*		✓	✓	✓
Final Internal Audit Reports*	✓	✓	✓	✓
Quality Progress Reports	✓	✓	✓	
Annual Internal Audit Report	✓	✓	✓	

\*Internal Audit reports are distributed to the relevant Management Team members only.

## APPENDIX II - WORKING PROTOCOLS AND PERFORMANCE

### Internal Audit Performance Measures and Indicators

Internal Audit's performance is assessed in two ways. Firstly, there is the ability for us to self-assess our performance on a regular basis and report back to the Audit Committee on certain measures around inputs and satisfaction from those members of management who have been subject to a review.

Secondly, the view of the Audit Committee as to the value being received from its internal audit provider has to be taken into account. Much of this can be drawn from our attendance at Audit Committee, in camera meetings and by the views of management. For our part, we look to report to the Audit Committee regularly on the internal audit inputs as detailed below.

The tables contain performance measures and indicators that we consider to have the most value in assessing the efficiency and effectiveness of Internal Audit.

Tables three and four contain performance measures and indicators that we consider to have the most value in assessing the efficiency and effectiveness of internal audit. We recommend that the Audit Committee approves the following measures which we will report to each meeting and/or annually as appropriate.

Table Three - Performance reporting to Audit Committee

MEASURE / INDICATOR
<b>Audit coverage</b>
▶ Audits completed against the Annual Audit Plan
▶ Actual days input compared with Annual Audit Plan
<b>Audit planning and reporting</b>
▶ Days to issue draft report after end of fieldwork

Table Four: Annual Performance Reporting

MEASURE / INDICATOR
<b>Relationships and customer satisfaction</b>
▶ Client satisfaction reports
<b>Staffing</b>
▶ Colleague mix compared with budget
▶ Percentage of Director and Manager time
▶ Continuity of staffing
▶ Use of specialist staff (e.g. IT Risk and Advisory)

### Management performance measures and indicators

Management's ability to respond efficiently to internal audit findings and recommendations helps the Audit Committee to form its own view of the internal control framework.

Importantly, management's consideration of internal audit findings plays a contributory factor in our ability to deliver timely reports to the Audit Committee. Therefore, the following measures are also reported to the Audit Committee.

#### MEASURE/INDICATOR

##### Audit reporting

- ▶ Days for receipt of management responses

### Other performance measures

In addition to the above-mentioned measures, we will also provide the Audit Committee with the results of other reviews of our internal audit service as and when they become available, including:

- ▶ Independent quality assurance reviews as required by the Chartered Institute of Internal Auditors (IIA)
- ▶ BDO internal quality assurance reviews.



## APPENDIX III: DEFINITIONS

LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF INTERNAL CONTROLS	
	FINDINGS FROM REVIEW	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION
SUBSTANTIAL	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
MODERATE	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally, a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non-compliance with some controls, that may put some of the system objectives at risk.
LIMITED	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
NO	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non-compliance and/or compliance with inadequate controls.
Recommendation Significance				
HIGH	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.			
MEDIUM	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.			
LOW	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.			

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