



Chartered Institute of
Internal Auditors

An Evaluation of the Health of Internal Audit in Local Authorities

July 2024

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Foreword

‘Internal auditing plays a critical role in enhancing an organisation’s ability to serve the public interest. While the primary function of internal auditing is to strengthen governance, risk management, and control processes, its effects extend beyond the organisation. Internal auditing contributes to an organisation’s overall stability and sustainability by providing assurance. This, in turn, fosters public trust and confidence in the organisation and the broader systems of which it is a part.’

(Global Internal Audit Standards 2024)

CIPFA’s 2022 report, *Internal audit: untapped potential*, explains that ‘internal audit has a vital role to play in supporting public service organisations to achieve their goals.’ However, the report highlighted the challenges of internal audit reaching its full potential given the complex governance arrangements and the challenging financial landscape of delivering statutory services to the general public.

Local authorities in recent years have faced an uphill battle, with many facing increasing financial pressures to deliver statutory services. Since 2021 six local authorities have declared ‘bankruptcy’ and nearly one in five English councils are at risk of bankruptcy or issuing a section 114 notice.¹ Local authorities are struggling to deliver statutory services in the face of budget cuts and 51% of senior council figures are warning of bankruptcy within five years without reform, according to the Local Government Information Unit for England and Wales.²

The Public Sector Internal Audit Standards³ state that internal audit’s mission is:

‘To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.’

In essence, internal audit can help a local authority ‘improve the effectiveness of risk management, control and governance processes’ all three of which are key to the sustainability of finances and delivery of statutory services, which ultimately create public trust.

¹FT. [FT](#)

²LGiU. [LGiU](#)

³Gov.uk. [Gov.uk](#)

Research Objective



The objective of this research was to:

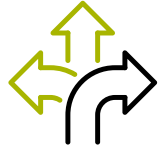
Assess the health and status of internal audit within local authorities.

Given the challenges that local authorities face, we're pleased that Heads of Internal Audit from **44%** (168) of the local authorities in the United Kingdom and Northern Ireland took part in our research, covering all geographic regions and types of local authorities. We want to thank all the participants for taking time out of their demanding role to complete the survey.



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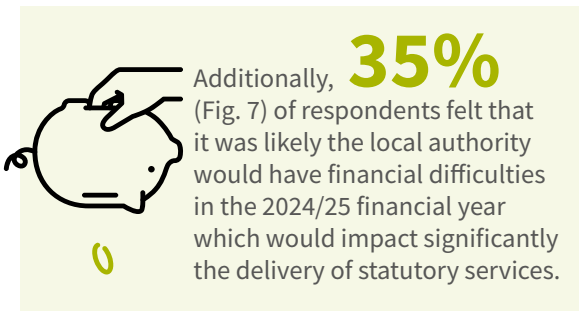


Key Conclusions

The detailed findings of this research can be found in Appendix A and the figures within are referenced as appropriate. Below are the key conclusions in three thematic areas: Financial risk of local authorities; Internal audit stakeholder understanding and perception of internal audit; and Internal audit function resourcing.

Financial Risk

11% (see Fig. 8) of respondents felt it was likely that their local authority would issue a Section 114 Notice in the next two years.



Only 22% (Fig. 7) of respondents have raised concerns with the audit committee about issues that could cause significant financial problems for the local authority, meaning that potentially 13% have not despite having concerns. One respondent commented that it was difficult to raise concerns for fear of losing their job:

“If I speak out about all my concerns (including impending S114, lack of IA capacity, areas I am not allowed to audit, etc) I will be fired, it’s that simple. That’s what happened to my predecessor he was restructured out without any consultation with the AC and he was part of the SLT whereas I’m not.”

In addition, the governance structure in place for local authorities has been called out with one respondent saying:

“The political environment can also be difficult, we report to a board (Audit Committee) that is held in public and comprised of individuals who have differing political objectives, some of whom wish to make the current administration look bad.”

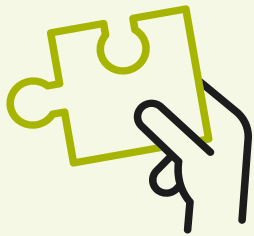
The public meeting of the Audit Committee does support transparency within the Governance process however, it may restrict the openness of discussion which is also a key aspect of good governance. This could be a reason key issues such as assurance over financial risk are not being addressed as they should be.

These findings clearly resonate with the research by the Local Government Information Unit (LGIU) for England and Wales and confirms that there is a need for the internal audit functions within local authorities to provide assurance not only over financial risks, but also other risks which can have a significant financial impact if realised. However, the findings of this research identified 65% of respondents who were not anticipating significant financial issues in the 2024/25 financial year, compared to 49% in the LGIU report.

Internal Audit Stakeholders

It was very pleasing to see that **71%** respondents felt their audit committee understood the purpose of internal audit and **76%** (Fig. 2) felt they were listened to.

This indicates a positive relationship for a very good proportion of the local authorities represented and as a result the benefits of internal audit are likely to be realised.



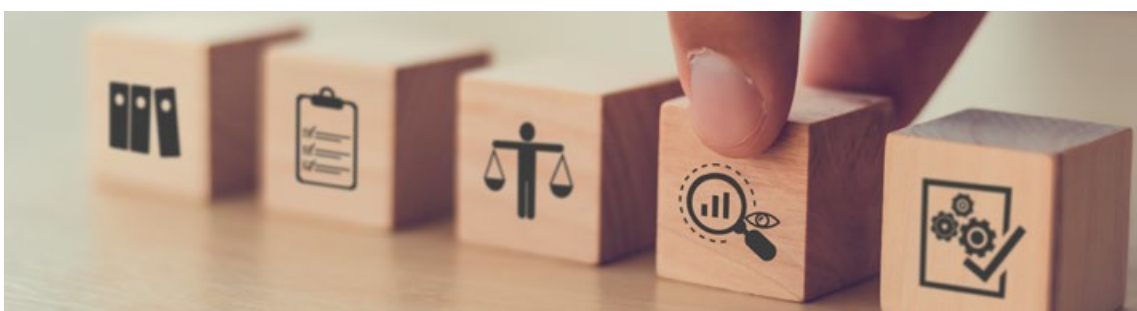
However, **26%** (Fig. 2) of respondents felt that their audit committee did not have a good understanding of the role of internal audit...

...and **30%** (Fig. 6) of those who had not fully completed their internal audit plan indicated that they had not done so because of insufficient engagement by officers within the local authority. While neither of these findings are for a high proportion of the participants, these are still a concern.

“In relation to senior leadership, the voice of internal audit is currently seen negatively and responded to defensively as I suspect many directors fear repercussions from a low assurance audit. This makes internal audit work incredibly challenging and difficult to really add value in problematic areas.”

All three findings are indicators that there is a lack of understanding or appreciation of the value of the work conducted by internal audit and may be another reason why responders concerned about financial risk in their local authority are not bringing this to the audit committees attention as identified above.

It is vital that the Audit Committee, Senior Management and the Chief Audit Executive work together to ensure that financial and other key risks are properly mitigated to enable the delivery of statutory services to the general public.



Internal Audit Stakeholders



The research identified that

88% (Fig. 7)

of respondents had not fully completed their internal audit plan for the 2023/24 financial year.

The research identified that **88%** (Fig. 5) of respondents had not fully completed their internal audit plan for the 2023/24 financial year. Reasons for this were explored in the survey with **39%** (Fig. 6) stating this was due to insufficient staff due to an inability to fill vacancies. Considering the current year, **32%** of respondents answered that the size, structure and competencies of the internal audit team were not adequate to deliver the internal audit plan for the year ahead.

“Internal Audit functions have shrunk significantly over the last 20 years but the role and importance has grown. Salaries are not competitive to attract experienced staff and taking on apprentices into a small team further impacts on the ability of the team to deliver its work.”

48% (Fig. 4) said that the number of full-time equivalent staff in their internal audit team had decreased in the last two years and one respondent commented:

“Recruitment and retention of senior audit staff is a significant challenge and probably the worst I have ever seen it. However, without experienced staff who are able to undertake more complex pieces of work our ability to demonstrate the value of the internal audit is impacted. Alongside this, reduced capacity across the organisation / other service areas priorities means it is more challenging to secure engagement for audit work / impacts on how quickly we can complete the work”.

These all indicate that resourcing issues within internal audit, and elsewhere in the local authority, are impacting on the ability to deliver the planned assurance that has been approved by the audit committee. As a result, the benefits that arise from assurance such as improved governance, risk management, internal control, efficiency and effectiveness of the local authorities are not being realised. In addition, with the need for local authority audit committees to provide an annual assurance statement, the credibility and reliability of such statements is being undermined where internal audit plans are not being delivered.

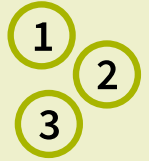
Final Thought

One respondent summarised the concerns felt by many in the research on what needs to happen for things to improve:

“Ultimately, the health of the function will be determined by the status of the authorities’ financial position and the ability to replace or invest in new staff in the context of huge pressures on the Council budget (e.g. Adult Social Care). It is imperative to maintain credibility within the organisation so that if a Business Case is put forward for resources there is a greater chance of it being approved.”



Chartered IIA's next steps



As the professional body '**Our purpose is to champion and lead the internal audit profession for the benefit of our members, organisations and society.**' Therefore, we will:

- 1** Use the findings of this research report to advocate on behalf of the internal audit profession in local government on the importance of their work with relevant Government departments, agencies and regulators. Some of these will include His Majesty's Treasury, the Financial Reporting Council, Office for Local Government and Local Government Association. We will use these discussions to:
 - educate policymakers and increase their understanding of the vital role of internal auditors in local authorities in providing independent and objective assurance.
 - advocate for internal audit within local authorities to be appropriately resourced and positioned so that it can be effective.
- 2** Continue to support local authorities and ensure that the voices of internal audit are within local authorities. This will be achieved through our Local Authority Forum as well as other events and networking and continuing to provide technical guidance focused on the 'how' with tools to support this.
- 3** Undertake further research in areas related to the profession, in particular the recruitment, progression and retention of internal audit professionals.



Global Internal Audit Standards – an opportunity



The findings from this research can be linked to the new Global Internal Audit Standards 2024 (GIAS), which includes the considerations specifically for the public sector. We therefore recommend audit committees and senior management of local authorities (with the support of their chief audit executive (CAE)) to use the transition to the new GIAS as an opportunity to challenge and revisit their practices. We highlight below in particular those of Domain III which focuses on the responsibilities of audit committees (Board), senior management and the CAE in delivering collaboratively a high-quality internal audit service.

“

Principle 6 – Authorised by the Board

The board establishes, approves, and supports the mandate of the internal audit function.

Standard 6.3 - Board and Senior Management Support

Board Essential Requirement:

- *Champion the internal audit function to enable it to fulfill the Purpose of Internal Auditing and pursue its strategy and objectives.*

Senior Management Essential Requirement:

- *Support recognition of the internal audit function throughout the organisation.*

Principle 8 – Overseen by the Board

The board oversees the internal audit function to ensure the function's effectiveness.

Standard 8.1 - Overseen by the Board

Board Essential Requirement:

- *Gain an understanding of the effectiveness of the organisation's governance, risk management, and control processes based on the results of internal audit engagements and discussions with senior management.*
- *Discuss with the chief audit executive disagreements with senior management or other stakeholders and provide support as necessary to enable the chief audit executive to perform the responsibilities outlined in the internal audit mandate.*

Senior Management Essential Requirement:

- *Assist the board in understanding the effectiveness of the organisation's governance, risk management, and control processes*
- *Senior Management Essential Requirement: Work with the board and the chief audit executive on the process for escalating matters of importance to the board.*

Standard 8.2 - Resources

All essential conditions are relevant but need to be tempered with the complexity and resourcing challenges of a local authority.

Board Essential Requirement:

- *Collaborate with senior management to provide the internal audit function with sufficient resources to fulfill the internal audit mandate and achieve the internal audit plan.*
- *Discuss with the chief audit executive, at least annually, the sufficiency, both in numbers and capabilities, of internal audit resources to fulfill the internal audit mandate and achieve the internal audit plan.*
- *Consider the impact of insufficient resources on the internal audit mandate and plan.*
- *Engage with senior management and the chief audit executive on remedying the situation if the resources are determined to be insufficient.*

Senior Management Essential Requirements:

- *Engage with the board to provide the internal audit function with sufficient resources to fulfill the internal audit mandate and achieve the internal audit plan.*
- *Engage with the board and the chief audit executive on any issues of insufficient resources and how to remedy the situation.*

”

To assist in meeting these the Chartered IIA has produced Guidance and Tools and therefore we recommend the following:

Audit committee chairs, with the help of their CAE, apply the guidance provided by the Chartered IIA for Domain III.

[Global Standards 2024 Audit Committee Guidance and Tool Kit \(iia.org.uk\)](#)

CAEs within the local authorities adopt the guidance provided by the Chartered IIA designed to support senior management in their responsibilities.

[Global Standards 2024 CAE support for Senior Management Guidance and Tool Kit \(iia.org.uk\)](#)

CAEs should aim for their reporting to audit committees and senior management to be focused on the key issues, clear, concise, and easy to read. Principle 11 of the GIAS applies here, but you can also consider the Chartered IIA's guidance around effective report writing.

[Effective Report Writing](#) | [Delivering internal audit](#) | [Technical guidance](#) | [IIA](#)

Methodology

The data gathered for this research was via an anonymous survey completed by CAEs/heads of internal audit or the most senior internal auditor at local authorities. The survey used a series of multiple choice, Likert scale and free comment question styles. Respondents were required to fill in one survey per local authority they represent. The survey opened 9 April 2024 and closed 29 April. Only fully completed responses were included in the final analysis of the survey results.

Appendix A Findings in detail



Research credibility

Fig. 1: What type of local authority do you provide internal audit for?

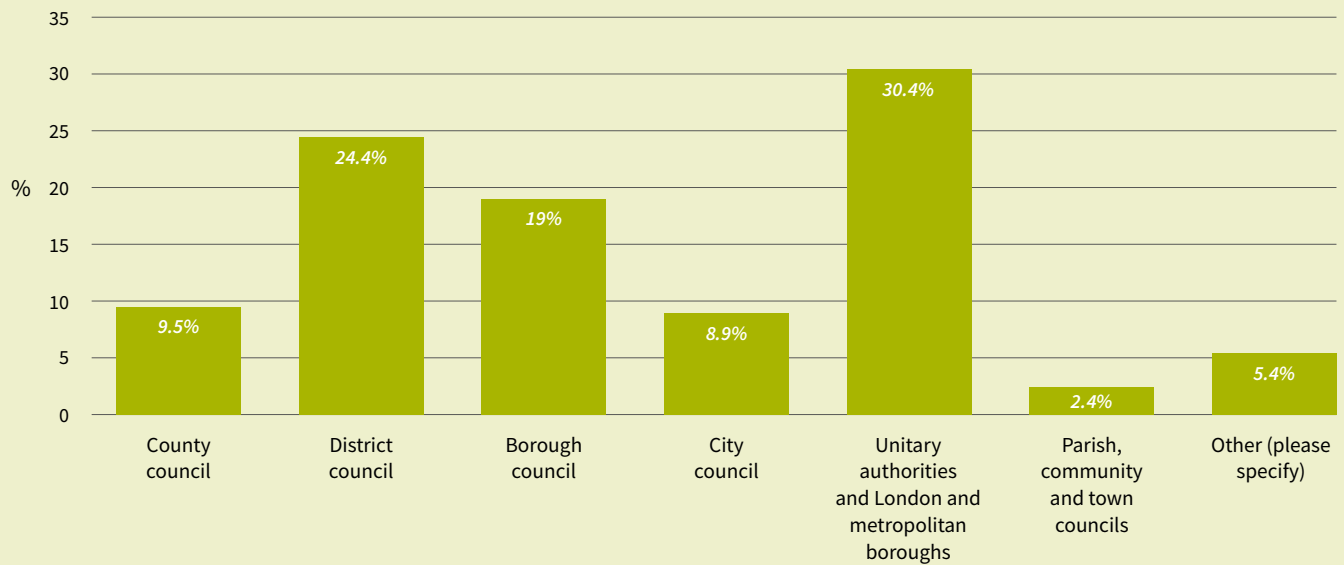


Fig. 2: How is internal audit valued at the local authority?

The survey asked respondents to indicate their agreement or disagreement with some statements regarding how internal audit is valued at the local authority level.

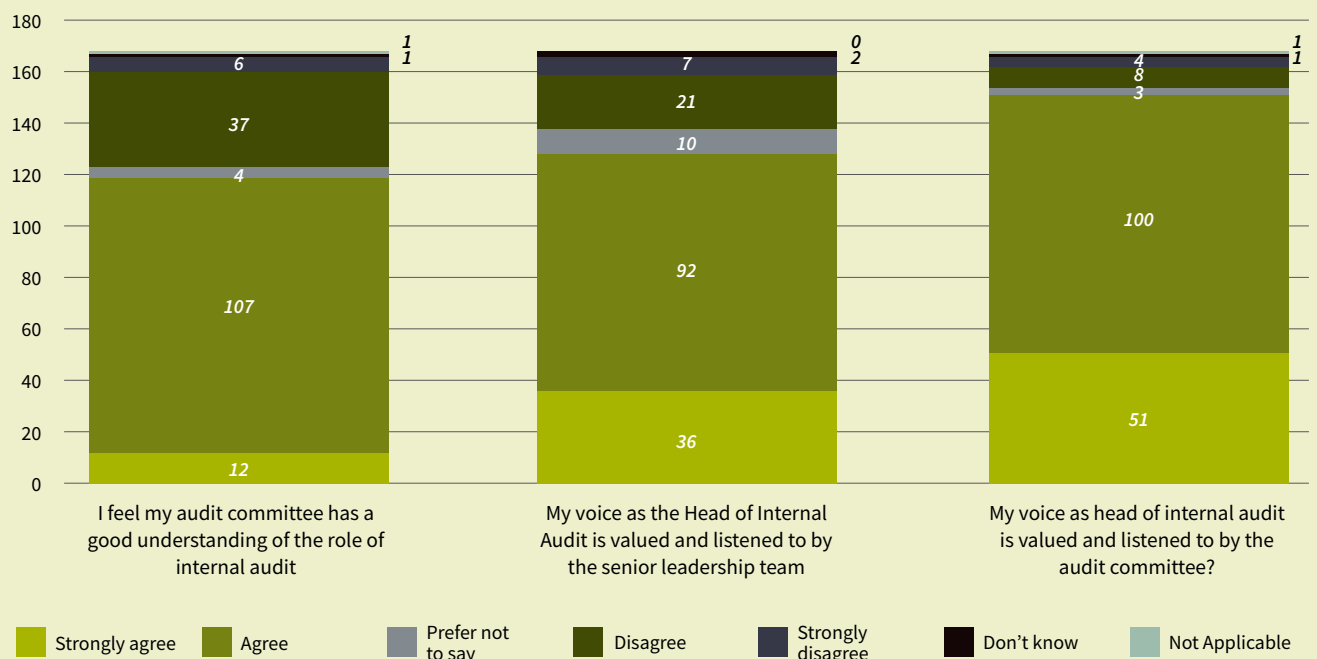


Fig. 3: Respondents were asked their view on conformance with the Standards and resourcing the internal audit plan.

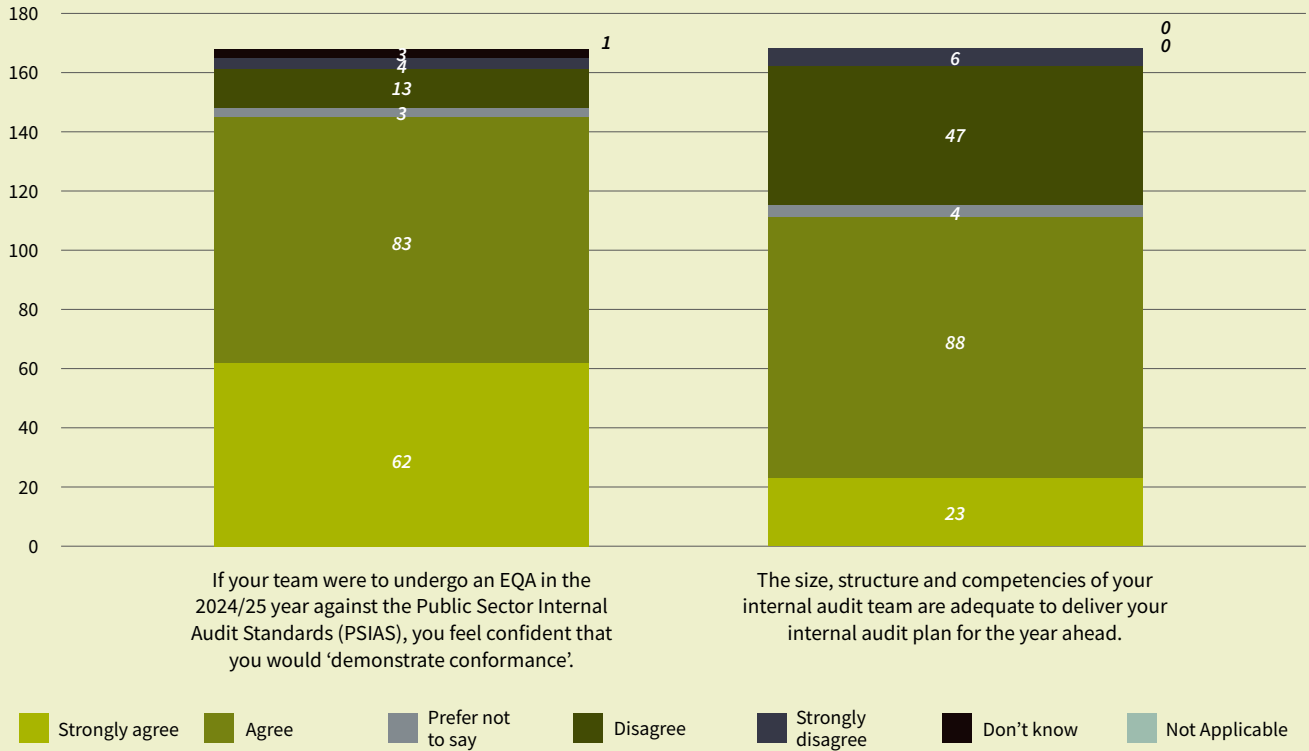


Fig. 4: Respondent were asked how the number of full-time equivalent staff in their internal audit team had changed in the last two years.

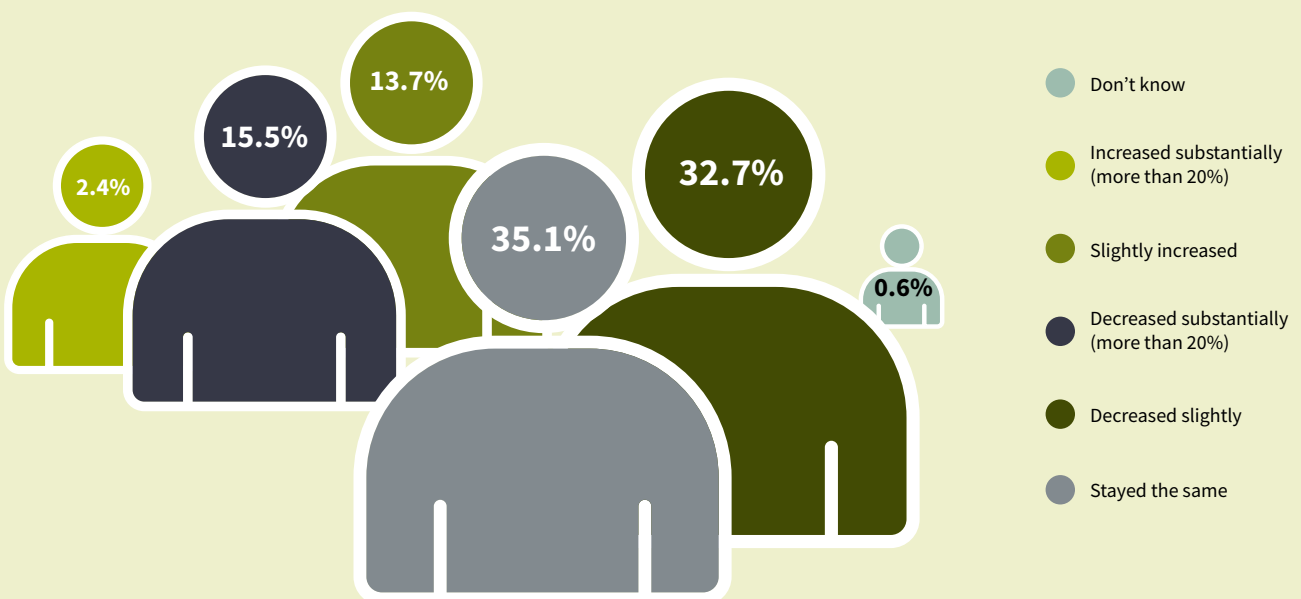


Fig. 5: Respondents were asked if they had completed their internal audit plan for 2023/24.

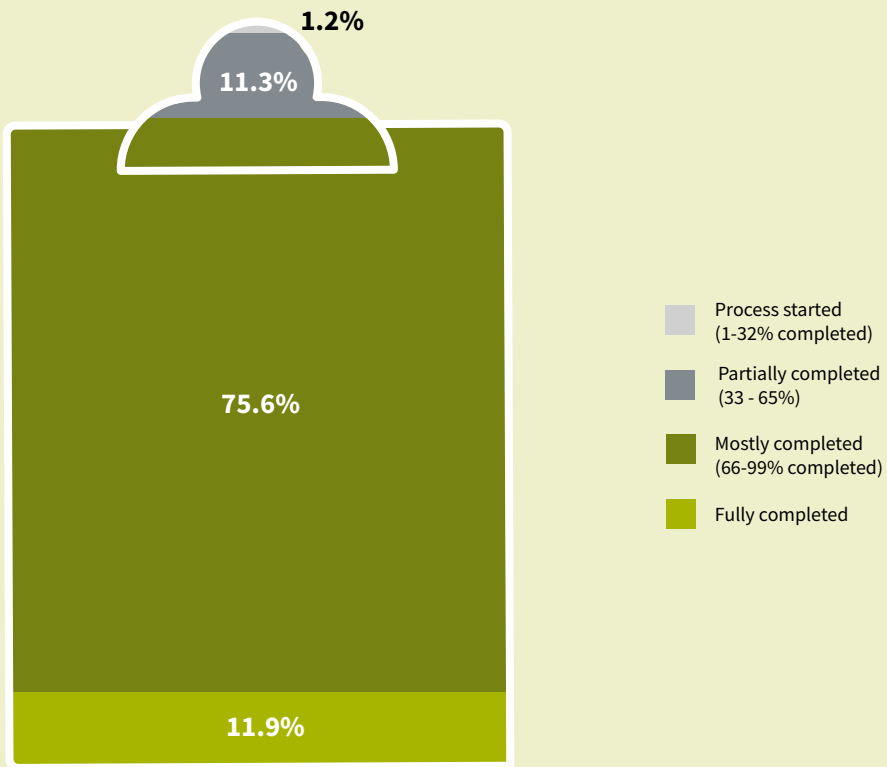


Fig. 6: Respondents were asked why they hadn't completed their internal audit plan.

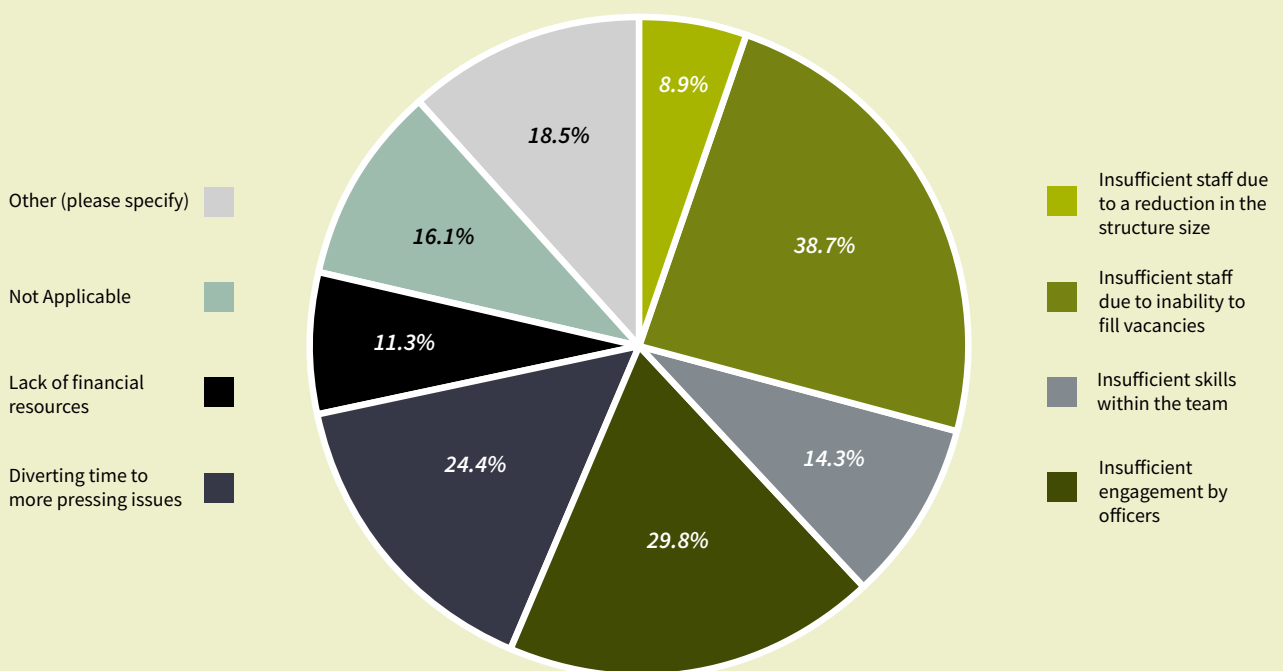


Fig. 7: Respondents were asked if they had raised any concerns with the audit committee about issues that could cause significant financial problems for the local authority.

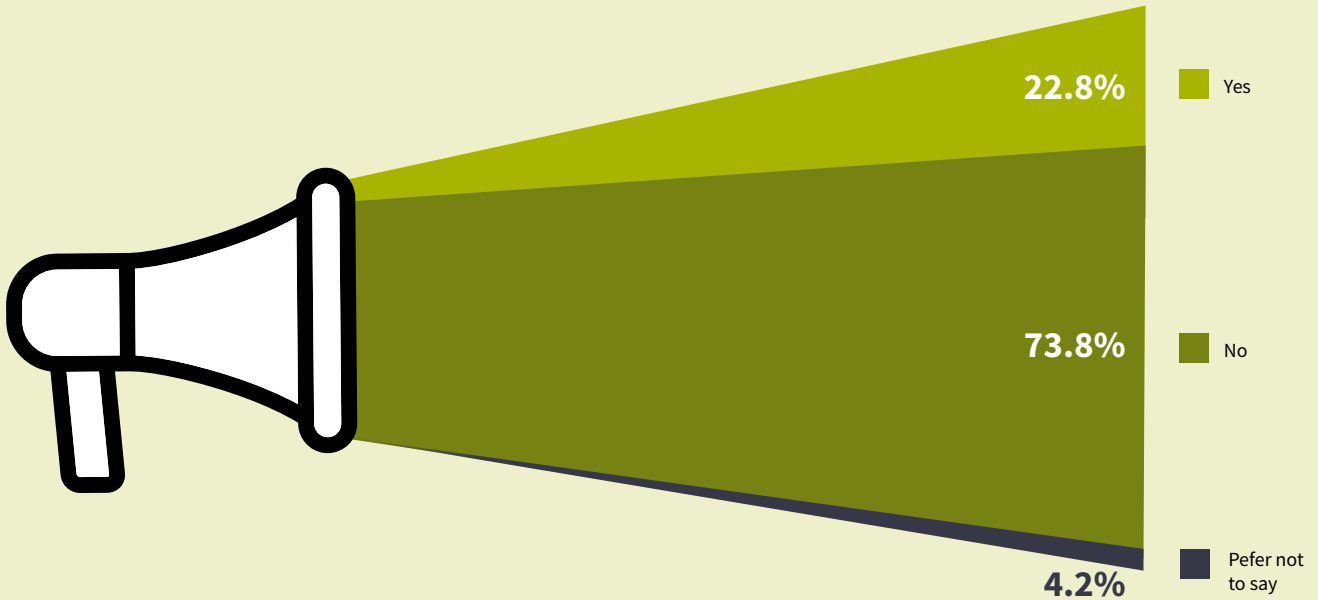
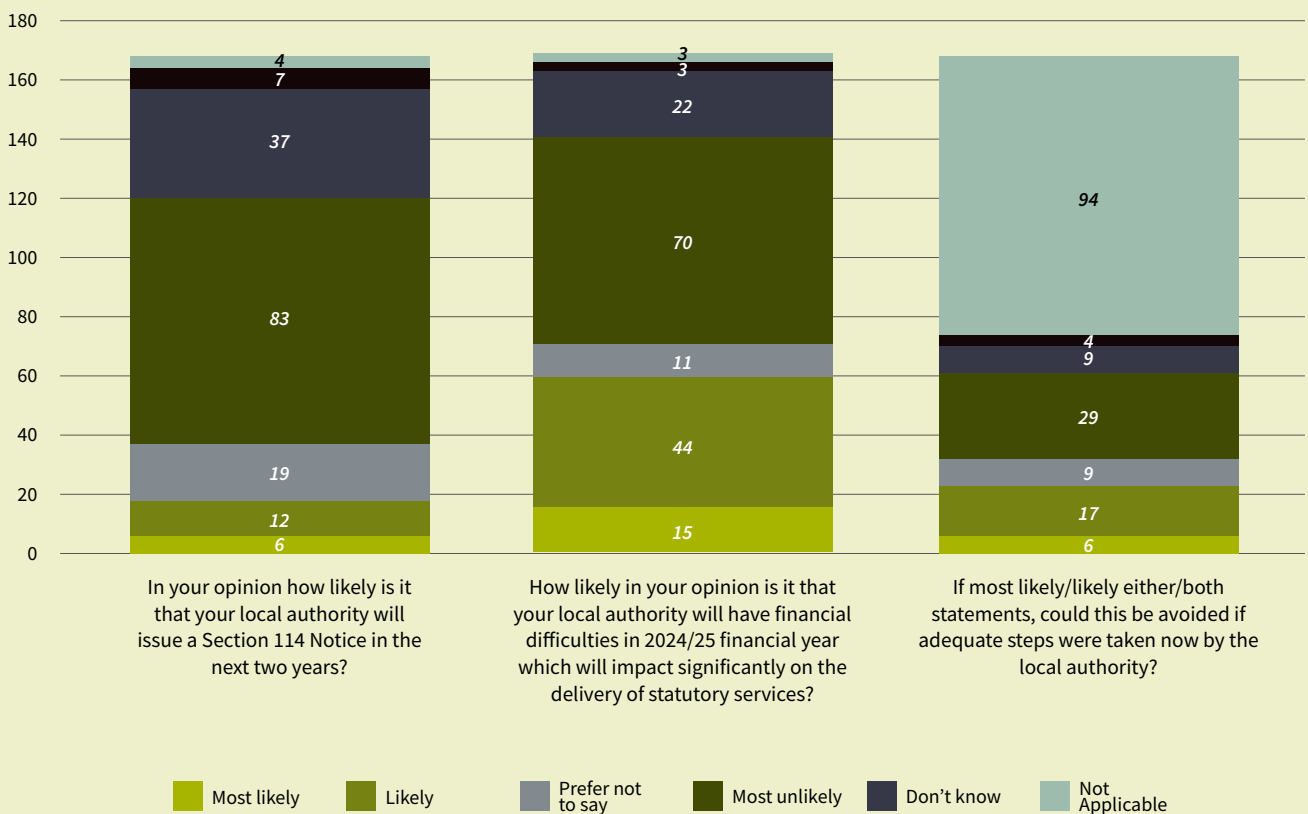


Fig. 8: Respondents were asked their views on matters relating to the financial stability of their local authority in the next two years.



About Chartered IIA

The Chartered Institute of Internal Auditors is the only professional body dedicated exclusively to training, supporting and representing internal auditors in the UK and Ireland.

We have 10,000 members in all sectors of the economy.

First established in 1948, we obtained our Royal Charter in 2010. Over 2,000 members are Chartered Internal Auditors and have earned the designation CMIIA. About 1,000 of our members hold the position of head of internal audit and the majority of FTSE 100 companies are represented among our membership.

Members are part of a global network of over 245,000 members in 170 countries, all working to the same International Standards and Code of Ethics.

To learn more, visit:
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