

SUMMARY REPORT

Internal audit: untapped potential

Introduction

CIPFA has produced its *Internal audit: untapped potential* report because we need to talk about internal audit – talk about it more and talk about it in the right way. Better internal audit means better public services.

The extended report examines how internal audit is currently making an impact, identifies where it can do more and what is holding it back. The summary findings and recommendations are outlined in the abbreviated summary below.

CIPFA's UK-wide research consisted of an open survey to those in the public services, including those in the internal audit profession, management clients and audit committee members. The survey received a strong response with 831 submissions and was supported by focus groups and a literature review.

The outcome of the research concludes that where internal audit is operating effectively, it is already providing this support, but there are pockets where internal audit is unable to do this.



Current context

As with all organisations, the public services must respond and adapt to global trends and areas of risks. The COVID-19 pandemic put the public services on the front line of the UK's response, requiring them to be agile and redirect resources accordingly to meet new challenges. Advances in technology present new opportunities for service redesign but also challenges around complexity and security. Many parts of the public services are people focused, and rising needs and demographic changes result in challenges across health and social care. The impact of climate change on services and carbon reduction initiatives are core parts of the public sector agenda.

At the same time, the public services have experienced a sustained period of financial pressure, resulting in reductions to core functions, loss of expertise and difficulties maintaining demand-led services within allocated budgets. Long-term financial planning is challenging, and many public bodies have explored new structures to deliver services or generate income.

Demonstrating stewardship of public funds, building and maintaining public trust and confidence in decision making and delivering a sustainable future for taxpayers and service users are fundamental expectations of all those working within the public services.

Where does this leave internal audit? What contribution can internal audit make to this complex web of expectations, obligations, ambitions and challenges?

When internal audit provides support, it does so in a unique way. It provides independent assurance. Achieving this requires a resource base of trained internal auditors supported by modern approaches and professional standards. It needs both capacity and capability. Internal audit also needs to work in conjunction with an organisation's governance, risk, control and assurance frameworks.

A professional team of internal auditors will not have the desired impact in an organisation that doesn't understand its assurance requirements or have good governance arrangements. Assurance requirements are constantly evolving, and internal audit must keep up with the pace of change to stay relevant. Concerns that organisations face such as climate change and increased cybersecurity and financial risks are areas where internal audit can have a great impact.

Currently, the role of internal audit varies greatly between organisations. There is a need for consistency, quality and adherence to professional practice to ensure that an organisation has access to the assurance requirements it needs as opposed to just those that are available.

Key findings:



In our 2008 survey, only 60% of clients believed that internal audit supports the management of the organisation. In our 2021 survey, this has increased to 87%.



Just over 66% of managers believe their organisation has identified adequate assurance frameworks, but only 32% of heads of internal audit agree.



Ninety-one percent of heads of internal audit believe they provide advice on new systems or processes to organisations, but only 62% of management agree.



Seventy-three percent of heads of internal audit believe that they act as an independent critical friend on committees or steering groups, with just 43% of management agreeing with this.



Eighty percent of survey respondents believe that internal audit's contribution to the organisation comes from its independent assurance, but only 14% consider that internal audit's sharing of good practice contributes.



Forty-nine percent of heads of internal audit and 63% of management clients agree that internal audit has the capacity the organisation needs. This leaves a significant number for whom capacity is in question.

Conclusions:

- Successful organisations need to have robust and effective management and governance, including an understanding of assurance. Improving this understanding will enable the most effective use of internal audit.
- Internal audit is often not allowed to unleash its full potential. The importance of its contribution must be fully understood and appreciated by clients – management and audit committees. Internal audit managers must become greater advocates in promoting the function within organisations.
- Internal audit must be kept independent to achieve its maximum impact in an organisation. Auditors frequently take on additional roles, which may compromise their independence. They must have a sole focus and a direct reporting line to the leadership team as required by the Public Sector Internal Audit Standards (PSIAS).
- Discussions on public sector policy issues, be they social care, financial resilience or technological change, should acknowledge the importance of assurance and highlight internal audit's contribution. This would help raise the expectations of internal audit's clients.



Recommendations:

- Organisations should ensure that the responsibilities of internal auditors are recognised – for example, the need to engage at a senior level and have access to commercial and sensitive information.
- Part of the role of the head of internal audit should be to advocate for and explain the role of internal audit. This could usefully include explaining the nature of internal audit consultancy or advisory work and draw out the benefits of internal audit interventions. Engagement and communication with senior stakeholders are core skills for effective heads of internal audit.
- Internal audit should provide the audit committee with an overview of all work it undertakes to ensure that there is visibility of any advisory activity. This does not necessitate a detailed report to the committee on all advisory work.
- To build sustainable career paths for internal auditors, heads of internal audit, senior management and audit committees should recognise opportunities for models such as secondments, guest auditors and rotational programmes to support internal audit's skills needs.
- Internal audit functions should develop not only a plan of the audit work they will undertake, but also a strategy for their function's development and how it will flex to meet the future needs of the organisation. This should be agreed with top management and the audit committee with progress reports.
- Where an individual manages the internal audit team and delivers the responsibilities of the chief audit executive as set out in PSIAS, the responsibility of the head of internal audit should be recognised in terms of job title, ability to present to senior management committees and meetings, and access to the most senior personnel.
- As a minimum, the head of internal audit should report to a member of the executive team for administration purposes and also have a reporting line to the chair of the audit committee.
- There should be regular private meetings between the audit committee and the head of internal audit with no management present.
- Leadership teams and audit committees should strengthen their risk management arrangements. Internal audit's annual opinion on risk management should provide clarity over aspects for improvement and identify opportunities for support.



Recommendations (continued):

- Internal audit plans should set out what other assurances are available and any work internal audit has undertaken to consider the reliability/scope of those assurances. If internal audit has not undertaken any such assessment, this should also be noted.
- CIPFA will be publishing guidance on assurance frameworks in autumn 2022. While internal audit has an important part to play and significant insight to bring to the framework, the framework itself should be owned by the organisation, typically with sponsorship and oversight from the audit committee.
- Organisations should use CIPFA's guidance to review and improve their assurance arrangements.
- Internal audit plans should provide information on any areas not included within the plan and where the head of internal audit believes that assurance may be required. This should include an explanation of the rationale for non-inclusion.
- For local government with education responsibilities, consider an annual internal audit report that splits out schools' audit work from the main opinion.
- Organisations should minimise or avoid passing on additional roles to the head of internal audit. Where heads do have roles beyond internal auditing, there must be adequate safeguards in place to preserve independence in accordance with the standards. For example, a budget should be provided to fund the commissioning of internal audit assurance in those areas that come under the responsibility of the head.

The full report, *Internal audit: untapped potential*, is available on the CIPFA website: www.cipfa.org/cipfa-thinks/insight/reporting-on-internal-audit.

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