

Internal audit: untapped potential

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The views expressed in this report are those of the authors unless otherwise stated and the responsibility for any errors or omissions lies with them.

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Making it count

CIPFA is committed to changing lives for the better.

As a global leader in public financial management and governance, our aim is to make a difference to the world we live in. Our work enables people to prosper, protects the vulnerable and helps sustain the environment for future generations.

As a professional institute, we support our members and students to act with integrity and deliver excellence in public financial management throughout their careers.

By setting standards and advising public bodies and governments, we help ensure the money and resources used on behalf of citizens are raised and spent fairly, transparently, efficiently and are free from fraud and corruption.

Our thought leadership puts us at the heart of the policy debate, while our education and training offerings and range of advisory services support our members, students and other public finance professionals, helping them add value to their teams and the organisations for which they work.

CIPFA is a global body, operating at local, national and international level. Wherever we find ourselves and whoever we are supporting, our goal is to always make it count.

Foreword

CIPFA advocates best practice in assurance, governance, management and financial control across the public services. As such, we think it's time to put public service organisations' internal audit capabilities in the spotlight.

We know internal audit has the potential to help organisations achieve their goals, but this potential is not currently realised. In a technologically advancing world and with tackling climate change high up on the agenda, it's time to address this. This report, and the research that has been conducted to create it, explores the changing landscape of internal audit in the public services and how vital it is for an organisation in terms of its future success.

As the pandemic has shown us, managing emerging risks and responding to ongoing geopolitical and technological change remain top priorities for organisations. This means that internal audit must respond too, and the profession must continually evolve to remain effective and efficient.

To keep pace with these changes, we have identified several aspects of internal audit that require attention, including resourcing, the need for specialisms, reporting lines within organisations, and investment in training to attract long-term expertise into the profession. The public services also need to keep pace with their expectations of internal audit, ensuring they make full use of its expertise.

Our intention with this report is to open a dialogue across public service organisations, the internal audit profession, audit committees, as well as those considering a career in internal audit. Internal audit is an important part of the solution for effective management of the public services, and we hope to facilitate change that will see greater independence of internal audit, sustainability of recruitment into the role and an increased understanding of assurance.

Allowing internal audit to achieve its full potential benefits organisations, the public services overall and the public finance professionals of the future. We hope this report gives the internal audit profession the confidence to champion the critical work it does.



Rob Whiteman CBE
CIPFA CEO



Executive summary

We need to talk about internal audit – talk about it more and talk about it in the right way.

This report is titled *Internal audit: untapped potential* because CIPFA believes that internal audit has a vital role to play in supporting public service organisations to achieve their goals.

CIPFA has conducted UK-wide research, sending 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. 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. This report will examine how internal audit is currently making an impact, identify where it can do more and what is holding it back. Better internal audit means better public services.

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 cyber security 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*. Internal audit must also develop the capacity and ability to be sustainable. To achieve this, organisations must ensure the provision of internal audit expertise. The sections on recruitment, retention and training in this report explore this further.

Our conclusion is that things need to change.

1

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.

3

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).

2

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.

4

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.

Internal audit is not the only solution to supporting effective public services, but it is part of the solution.

Where do we go from here?


This report makes several recommendations. Some are directed at the internal audit teams working within and for the public services. Others are directed at the client organisations, both management and audit committees. There are areas of planned work that CIPFA will be taking forward, some in collaboration with the Chartered Institute of Internal Auditors (CIIA) and the Internal Audit Standards Advisory Board (IASAB).

Continuing support for internal audit

CIPFA and the CIIA are keen to keep supporting high-quality internal audit within the public services. The institutes are exploring ways that they can collaborate more to continue the work set out in this report. Working together and with IASAB, they will support internal auditors to meet the PSIAS.

Both institutes have identified specific areas where they can collaborate. These include raising the profile of the internal audit profession in the public services, improving internal audit's status and cultivating a greater understanding between internal audit clients and audit committees. They will also examine issues raised in the report around professional standards, such as the head of internal audit's annual opinion and the quality assurance and improvement programme, to identify where guidance or support could improve practice.

Both institutes are mindful of the challenges that internal audit teams experience in the recruitment and retention of staff. Therefore, they will undertake some research on options for career paths and routes into internal audit to encourage long-term, sustainable recruitment into the role.

The background features a series of parallel black and white diagonal lines that create a sense of depth and movement. A solid magenta shape, resembling a parallelogram, is positioned on the right side, partially overlapping the striped pattern. The text is centered on the left side, overlaid on a white rectangular background.

Identifying
the impact of
internal audit

Internal audit is vital because it focuses on the areas that are important for organisations and therefore supports their success.

Internal auditors help management, boards and their audit committees understand how well risks are managed, and the effectiveness of the governance and control framework in place – key things senior stakeholders need to know to be effective in discharging their own role. Strong internal audit functions will be more prepared to support the public services of the future, and to support organisations going through change.

In this research, we have focused on making an impact: internal audit that is not only effective in what it can offer but achieves influence with key decision makers for the benefit of organisational objectives.

There is no 'formula' for assessing or quantifying the impact of internal audit, as many of the indicators of an effective internal audit service are, to some extent, subjective.

Indicators of effective internal audit

- 1 Good engagement with senior management and the audit committee, while maintaining independence and objectivity.
- 2 Internal audit plans clearly aligned to the topics that are most important for the success of the organisation.
- 3 Timely and meaningful assurance, communicated in a way that is understood by stakeholders.
- 4 The ability to challenge constructively and to help management find solutions.
- 5 The ability to respond to emerging risks or issues and changing priorities for the organisation.

Additionally, internal auditors must be able to demonstrate their conformance with internal auditing standards, including the PSIAS, which are mandated for the UK public sector, and which are based on global internal auditing standards.

However effective and impactful internal audit teams may be, our research shows they are enhanced when operating in an organisation that understands assurance and the role of internal audit and engages with internal audit to obtain the maximum benefit from the function.

Our research concludes that the impact of internal audit is determined by interlinking factors in both the internal audit team and in the organisation. We have developed a model to highlight this.

Impact

The impact of internal audit can be defined as its ability to support the organisation in achieving its strategic objectives and priorities. This will be through an appropriate mix of assurance, consulting activity and advice. The impact of internal audit will vary across organisations based on assurance needs, organisational culture and capacity for continual improvement.

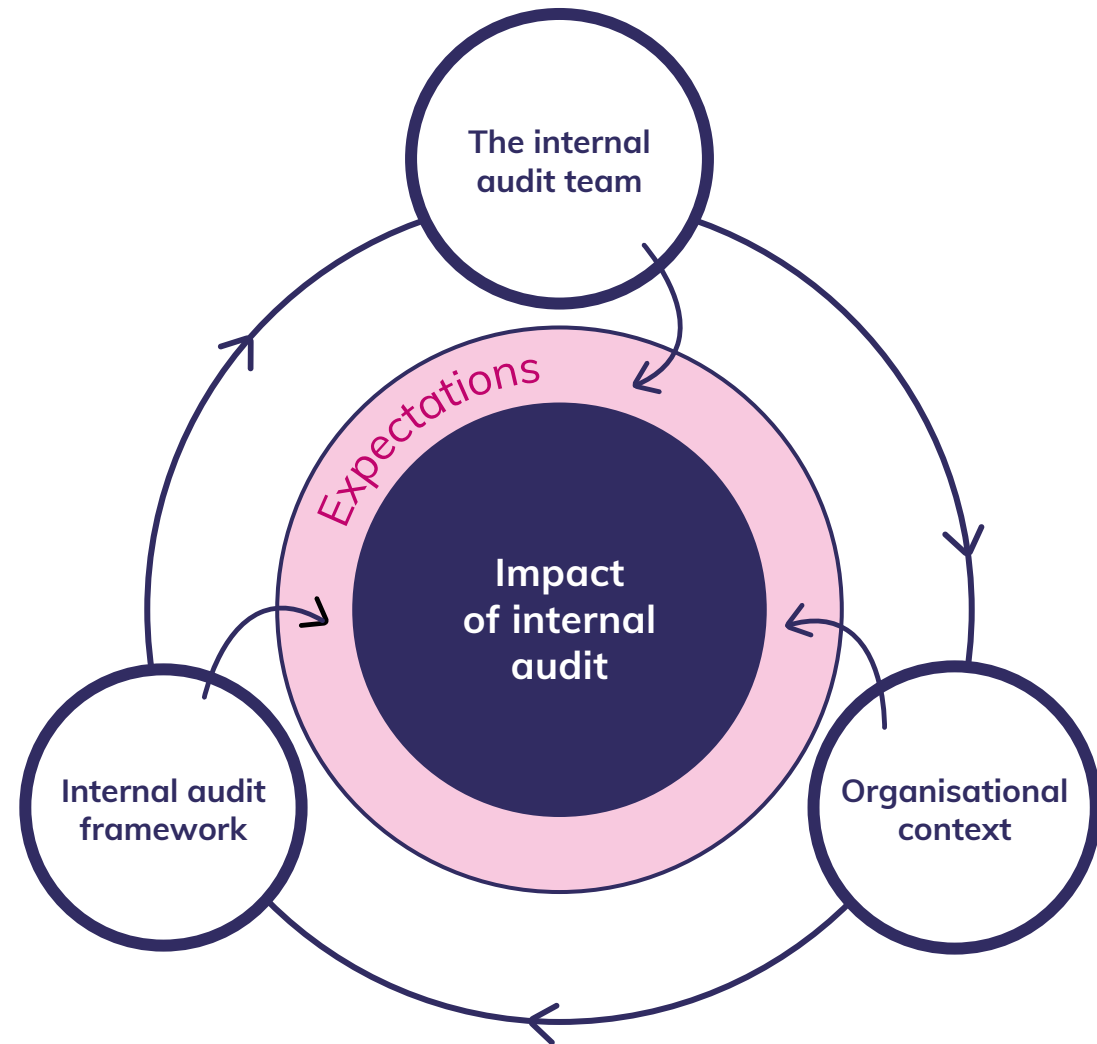
The impact of internal audit is dependent on the quality of the internal audit team, the framework and the organisation in which internal audit operates. Each of these will shape expectations of what internal audit can and should deliver. The individual components of internal audit impact are discussed in Appendix A.

Our findings and recommendations

Many of the findings from our research are interwoven. We cannot consider the impact of internal audit teams without considering, for example, the environment in which they work, the stakeholders and clients they serve, and the skills and resources needed to provide that service.

Our research included an extensive survey of internal auditors and their clients, including audit committee members, from across the public services. This was supported by focus groups and a literature review. The next section of the report will identify the evidence from our research that shows how internal audit is currently making an impact. We will then consider the future potential for internal audit. What can it do more of and where can it be more effective?

Finally, we will consider the factors that currently hold some internal audit teams back.





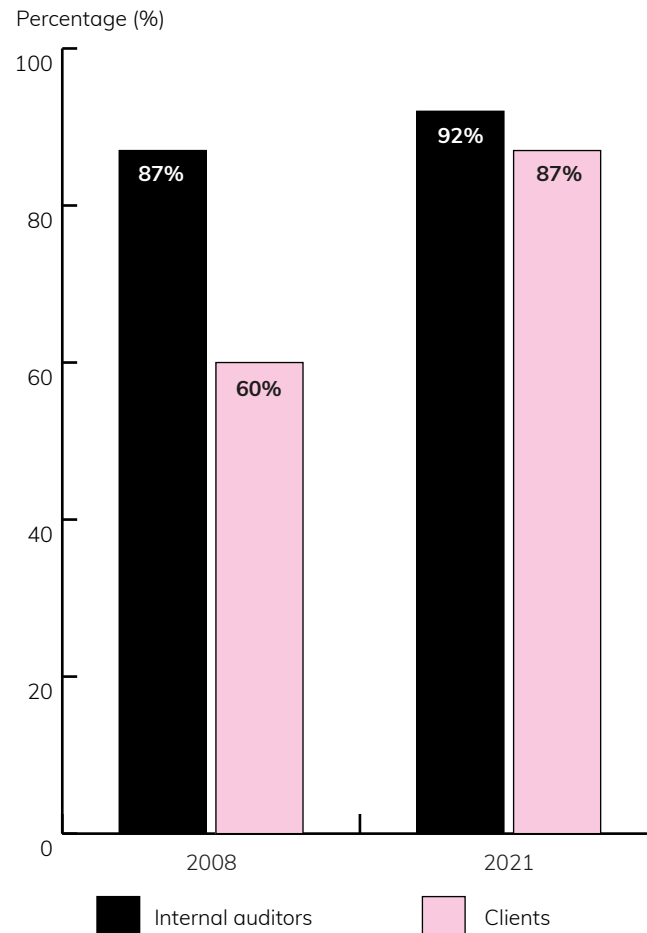
CIPFA's findings:

How internal audit is making an impact

Internal audit's contribution has improved

In 2008¹ CIPFA identified an expectation and perception gap between local government internal auditors and their clients. Our new research identifies significant progress on closing this gap. This is most notable in terms of the contribution that internal audit makes in supporting the management of the organisation. The 2021 survey feedback is more positive than CIPFA's 2008 survey; a positive view of internal audit's contribution from clients increased significantly from 60% to 87%.

In the 2021 responses concerning the contribution of internal auditing, audit committee members are more positive than management (92% agreed, compared with 84% of management). Similarly, heads of internal audit are upbeat about this, with 96% agreeing that internal audit makes a positive contribution, reducing to 89% across other members of the internal audit team.



Respondents agreeing or strongly agreeing with the statement: the contribution internal audit makes supports the management of the organisation.

Making an impact on governance arrangements

Worcestershire Children First is a wholly owned company of Worcestershire County Council. Following high-profile governance failures in other LATCs, WCF identified that it would be good practice to review its arrangements.

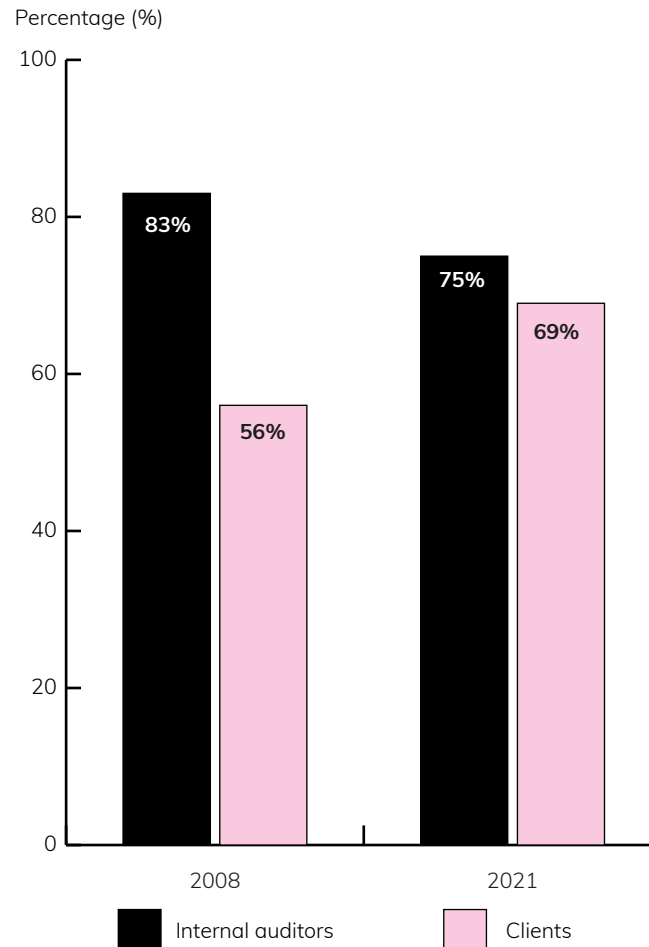
The Director of Resources undertook a review of the company's governance arrangements, as well as the council's shareholding and commissioning arrangements. Internal audit reviewed the outcome of the self-assessment, which provided independent assurance and added value to share good practice across the council. Internal audit had to challenge themselves and work differently with a self-assessment model, and in doing this, they were able to add value to the review and the outcome. They helped to embed understanding about governance and roles across both organisations. The review was used as a board refreshers training session and used with the leader and senior cabinet members.

¹ Perceptions of audit quality: a survey analysis (CIPFA, 2009).

One of the reasons for the improved contribution, and perception of the contribution, of internal audit may be better communication between internal auditors and their clients.

In 2008, just 56% of clients agreed that internal audit communicated effectively; in 2021, this has increased to 69% of clients. For internal auditors, there was a decline in their positive view of their communications, but this was primarily noted among audit team members rather than heads of internal audit. This could reflect the wider experience of communications among heads of audit.

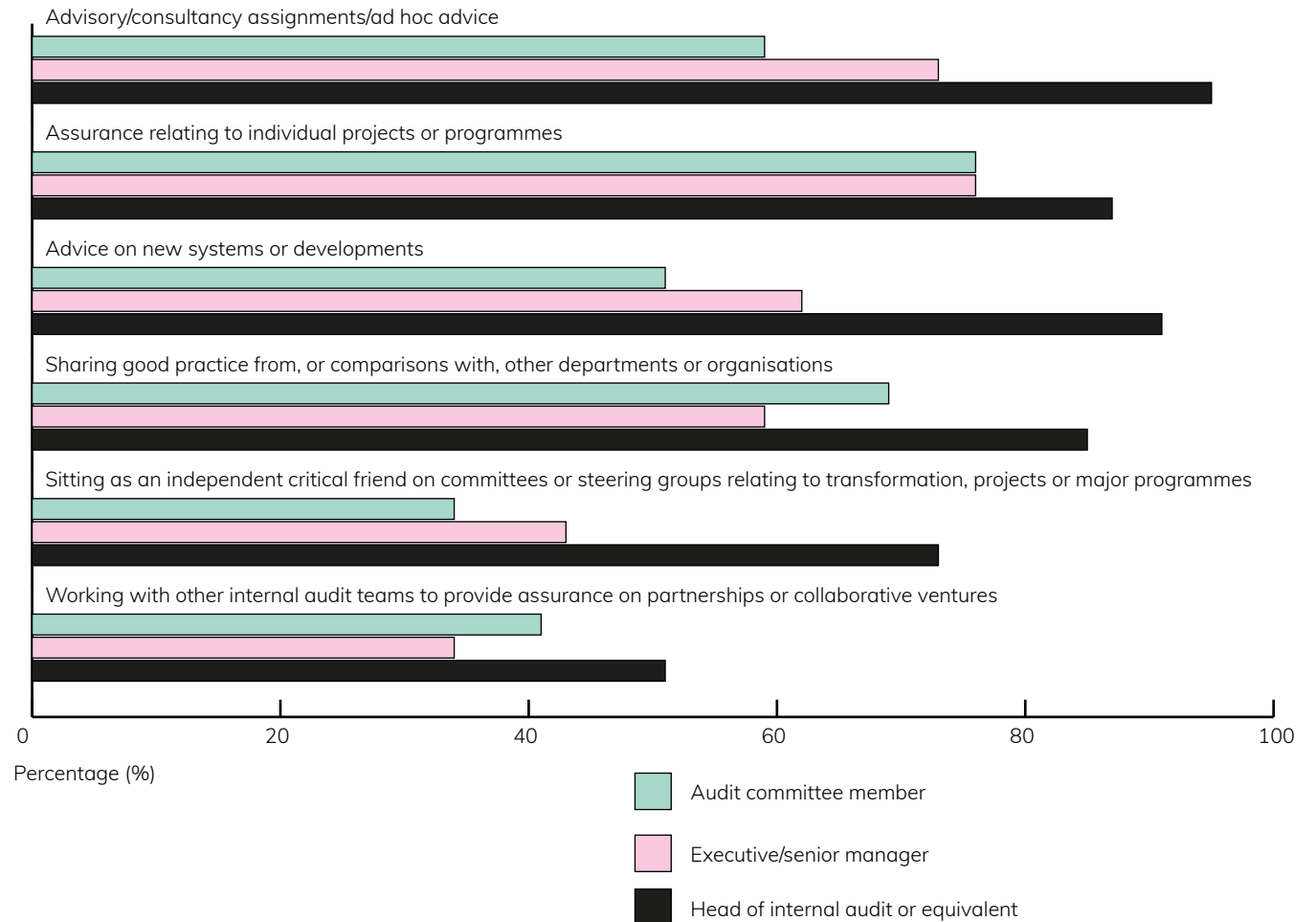
Effective communication is a core skill required at every stage of the audit process, from explaining the rationale for conducting an audit to exploring options for control improvements with clients. To have impact, internal auditors need to ensure that the communication is consistently of a high standard and meeting client expectations. The improvement in client perceptions is very welcome, but auditors will need to continue to focus on effective communications.



Respondents agreeing or strongly agreeing with the statement: internal audit builds and maintains effective communication at all levels within the organisation.

The services provided by internal audit vary

Internal auditors make an impact through a range of approaches. Our survey identified that while most internal audit teams were already offering broad coverage, their clients did not always recognise this.



The view of what internal audit currently delivers, split by role.

The disparity is most marked in relation to the role of internal audit sitting on project or steering groups and in advice provided on new systems or developments. Heads of audit will have a full understanding of their team's activities, while clients perhaps only recognise those where they have had direct interaction. There is also a difference in perception between management and audit committees, perhaps reflecting that not all advisory work is reported to the audit committee in detail.

Recommendations:

- *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.*

Showcasing internal audit: how the pandemic created opportunities

Another opportunity to have an impact is to ensure that internal audit is responsive to change and clients' needs. The pandemic provided considerable challenges for public sector bodies. Survey respondents were asked how the impact of internal audit has changed due to the COVID-19 response. Views were similar across respondent groups and sectors, with a mild positive response. Forty-two percent of respondents said that internal audit colleagues attended COVID-19 response meetings with management.

A number of participants reflected that the quick response by their internal audit function to provide agile and targeted assurance and advice had been an opportunity to showcase the ability of internal audit and had helped raise the profile of the team and how it is able to support the organisation. This may have helped individual relationships with senior managers and departments rather than bringing about an overall change in perception of impact.



The potential for
internal audit

Our research explored different ways to improve the impact of internal audit within organisations. When considering these opportunities, it is essential to consider them from both the perspective of a client as well as an internal auditor.

Expectations and understanding

There is a range of expectations of internal audit from management and audit committees, as well as a difference in the perception of what internal audit delivers for the organisation.

Examples shared through discussion groups ranged from internal audit teams that provide fundamental assurance on core financial controls but little coverage of strategic topics, through to internal audit teams that have flexible plans clearly aligned to strategic goals and that can provide advice or swift assurance in response to emerging issues. This variation was reflected not only in the discussion of internal audit plans and proposed activity, but also in the expectations of senior management and audit committees. Some clients recognised they received a basic assurance plan around core systems and did not want additional coverage. Others already received a broader plan linked to strategic priorities or encouraged the internal audit plan to move towards this.

CIPFA believes that higher expectations by management and audit committees will provide both a challenge and support for internal audit. Higher expectations would ultimately be beneficial for the profession in the public services. This means there is a need for organisations to focus on what assurance or advice is needed rather than what assurance internal audit is currently able to deliver.

CIPFA has established expectations of internal audit through the CIPFA statement on the role of the head of internal audit.

The head of internal audit in a public service organisation plays a critical role in delivering the organisation's strategic objectives by:

- objectively assessing the adequacy and effectiveness of governance and management of risks, giving an evidence-based opinion on all aspects of governance, risk management and internal control
- championing best practice in governance and commenting on responses to emerging risks and proposed developments.

While heads of internal audit might have these expectations, clients and audit committees also need to share them if internal audit is to have greater opportunity for impact.

Stable, supportive leadership has a huge role to play in getting the best out of internal audit, setting the culture of accountability and improvement.

Assistant Director, Metropolitan Council

Planned developments

CIPFA will consider how its forthcoming publication on assurance frameworks can build on its statement on the role of the head of internal audit to aid the understanding of assurance needs among leadership teams. CIPFA would like to see a culture of engaging with assurance and raised expectations for the internal audit profession in the public services.

Present and forthcoming actions:

The global IIA is currently undertaking a refresh of the International Professional Practices Framework on which the PSIAS are based. Once the new international framework is known, the IASAB, along with the relevant internal audit standard setters for the public services in the UK, will review the PSIAS and update accordingly. This may also be an opportunity, with a simplified framework, to raise the profile of internal auditing standards, and the role that management and the audit committee play in creating a culture of engaged assurance, to create an environment in which internal audit can make a greater impact.

More strategic coverage

A key factor of the impact of internal auditing is the nature of the areas in which internal audit invests its time and focus. We were interested in topics where internal audit should be focusing and also the nature of activities that internal audit should include in its work.

We asked survey respondents to identify three themes that internal audit should focus on in the coming three years that would have the greatest impact on an organisation. Cybersecurity was the top priority area identified by all groups of respondents. Second was digitisation and the use of data. Technology and the impact of digitisation is not a new priority. In 2008, internal auditors ranked information technology as their second most important priority area for future internal audit coverage; at that time, clients saw this as a lower priority.

The top six areas that should be covered to achieve impactful internal audit in the coming three years, as identified by our research, are as follows.

- Cybersecurity
- Digitisation and the greater use of data within the organisation
- Environmental sustainability/climate change
- Financial viability
- Culture and ethics
- Supporting improved risk maturity.

There were some differences in the views of internal auditors and clients. Internal auditors thought cybersecurity, culture and climate change were a higher priority compared with clients. Management thought internal audit's role in helping to improve risk maturity was more of a priority compared with audit committee members or internal auditors. Of these six topics, management were least interested in audit coverage around culture and ethics and were less interested in assurance linked to financial viability than internal auditors and audit committees.

Some internal audit teams are already providing assurance on these areas, although not necessarily in as much depth or with as much coverage that heads of internal audit or their clients would like to see in future.

Balancing the need for deep specialisms

Heads of internal audit recognised that both cybersecurity and climate change would be areas of increased focus for internal audit, but that they would not be able to develop deep specialisms.

Topics such as cybersecurity will require significant technical knowledge, and often, this will be unrealistic for in-house teams that do not have access to additional skills through a co-sourced arrangement to provide assurance on some aspects of cyber risks. Internal audit should still be able to provide assurance over the strategic approach of the organisation, however.

As public sector organisations work towards zero carbon strategies, many may have made carbon reduction commitments but have yet to finalise detailed plans to achieve this target. There is an opportunity for internal audit to play the role of critical friend in terms of how other plans, priorities and goals may impact, support or contradict climate priorities and targets.

To enable internal audit to have impact in these areas, audits should be carefully scoped and other assurances available considered. For example, in relation to cybersecurity, there will be some areas of risk and control that internal audit can consider in all audit work (such as access controls and data governance). A useful role of internal audit may be to recognise a wider range of existing assurance and specialist input, some of which may not be visible to the audit committee, and to help develop a map of assurance needs and priorities and how such assurance can be obtained.

Developing a golden thread through controls, assurance and internal audit

Across central government, the Government Internal Audit Agency (GIAA) and HM Treasury have been working with finance and risk colleagues to clarify the control framework that underpins the responsibilities of accounting officers. The team is also considering how assurance can be provided on the elements of the control framework. A third stage will shape how internal audit plans and reports its work. As well as supporting a better understanding of controls and assurance, the project should help internal auditors deliver internal audit opinions that can be compared across government.

This example shows how internal audit can have an impact in improving internal control and assurance arrangements, as well as helping internal audit opinions to be more meaningful for their clients.

Auditing financial risks

Traditionally, internal audit has provided assurance over financial systems and processes such as payments, income collection and payroll. In many organisations, such systems operate well, and the risks associated with them are well managed. Is there still a role for internal audit to provide assurance over financial risks? To what extent can internal audit provide assurance over the big financial risks associated with policy and strategy as well as the more traditional assurance over internal financial control systems? Our survey shows that financial viability is an area of priority for future internal audit coverage.

Examples of such risks are financial resilience, medium-term financial strategies and decisions around commercial strategies. Typically, the planning and decision making on such strategies will take place at a senior level within the organisation, and they can be complex and technical. This can mean they are difficult for internal audit to approach. However, their strategic importance to the organisation is such that they come with big financial risks. They are also areas the audit committee should be seeking independent assurance on.

Neither the audit committee nor internal audit will be seeking to influence the financial policies themselves, but they will want to feel confident that the strategy is sound, supported by robust data and incorporates risk management measures. They should therefore audit the arrangements and assumptions underpinning those decisions, plans and strategies.

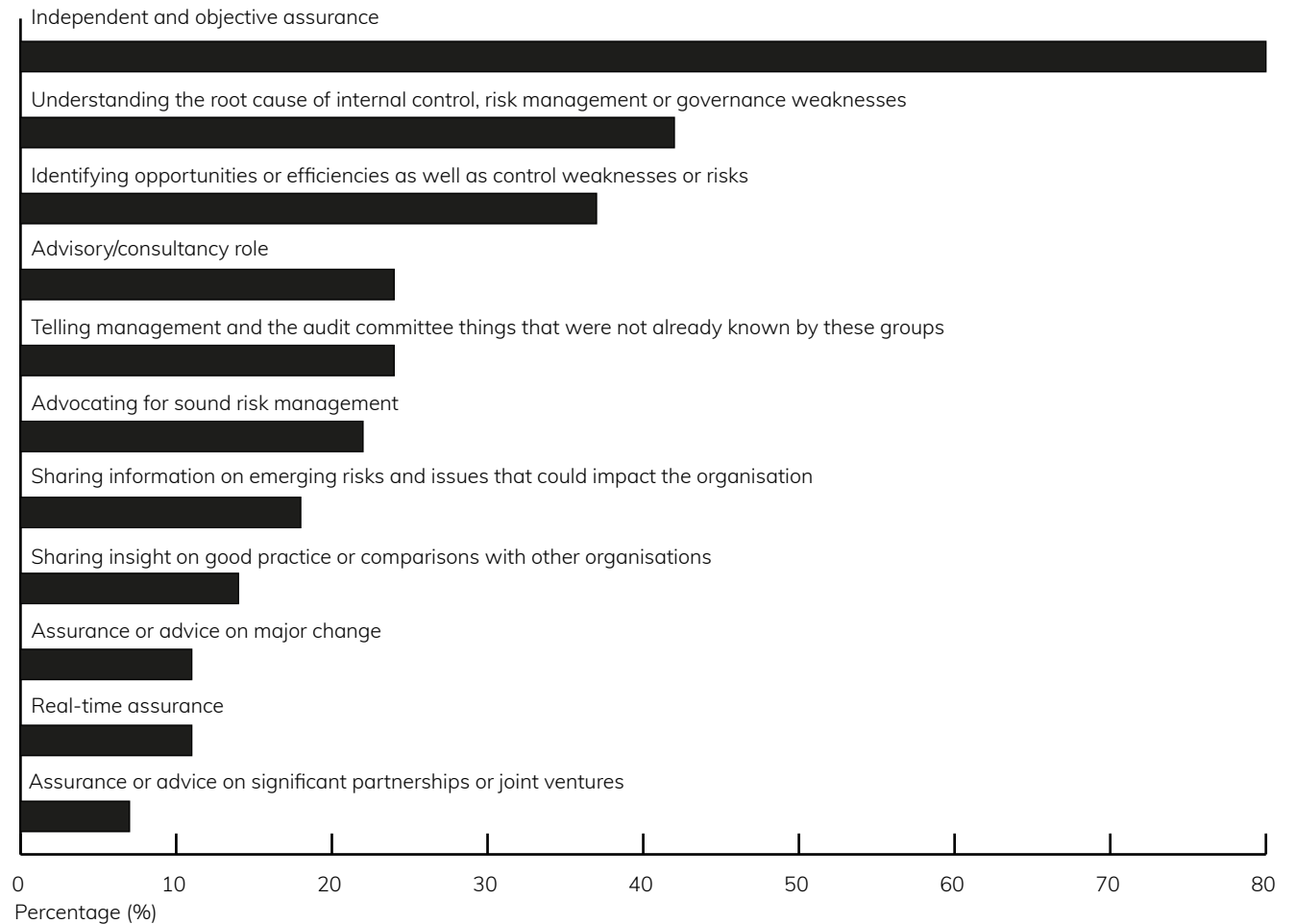
This area provides an opportunity for internal audit to have an impact in an area clearly linked to the achievement of organisational objectives. To be most effective in this area, auditors will need to have a good understanding of the financial framework in which their organisation operates. In public bodies, particularly local government, this can be complex, involving government grants, local taxation, rental income, investment income, fees and charges and its own capital management. The auditor will also need to understand how macro trends will impact on the organisation; for example, demographics, inflation, interest rates, national and local economic growth and technological innovation may all be relevant. Changes to government policy can also impact directly on public bodies' plans, so their internal auditors need to keep up to date with the wider policy agenda.

Going beyond assurance

Internal auditors provide a range of services as well as assurance

We have not asked internal auditors or their clients to provide an overview of their current internal audit plan and its priorities but did ask for feedback on the internal audit approach, engagement and particular tools or activities.

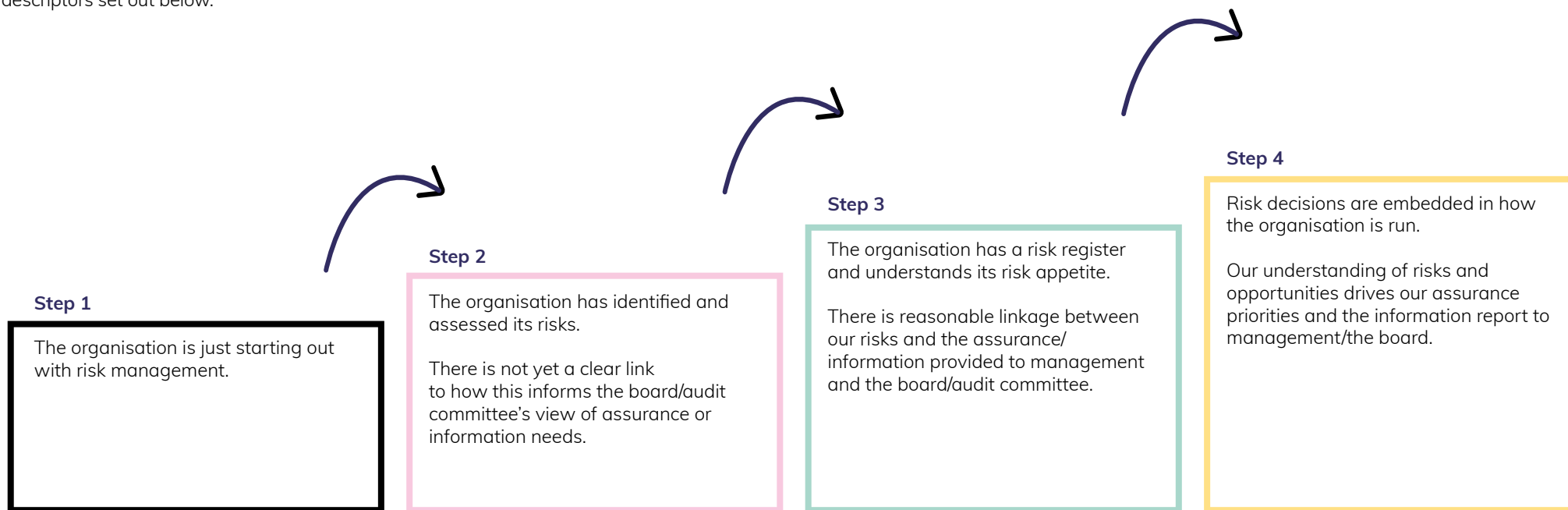
The responses to a question on how internal audit currently contributes to an organisation reflect a somewhat traditional view of internal audit activity. Unsurprisingly, independent and objective assurance is the highest-ranking response. Other activities that would perhaps be expected in a high-functioning internal audit team such as providing advice, helping to understand the root cause of weaknesses and audit coverage relating to major change receive a much lower ranking and may reflect that internal audit could have more of an impact in delivering its core role and current assurance plans.



Respondents' views on how internal audit currently contributes to the organisation.

Supporting improved risk maturity

There are several different models of risk maturity available. We set out a simple, four-scale descriptive framework and asked respondents to share their view of their organisation's current risk maturity, with maturity increasing from left to right on the descriptors set out below.

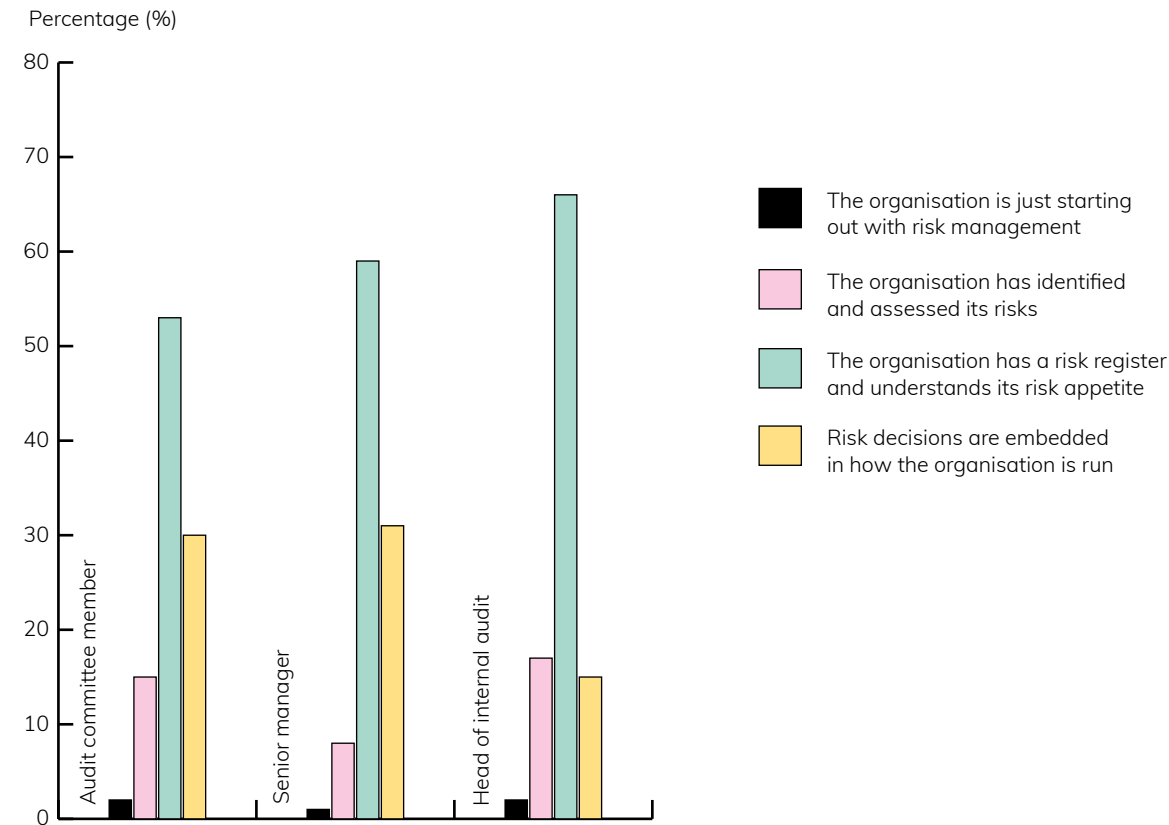


We can see a difference between the views of heads of internal audit, management and audit committees. Overall, management and audit committee members considered that their risk management arrangements were more mature than the view of internal auditors.

The results from both auditors and clients indicate that there is scope to improve arrangements for managing risk in public sector bodies. Thirty-one percent of respondents believe that the impact of internal audit would be enhanced if there was greater support to help the organisation understand risk and its risk maturity – areas where there is scope for internal audit to bring its advisory role to bear.

Recommendation:

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.



Respondents' views on risk maturity (by role).

Sharing best practice

On the theme of value, clients' perceptions of quality were influenced by the ability of internal audit to share ideas and good practice across departments or from other organisations. Such insight was found to be useful and added value to the internal audit process.

Fourteen percent of respondents said that internal audit currently contributes to the organisation's success and delivery of strategic priorities by sharing good practice and/or comparisons with other organisations. A further 19% of respondents identified this as a future priority for internal audit.

Our internal audit service is able to provide comparisons and informal insights from other blue light organisations. This helps the audit committee gauge its response, particularly regarding systemic issues.

Jonathan Swan, Chair of the Joint Audit Committee for the Essex Police, Fire and Crime Commissioner and Essex Police

Data analysis

The impact of internal audit comes not only from the nature of topics on which it focuses, but also the tools used. Many internal audit teams are using some form of data analytics, including spreadsheets, specialist analytical tools such as ACL and IDEA, and data visualisation tools such as Power BI and Tableau.

Where data analytics are not already being used by the internal audit function, 68% of internal auditors and 40% of clients think that adding analytics to the audit toolkit would be beneficial.

Respondents were aware that internal auditors are seeking to use analytics and to upskill team members, but also reflected barriers such as multiple legacy systems and challenges to accessing the organisation's data.

During 2021, we recruited at trainee level and had a tremendous response in the number of applicants. One of the lessons learnt from the recruitment process is the number of potential recruits with significant data analytics experience.

In subsequent processes, this will be an area that we specifically highlight in the job adverts to further increase the talents required for the service moving forward.

Jonathan Idle, Head of Internal Audit, Kent County Council

The consulting role of internal audit

The definition of internal auditing recognises that internal audit has both an assurance and consulting role.

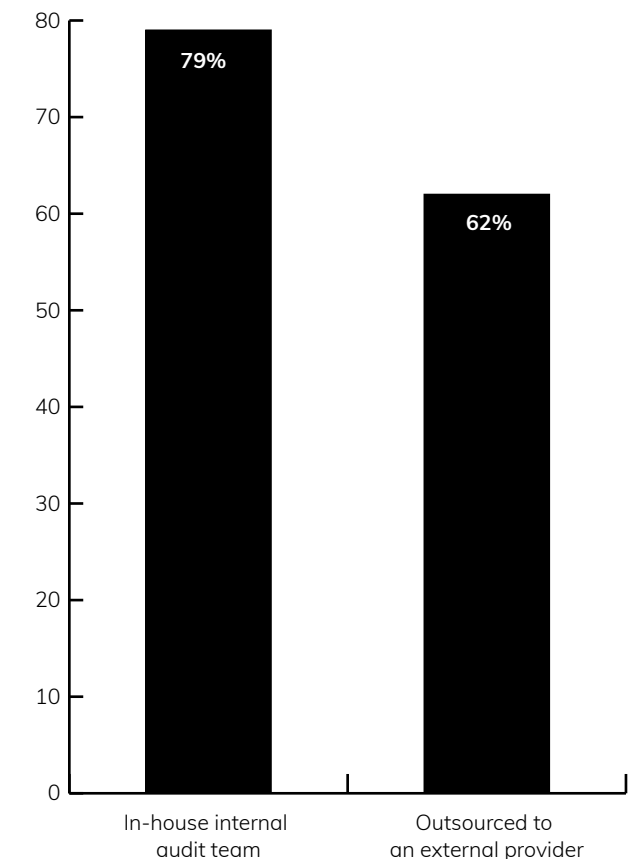
Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

International Standards for the Professional Practice of Internal Auditing/PSIAS

Eighty-six percent of respondents stated that internal audit delivered advisory or consulting work or provided ad hoc advice to the organisation. Notably, stakeholders appear less aware of this, with just 59% of audit committee respondents confirming this role compared with 73% of management and 95% of heads of internal audit. However, only 24% of respondents saw the advisory role as a current priority in terms of best describing how internal audit contributes to the success of the organisation.

When responses about advisory work are compared by the internal audit resourcing model, more respondents with in-house internal audit agreed that their internal audit service provided advisory assignments or advice on new developments. The response regarding in-house teams using co-sourced arrangements reflected a similar response to in-house teams that did not use co-sourcing.

Percentage (%)



Respondents who stated that internal audit provided advisory work or advice on new systems and developments.


Our roundtable discussions with a range of internal auditors and stakeholders reflected a varied understanding of the advisory role of internal audit. Some stakeholders – audit committee members in particular – voiced their concern that internal audit undertaking consulting work can impair its independence and objectivity when it needs to later provide assurance in that same area.

Internal audit consulting input may not always be a standalone assignment; for many internal audit teams, a core element of their advisory role is to attend project or steering groups to act as a critical friend. It is key that internal auditors should not have a decision-making role at any such meeting; however, being present enables internal audit to be aware of progress and make decisions to determine how it can best respond to support the organisation (including planning, real-time assurance or being able to ask questions to check that decisions made are well thought through). Internal audit will also seek to ensure good governance, with risk management and control built into any new development, control framework or scheme.

I have found that sitting on various programme and change boards has helped the organisation better understand how internal audit can support programmes. We are now invited in by programme teams rather than having to assert our right to provide assurance or advice.

A recent example is the new case management system. The programme board asked for internal audit input during the development phase. We are able to provide challenge on how the new system meets the needs of the organisation, whether previous audit findings have been addressed, and test the proposed control framework early enough to make a difference.

Paula Mills, Head of Governance and Assurance, Basildon Borough Council

The background features a large, tilted rectangular area with black and white horizontal stripes. To the right of this striped area is a solid magenta shape that also follows a similar tilted orientation. The overall composition is modern and graphic.

What is holding
internal audit
back?

The challenges set out in the following pages are faced by many public sector organisations. That is not to say that these are faced by all, or that internal audit teams, senior management or audit committees are not seeking solutions or taking action. There are also variations across different parts of the public sector and differing views between internal auditors and their clients.

The obstacles noted will be interdependent for some organisations; it is likely that internal audit functions with a low profile will also be less likely to argue the need for more resource or enhanced training. Similarly, an organisation that is not yet risk mature may be less likely to seek assurance on strategic priorities.

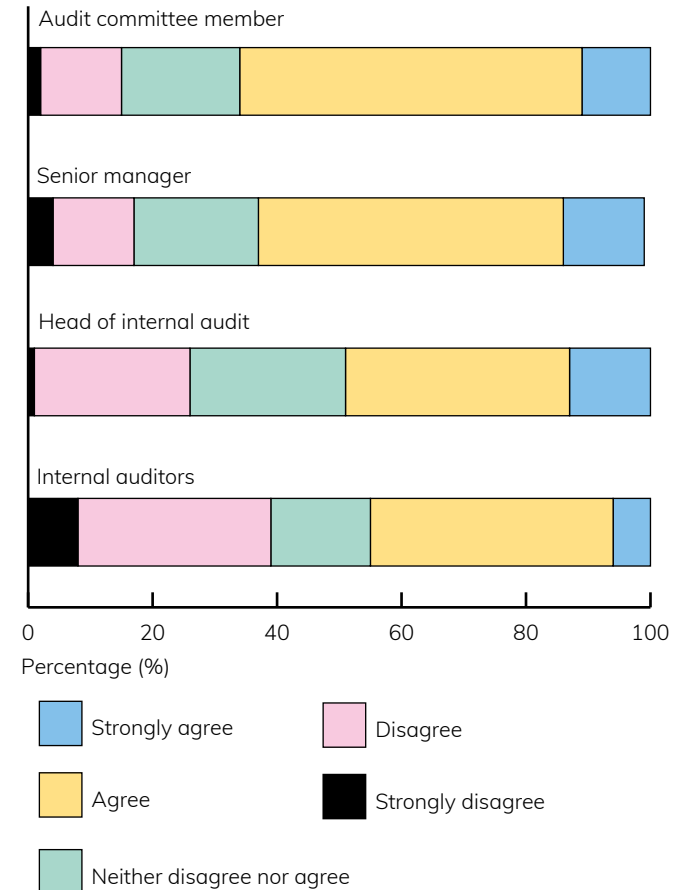
Resourcing

Capacity of internal audit

The level of internal audit resourcing is often a difficult one. How much assurance is sufficient? What other assurances exist? What skills and experience are needed to deliver the required assurance? Internal audit functions, alongside those in other departments, have seen headcount reductions over the past decade.

In our 2021 survey, CIPFA asked clients and internal auditors for their views on internal audit resourcing. When asked specifically about the resource capacity of internal audit, there is a difference in views between groups of respondents, with clients more positive than internal auditors on the current capacity of the internal audit service to provide the service the organisation requires.

Forty-three percent of internal auditors said that increasing the capacity of internal audit was a priority for improving its impact and effectiveness. Less than 30% of clients agreed this was a priority. However, a related question (see right) on whether internal audit has the resource capacity to provide the service the organisation requires indicated a higher percentage of clients recognising capacity constraints



Internal audit has the resources (capacity) to provide the service the organisation requires. View based on role of respondent.

Balancing resource

Resourcing was a topic of discussion at our roundtable events, with several heads of internal audit noting that there can be a difference between the levels of assurance an organisation requires (client appetite for assurance) and the levels of assurance an organisation needs. Many commented on the need for more resources in comments within their survey responses, together with the challenges in ensuring there are sufficiently experienced auditors to complete more complex work as well as provide coaching and support to trainees. A change in the skills and experience of the internal audit team was also seen as a route to being able to provide real-time assurance and to innovate, with some respondents welcoming trainees but noting a reduced ability to address strategic issues when a team is reliant on new entrants.

In its 2019 report on local authority governance, the National Audit Office (NAO) identified that there was a decrease of 34.2% in real-term spending on corporate support services by local authorities from 2010/11 to 2017/18. Internal audit has faced similar levels of budget reduction, and the trend has continued. Other parts of the public services have also faced resource pressures.

The capacity of internal audit functions in local government has decreased significantly at a time when the challenges and risks facing the sector have increased massively.

Local government survey respondent

Skills, experience and internal audit approaches

It may be that for many organisations, the overall budget for internal audit – and therefore the quantum of audit days – is in the gift of the leadership team, but how that budget is used and the skills available to deliver the internal audit plan are the responsibility of the head of internal audit or internal audit provider.

Views on skills and experience are notably more positive than views on resource capacity across all groups of respondents.



Internal audit has the skills and experience to provide the service the organisation requires. View based on role of respondent.

We also asked respondents if any tools or approaches were not currently used by their internal audit function that would be beneficial. Use of analytics within the internal audit approach significantly outweighed other tools and approaches. As with other skills and experience, this will require investment in the internal audit team to develop analytical skills, provide the right tools and embed analytics into the internal audit approach.

In addition to greater integration of analytics, survey respondents identified the following approaches as being of benefit to their internal audit function.

- Real-time assurance
- Sharing insight on good practice or comparisons with other organisations
- Assurance or advice on major change
- Identifying opportunities or efficiencies as well as control weaknesses or risks
- Sharing information on emerging risks and issues that could impact the organisation.

Internal auditors and their stakeholders recognise the fast pace of change, and that internal audit needs to keep ahead to best support the organisation. This results in the need for internal audit to:

- provide assurance on emerging issues and areas of change or transformation
- be equipped to play a constructive yet independent advisory role
- respond to the pace of change by providing real-time assurance
- understand and adopt new technologies
- maintain the ability to provide a core assurance on business-as-usual risks and operations.

This does not mean that internal auditors need to be experts in every topic, but that the wider team has appropriate analytical, critical thinking, communication and risk-based auditing skills to be able to approach those topics. The role of internal audit could also be to understand other assurance that's available and any potential gaps in assurance. This assists the head of internal audit in developing the internal audit plan, but also management and the audit committee when considering the quantum of assurance and any additional assurance required. For example, while cyber risk was an area that nearly two thirds of respondents identified as an area where assurance will be required, this does not mean that internal audit will have the in-depth subject matter expertise of cyber specialists.

From our research, CIPFA has concluded that internal auditors are agreeing plans for which they have the skills to deliver. Under internal auditing standards, internal auditors should not undertake work that the function does not have the skills or experience for. However, it is recognised that the assurance needs of organisations are changing and that internal audit must be able to respond to this. Internal audit needs to be ahead of the organisation to help it understand its risks and to plan focused assurance on emerging issues, transformation and strategic objectives, and therefore there is pressure on internal audit to progress, evolve and address new areas, as discussed later in this report.

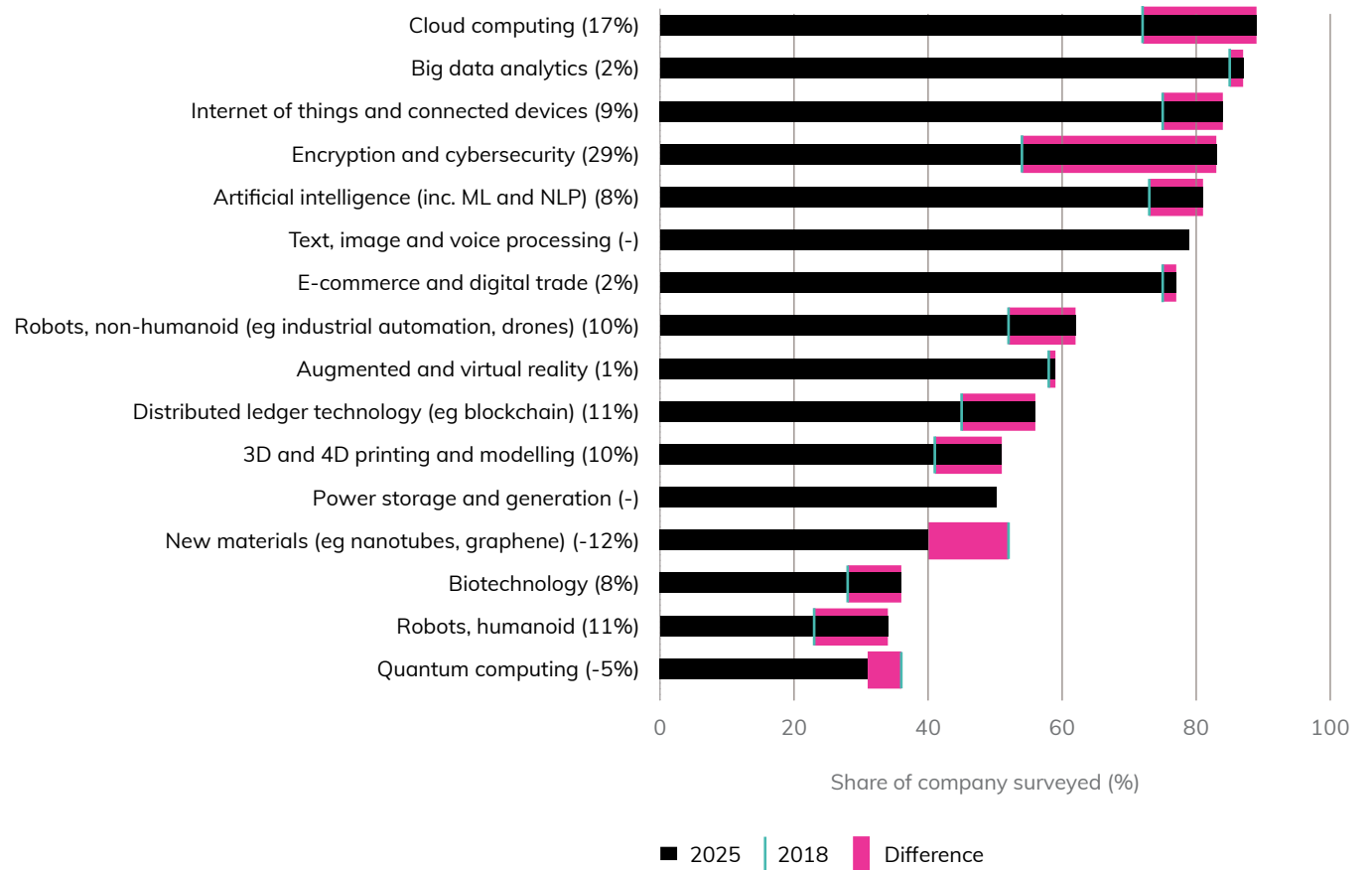
We need to be realistic about the skills we expect from internal audit. Our subject matter expertise is auditing; we cannot expect to be subject matter experts in every topic we audit. Internal audit teams need core skills that include risk-based internal auditing that can be applied to any topic, financial literacy, technological capability and data literacy.

Stan Farmer, Chief Auditor, The Open University

The wider economic view of skills and roles required

In its 2020 report on the future of jobs, the World Economic Forum (WEF) noted the technologies that companies thought were likely to be adopted by 2025, reflecting the need for internal auditors to keep pace with the use of data and digitisation in their organisations.

The same report notes that there is an expected demand for data analysts and data scientists, machine learning specialists and big data specialists. This reflects the suggestions for future coverage by internal audit as seen earlier in this report, indicating the ever-growing use of data and technology and the corresponding need for assurance providers to be able to work with data.



Technologies likely to be adopted by 2025 (by share of companies surveyed).

Source: [The Future of Jobs Report 2020](#) (World Economic Forum).

Attracting recruits to the profession in the public services

Another factor holding internal audit back is the challenge of recruitment and retaining the right skills within the internal audit function. While views on levels of resources and how those resources are used varied across respondents and those participating in roundtable discussions, one theme was common in discussions and interviews: the challenge of attracting and retaining quality internal auditors.

We need internal audit to be seen as a valuable career route for the benefit of the profession and the organisations in which we audit.

Glen Bissett, Senior Financial Auditor, Scottish Prison Service

Survey respondents shared insights into the challenges of recruiting to the internal audit function and the ability to match the nature of internal audit coverage with appropriate skills and resources. There was also feedback that some small internal audit teams are only able to deliver a basic assurance plan covering the bare minimum, which can impact the desirability of a role within that function, leading to challenges in recruiting or retaining the right staff.

Based on our research, CIPFA's view is that there are four key factors impairing internal audit's capacity and ability to recruit, retain or procure the required skills.

Key factors impacting internal audit's capacity and ability to procure and retain the required skills

1 Continuing development of the internal audit team

- Lack of funding to improve knowledge and skills, which can impair internal audit's ability to build skills in emerging areas such as analytics.
- Training budgets are often the first to be cut.
- Challenges in arranging secondments or guest auditors to augment the skill set of the existing internal audit team. Obstacles exist around the desirability of such opportunities or the capacity of other departments to release staff to internal audit.

2 Attracting people to the audit profession

- The need for more apprentices and school and university leavers to join the internal audit profession (and indeed the external audit profession).
- Consideration of how internal audit can be part of a wider career path, so that internal audit skills are seen as a beneficial experience for other roles and internal audit teams can benefit from specialist knowledge other than internal auditing.
- Training and qualifications for internal auditors need to reflect the skills that the auditors of tomorrow will require.
- Concerns that in some parts of the public sector, there may be a disparity between pay/grading for internal auditors compared with their peers in accountancy roles.

3 Culture

- Lack of recognition of the advisory or consulting capability of internal audit can impact the morale and retention rates in the internal audit team.
- Some internal audit teams are looking to strengthen skills in particular areas where the organisation is perceived to be weak (implying there was an expectation that upskilling internal audit teams would help compensate for lack of skills in the wider organisation).
- The need for management to address the findings from internal audit reports.
- The varied profile of internal audit within organisations. For some, this can impede internal audit's access to top management.
- Some organisations have a culture of tolerating internal audit rather than using and seeking internal audit and assurance.

4 Behaviours and soft skills

- Internal audit functions need the right behaviours and softer skills as well as technical competencies, including strategic thinking, and the ability to work proactively, flexibly and at pace.

Recent and forthcoming action:

CIPFA recently updated the syllabus for its Professional Accountancy Qualification, which contains greater content that will be relevant to internal auditors compared with previous iterations. The qualification is also available as a Level 7 apprenticeship.

Future plans:

- CIPFA and the CIIA have agreed to work together to raise the profile of the profession in the public sector.
- CIPFA and the CIIA will support the profession in the public services through encouraging different routes into the profession. The institutes will undertake research on career paths and routes into internal audit to help develop sustainable teams, including for guest auditors or professionals who join internal audit later in their career. This should also help raise the awareness of internal audit, its benefits and its purpose.

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. This may warrant a review of role or pay/grading structure and should recognise the unique role of internal auditing rather than simply reflecting line management responsibilities and comparisons with accounting colleagues.
- 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. Rotation of staff within the organisation could also help to build awareness of the benefits and the purpose of internal audit.
- 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 is likely to include the nature of the work, the tools and skills required to undertake it and resources. This should be agreed with top management and the audit committee and progress reported on as part of the quality and improvement programme of the function.
- 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.

The majority of our training budget goes to support our trainees. Experienced internal auditors get very little targeted or personalised training or development.

Internal Audit Manager, the public sector

Selecting the right model of internal audit

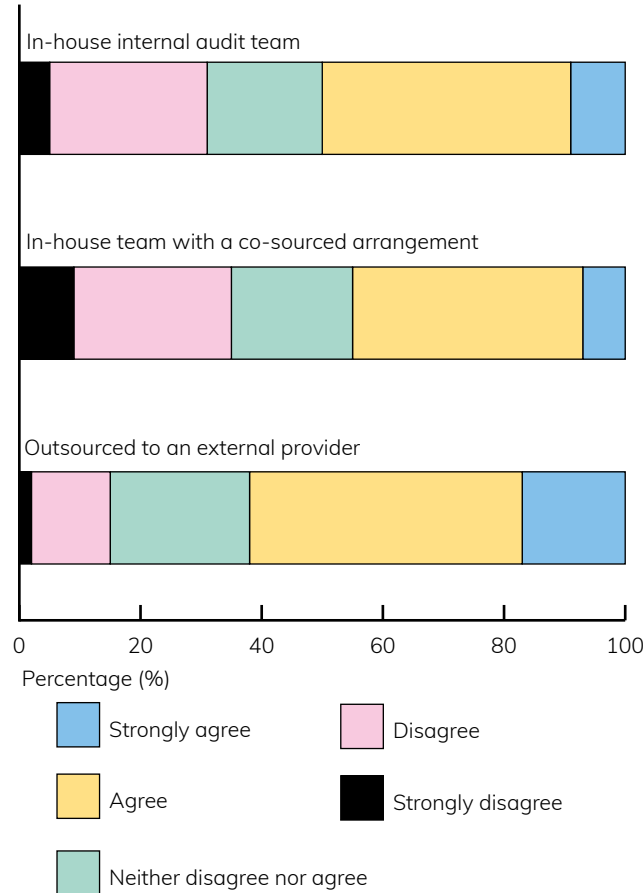
Internal auditing standards apply to any internal audit service, regardless of the model employed, but do not mandate the model that should be used. There are several different models of internal audit service.

- In-house – the internal audit service is provided by a team of people who are employees of the organisation.
- Outsourced – the internal audit service is provided by a team of people who are not employees of the organisation. This may be through a shared service, a formal commercial contract or another partnership arrangement.
- Co-sourced – an in-house internal audit service that secures some of its resource from external parties. This may be on an ad hoc basis or a formal partnering contract or arrangement. This is often a model used by in-house teams to procure particular expertise or skills to augment the existing team.

Our survey did not demonstrate that one model has clear strengths or weaknesses above the others. There were, however, some individuals with strong preferences for a particular model of delivery.

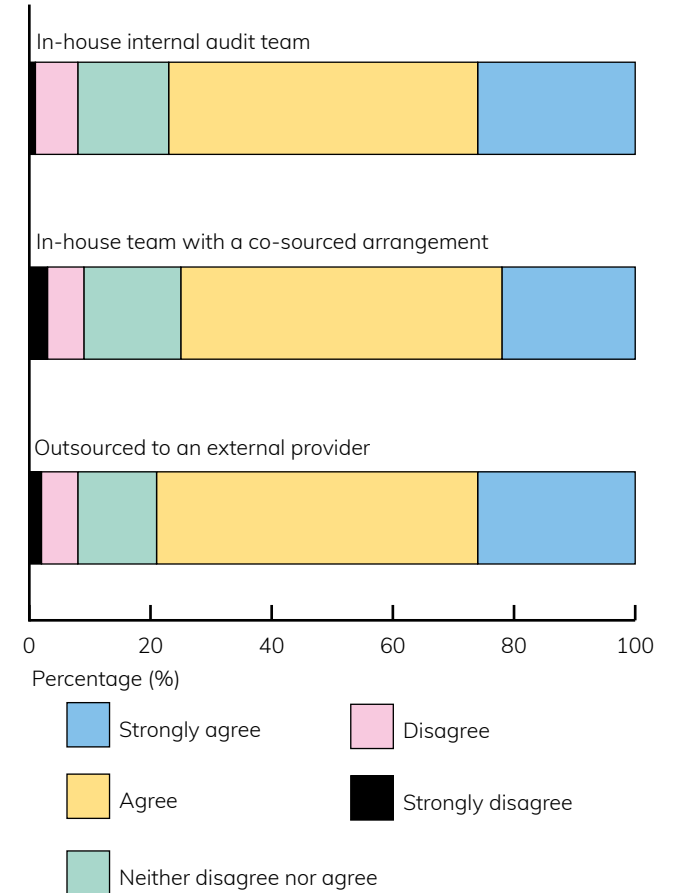
Our survey respondents reported that outsourced services have greater capacity, but there was little difference in views on the skills and capability across different models. As noted earlier, survey responses reflected a greater perception of advisory work from in-house internal audit teams compared with outsourced services.

When comparing views on the available resources based on the model of internal audit, an outsourced service has stronger capacity. Given these responses come from individuals who provide such a service or have likely been involved in procuring that service, this may not be surprising,



Internal audit has the resources (capacity) to provide the service the organisation requires. View based on internal audit resourcing model.

given most tenders are based on a view on the overall quantum of resource to be delivered, and therefore, in effect, are an agreement on the level of assurance that the organisation will receive.



Internal audit has the skills and experience to provide the service the organisation requires. View based on internal audit resourcing model.

All models can be made to work, but the organisation must be mindful of what it needs to do to make its chosen model work. When selecting a model, the focus should be on what assurance is needed to facilitate informed prioritisation of coverage and the skills and quantum of assurance, not what assurance can be afforded in the allocated budget. Organisations that have a good understanding of their assurance requirements and priorities will be better placed to make an informed decision about the nature of internal audit required and the best way to deliver that.

Although there are three broad models – in-house, co-sourced and outsourced – some shared service and audit partnership models try to operate in a similar way to in-house teams, for example by basing a permanent team within an organisation, supplemented with flexibility and support.

This table below sets out broad advantages and disadvantages of in-house and outsourced models. The exact operational arrangement may, in practice, bridge both models.

Advantages	Disadvantages
In-house internal audit	
Better knowledge of the organisation and people within it.	Many internal audit teams are facing challenges in recruiting quality candidates with the skills required.
Easier to build effective working relationships with a constant presence.	The smaller the audit team, the more challenging it will be to have all the skills required within that team.
An effective internal audit department can be used as a secondment to support management development programmes.	The risk of long-tenured team members may lead to impaired objectivity and innovation.
Regular liaison with other internal assurance functions and management.	Small internal audit teams in particular may find it difficult to provide succession and promotion opportunities.
Some heads of internal audit have a role in the management team and are therefore present for discussions on emerging issues and determining how internal audit can best support the organisation as priorities change.	Unplanned absences can delay the internal audit plan and impact service delivery.
If the internal audit budget allows for consultancy/advice, this can be provided as part of a budgeted cost rather than an additional fee.	

Advantages	Disadvantages
Outsourced internal audit	
Able to share good practice and lessons learned observed in other organisations.	Lack of clarity over responsibility and accountability for internal audit and assurance.
Able to provide benchmarking or comparative data from similar organisations.	There may be reluctance to provide formal assurance opinions on certain topics.
More options and flexibility to provide staff or subject matter expertise.	The risk that management will not perceive their responsibility for maintaining an effective internal audit function.
A shared service model could allow for staff to be based predominantly with one client and therefore to build knowledge of the organisation.	The organisation may not engage as effectively with an external provider.
	Lack of organisational knowledge, including of the culture of the organisation.
	A contract manager or key contact is still required to ensure effective liaison between the organisation and the internal audit provider.
	The risk of high staff rotation leading to lack of familiarity with the organisation.
	A focus on price rather than quality when contracting for an outsourced service may prohibit extensive input from senior staff or specialists.

A co-sourced internal audit service is one with an in-house team that also has an arrangement to draw on resources from an external provider. In many ways, this helps the internal audit service reap the benefits from both the in-house and outsourced models; in particular, a co-sourced arrangement provides access to additional staff and subject matter expertise. Intelligent procurers of co-sourced services will also seek to ensure skills and knowledge transfer between the external and internal teams, and to obtain to share insights and experience from the co-sourced partner's wider client base.

Managing internal audit independence

Independence and objectivity are essential to effective internal audit. Some of the barriers discussed below may be factors of perception, which can then impair stakeholders' views on the quality of internal audit.

Roles beyond internal audit

Fifty percent of the heads of internal audit who responded to the survey have other responsibilities as well as leading the internal audit function. This figure rises to 60% in local government.

Of the additional responsibilities that heads of internal audit have, the most common were:

- risk manager
- head of counter fraud
- governance.

There was also a range of additional roles for heads of internal audit who have a clear second-line function, such as business continuity, health and safety, insurance and data protection. Internal auditing standards provide guidance on how such additional roles should be managed and risks to independence and objectivity communicated.

It was surprising to find some heads of internal audit state they had responsibilities for operational areas such as procurement, council tax or debtors, meaning those heads of internal audit would have to find other approaches to providing assurance on those areas rather than providing the assurance themselves.

Chief audit executive roles beyond internal auditing

Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.

Interpretation:

The chief audit executive may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities. These roles and responsibilities may impair, or appear to impair, the organisational independence of the internal audit activity or the individual objectivity of the internal auditor. Safeguards are those oversight activities, often undertaken by the board, to address these potential impairments, and may include such activities as periodically evaluating reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional responsibility.

Extract from the International Standards for the Professional Practice of Internal Auditing and the PSIAS

Recommendation:

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.

One concern flagged by clients was that internal auditors may impair their independence by undertaking advisory or consulting work. The consulting role of internal audit is set out within PSIAS, as are a number of safeguards. The head of internal audit must take a balanced view on priorities that can be delivered with the available skills and resource, and for some internal audit teams, this may preclude significant amounts of advisory work. Undertaking advisory work can also mean that internal audit cannot provide formal assurance around that area. Internal auditing standards state that internal audit can provide assurance where it has previously provided consulting services, provided the nature of the consulting input does not impair objectivity and steps are taken to manage individual objectivity when assigning team members to the audit – something that will be easier to manage for larger internal audit functions.

However, many internal auditors undertake advisory work below the radar, such as sitting on project or steering groups as an observer or critical friend. There is a need for internal auditors to communicate more, not only about these activities but also the benefits they bring to the organisation.

A third factor was also present in concerns about internal audit independence and objectivity: the fact that some internal auditors have been in post for many years. In its Internal Audit Code of Practice, the CIIA recommends:

“Where the tenure of the chief internal auditor exceeds seven years, the audit committee should explicitly discuss annually the chair’s assessment of the chief internal auditor’s independence and objectivity”.

This does not mean that long-serving heads of internal audit lack independence or objectivity, but that the audit committee should have greater understanding of the risk of over-familiarity and actions to mitigate that risk. This code does not apply to the public sector but will be relevant to third sector and not-for-profit organisations aligned with the public services.

Internal audit reporting lines

When commenting on organisational independence, both global internal auditing standards and PSIAS state that the head of internal audit “must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities”. The standards go on to explain the nature of internal audit’s relationship and interactions with the board² (and/or audit committee). The PSIAS go further, setting out an explicit expectation about access to the chief executive and chair of the audit committee.

The chief audit executive³ must report functionally to the board. The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive and the chair of the audit committee.

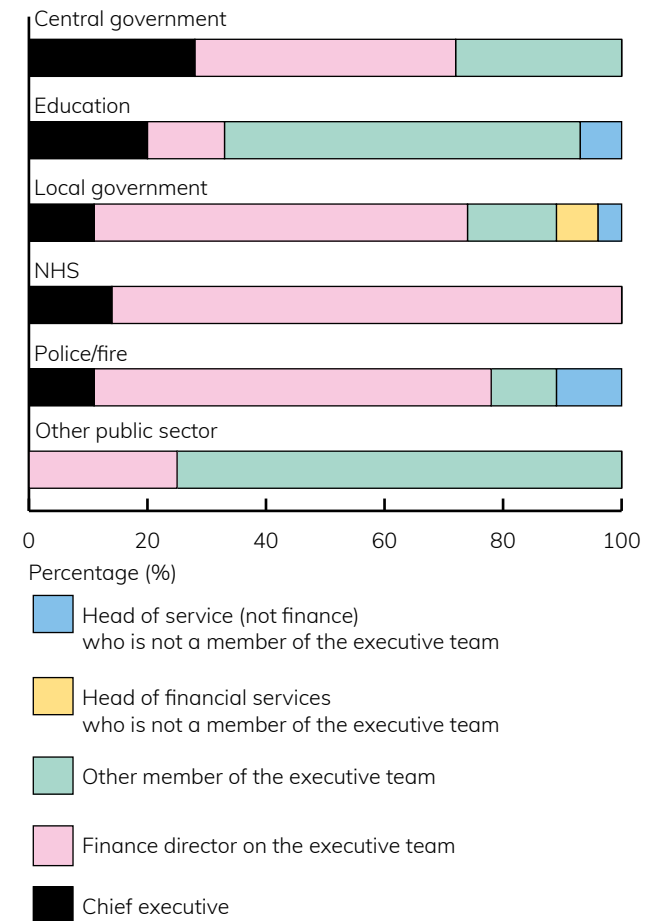
Public Sector Internal Audit Standards

We asked heads of internal audit about their functional and administrative reporting lines. It is recognised that many heads of internal audit in effect have two reporting lines: one within the management structure and one to the audit committee.

² Internal auditing standards recognise that for most organisations, this role will be discharged by the audit committee on behalf of the board.
³ Internal auditing standards use the phrase ‘chief audit executive’ for the person who leads the internal audit function. In many UK public sector organisations, this role will be known as the head of internal audit, chief internal auditor or similar.

Reporting lines within the management structure

The traditional internal audit reporting line to the chief financial officer remains a common model. As shown below, there are significant differences in typical internal audit reporting lines across sectors:



Analysis of reporting lines by sector.

We noted in roundtable discussions and survey responses that there remains a perception that internal audit in local government must report to the section 151 officer. As the NAO reiterated in its 2019 report on local authority governance, the legal responsibility for maintaining the system of internal control, including arrangements for the management of risk and an effective internal audit, lies with the elected council members, and therefore responsibility no longer rests solely with the section 151 officer. Comments were also made that for some local government and policing organisations, it was perceived that section 151 officers benefitted more from internal audit and that there should be clear emphasis on internal audit being for the wider organisation and not solely focused on financial control. This also reflects the various views we heard from management on their expectations from internal audit, ranging from an appetite for assurance on core systems only through to managers who were actively seeking greater engagement and focus on wider strategic risks and priorities.

Our analysis showed no apparent correlation between reporting lines and whether the internal audit service was provided in-house or through an outsourced provider.

... while the section 151 or similar legislative provisions require the authority to appoint a suitably qualified officer responsible for the proper administration of its affairs, responsibility for proper financial administration still rests ultimately with elected members. The local authority itself has a statutory responsibility for maintaining a system of internal control including the management of risk, an effective internal audit and preparing annual accounts.

Extract from CIPFA's Financial Management Code

CIPFA's guidance on the role of the head of internal audit says that heads of internal audit must report functionally to a member of the leadership team. In total, 9% of heads of internal audit told us that they do not have a reporting line into the chief executive or a member of the executive team. This could mean that the leadership team lacks understanding of the role of internal audit and the audit team lacks engagement with its principal client.

Reporting line to the audit committee

Eighty-six percent of heads of internal audit confirmed that they have a formal reporting line to the chair of the audit committee, meaning 14% do not have this formal reporting line. This could mean that the head of internal audit's ability to report independently to the audit committee is compromised.

Recommendation:

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.

Audit committees

Low expectations by audit committees are another factor in holding back internal audit from fulfilling its potential. This is in part due to the weakness of some audit committees in some public bodies.

Role and oversight

The role of the audit committee is vital in setting the expectation within the governance structure for risk-based assurance on strategic priorities. It is also key, alongside senior management, in setting the expectations for internal audit's performance.

One third of respondents to our survey were ambivalent or negative about their audit committee providing robust oversight, although 95% of heads of internal audit said they felt the audit committee listened to them.

CIPFA's own research on audit committees in local government has identified that while committees are supportive of the work of internal audit, they are less effective in providing professional oversight and providing challenge.⁴ This was mirrored by some survey respondents who commented that management needs to be better at responding to internal audit recommendations and that the audit committee has a role to ensure action is taken.

Some audit committee chairs and heads of internal audit have regular meetings, and discussions between meetings, along with private sessions between the audit committee and head of internal audit before or after committee meetings.

⁴ CIPFA survey of audit committees in local authorities and police (2016).

However, this relationship is not in place for all. Some audit committee chairs have had to push for private meetings to be included in the committee's terms of reference.

Recommendation:

There should be regular private meetings between the audit committee and the head of internal audit with no management present. If such meetings are diarised, this avoids either party having to ask for such a meeting to be arranged before/after a planned committee meeting, which can create an expectation that significant issues need to be discussed. Such meetings should not prevent there being open and regular communication between the head of internal audit and audit committee chair throughout the year and between committee meetings.

Independent audit committee members

Another factor raised at roundtable discussions was the potential for political bias at local authority audit committees and the appointment of independent members to those committees.

In 2019, the NAO emphasised the benefit of independent audit committee members, in particular as chair of the committee. The 2020 [Redmond Review](#) noted that 56% of local authorities had no independent member on the audit committee. One of the recommendations from the Redmond Review was that the governance arrangements within local authorities be reviewed by local councils to consider appointing at least one suitably qualified, independent member to the audit committee.

It is noteworthy that several local government participants in our roundtable discussions commented on the audit committee being perceived as a low-status committee role in some authorities. Local government respondents were the least positive regarding the effectiveness of audit committees. While some committees in this sector are clearly high performing, others were described in survey responses as ineffective, with members who were not engaged or interested.

While Redmond's recommendation focused on encouraging the appointment of at least one co-opted independent member, there has been considerable activity since. A working group of the Local Audit Monitoring Board (a board commissioned by the Department for Levelling Up, Housing and Communities (DLUHC)) was set up to look at this recommendation, among others.

New guidance:

[CIPFA published strengthened guidance on audit committees in April 2022.](#)

The Position Statement emphasises the role that audit committees should have in the oversight of internal audit and ensuring accounts are prepared to a high standard, alongside broader changes including the appointment of independent members.

In Wales, there has been a requirement since 2011 to have at least one lay member on council audit committees. New legislation through the Local Government and Elections Wales Act 2021 means there should be one-third lay members and a lay member as chair.

Role of the audit committee with respect to internal audit planning

Through roundtable discussions, we noted different approaches to internal audit across different organisations. There were differing views on the role of the audit committee regarding the internal audit plan. This varied from audit committee members who considered it their role to determine what the internal audit plan should be, potentially reducing the independence of the head of internal audit in determining internal audit priorities, through to committees that agreed plans they were not fully happy with.

While the audit committee should approve the internal audit plan, the plan should ultimately be the work of the head of internal audit setting out their independent view of the assurance priorities for the organisation. The plan should be developed according to the strategic priorities and risks of the organisation, and by consulting key stakeholders such as management and the audit committee. While the audit committee will be asked to approve the plan and may request additional topics or challenge why certain areas are flagged as priorities, the plan should remain a reflection of the head of internal audit's view of the organisation's assurance needs. It should also reflect how internal audit can help address those assurance requirements.

The chief audit executive must report functionally to the board. The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee.

Public sector requirement from PSIAS

If we are looking for rigour and added value, we can't have peer reviews for our internal audit external quality assessment.

If organisations are not prepared to spend once every five years on this type of review, what does that say about how they view the importance of a quality internal audit service?

Vice Chair, of a London local authority audit committee

Assuring the audit committee on internal audit quality

The quality of internal audit must include conforming with relevant professional standards. Both the PSIAS and the International Standards include a requirement for an independent external assessment of internal audit to be undertaken at least once every five years.

Several roundtable participants had received a review or had been involved; others were aware of the requirement, but budgetary constraints prevented such an external assessment from being progressed. Several authorities, particularly in local government, have undertaken peer reviews as a route to an external assessment. Some participants were concerned that this does not add the value that a truly independent review would and may miss the opportunity to share new practices and ideas, as well as potentially being less rigorous.

Agreed action:

CIPFA and the CIIA will consider the operation of the quality assurance and improvement programme in the public services and consult with the Internal Audit Standards Advisory Board.

Lack of understanding of assurance – immature first and second lines

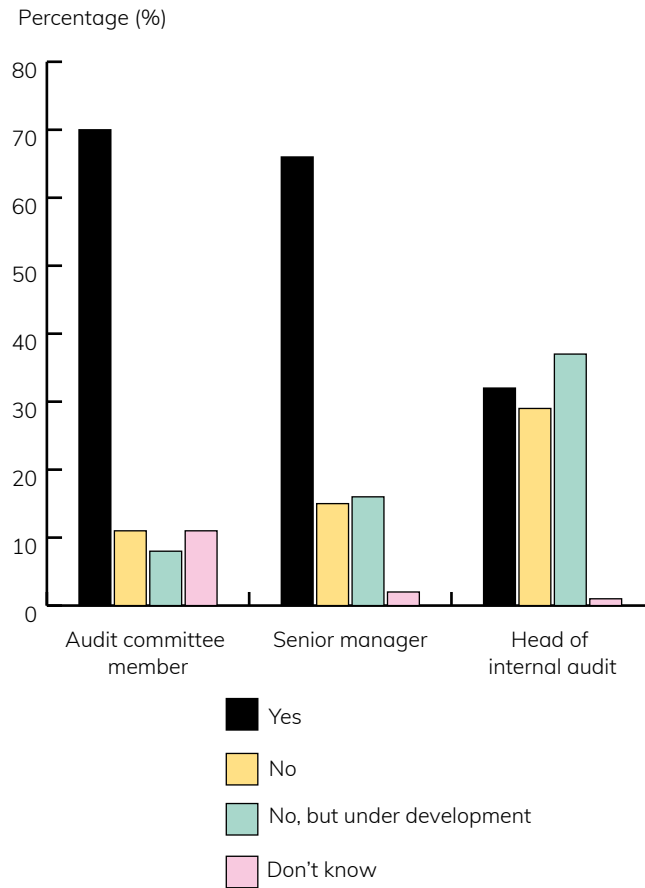
Internal audit will have the greatest impact in organisations that understand and embrace assurance. We look below at some of the organisational factors that can hold internal audit back.

A holistic view of assurance?

Assurance is a key element of the governance and risk management framework. It provides information and feedback to help management and the audit committee understand the effectiveness of the internal control framework and the robustness of risk management arrangements. The independence of assurance is also a key factor. Typically, organisations will have assurance activity within the first line (front-line activities and the role of management), the second line (functions such as risk management, compliance and health and safety), with internal audit as the most independent source of assurance referred to as the third line.

An assurance framework is a structured means of identifying and mapping the main sources of assurance in an organisation, and co-ordinating them to best effect.

Assurance frameworks, HM Treasury, 2012



Has the organisation identified how it obtains assurance across the full range of its activities (sometimes called an assurance framework or assurance map)? Responses by role.

CIPFA was keen to understand the wider culture of risk management and assurance within the public services, and therefore the context in which internal audit is provided. We asked respondents about the status of an assurance framework or similar mechanism within their organisation.

When asked if the organisation has identified how it obtains assurance across the full range of its activities, clients were significantly more positive than heads of internal audit. This may be for a number of reasons, including the understanding of what constitutes an effective assurance map, or that internal auditors may have higher expectations on the formality of such an exercise.

Of all respondents, only 48% confirmed that their organisation had identified how it obtains assurance across the full range of its activities. This is surprisingly low, given the concept of assurance maps or frameworks has been in use for over 20 years. The most positive responses came from NHS, police and fire respondents.

Sixty-four percent of respondents noted that internal auditors worked with risk colleagues to support assurance maps and identify and understand different sources of assurance.

There is a need for audit committees to have a key role in overseeing the assurance framework, with internal auditors being integral not only to delivering assurance, but in collecting information and assessing the robustness of other assurance activity to help the committee's understanding of the assurances available to the organisation. Through this approach, the audit committee acts as a sponsor alongside senior management and can help create a culture of seeking assurance, feedback and continual improvement to support risk management and decision making.

Internal auditors have a vested interest in an effective assurance framework and a robust three lines of assurance within the organisation. Twenty-five percent of respondents thought that internal audit could be more effective if other formal assurance activity in the organisation was developed (either first or second line).

Some heads of internal audit noted that where there is no second line of assurance, or where second line functions are weak, internal audit functions can end up filling that gap by providing compliance-focused assurance. This may mean less internal audit resource is available for risk-based assurance on strategic priorities.

Crucially, organisations that do not share a good understanding of their assurances across management, the audit committee and internal audit can be less confident that they have robust control arrangements in place. The lack of clarity means it is more difficult to make full and effective use of internal audit.

Working with other assurance providers

The survey considered internal audit teams' work with other assurance providers and the results showed less awareness of this area of activity among clients.

Sixty-eight percent of heads of internal audit are working with risk management colleagues to understand other assurances available to the organisation. Fifty-nine percent of clients said this was happening in their organisations.

For some organisations, there will be shared working, partnerships or joint ventures with third parties that could necessitate internal audit teams from different authorities working together. Forty-nine percent of heads of internal audit said they are working with internal audit teams from other organisations.

Recommendations:

- *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. For example, the internal audit plan could include a different aspect of the second line each year to provide assurance on those functions.*
- *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.*

For audit committee members, an assurance map gives you a clear view of the assurance you need, and where and how that is provided. Where the second line is mature, internal audit can be freed up to focus on more strategic areas.

Clare Minchington, Chair of the Audit and Risk Assurance Committee, Government Internal Audit Agency

The impact of external audit disruption on organisations and internal audit

The assurance available to some public sector organisations has changed since the Audit Commission was abolished in 2015. The scope of input, quality and timeliness of external audit has changed. The external audit of local government and health bodies in England has experienced a period of disruption that goes beyond the impact of the COVID-19 pandemic. The problem has been most acute in local government, where audits are undertaken largely after those on health bodies are completed.

The root of the problem is the change to a market provider model, where firms compete for contracts. Although local audit clients have audit arrangements in place, firms have been unable to deliver in accordance with contract expectations. The reasons for this were examined in the [Redmond Review](#) in 2020.

Following the Redmond Review, the government is taking steps to improve the resilience of the public sector external audit market and address the report's recommendations. As of spring 2022, the local audit arrangements are still fragile and are likely to remain so for a while.

In some bodies, working relations between the external auditor and client have become strained because of these difficulties. While most bodies initially welcomed reduced audit fees, there has been frustration with delays and the reduced value that the audit process has offered. External auditors themselves report dissatisfaction with the arrangements, citing a lack of understanding of the audit process among audit committees, low fees and a lack of regard for audit findings.

Some internal auditors have reported that they have little contact with external auditors. The reduced reputation of external audit in the local government community and less interaction between the auditors also contributed to the difficulties faced by internal audit teams. Recent events, where the consequences of poor governance and poor financial management have been exposed, have created a greater understanding of the need to invest in and support internal audit alongside other aspects of corporate arrangements. The changes to the reporting on value for money introduced by the NAO from April 2020 onwards are helpful, as they create a narrative on the strength of local arrangements.

There are opportunities for internal audit to interact more with external auditors to share findings and conclusions. To make a real success of this opportunity, the local audit market needs to be more robust.

The quantum of internal audit resource and assurance

'How much assurance is enough?' is perhaps the million-dollar question, and one to which there is no simple answer. The amount of coverage varies from organisation to organisation and is informed by various factors such as the size and complexity of the organisation, appetite for assurance, and the remit of the internal audit function. This will, in turn, determine the volume and nature of internal audit work and its ability to have an impact.

Appetite for assurance

As already seen, many respondents felt that internal audit has sufficient resources to provide the service the organisation requires. Some roundtable participants challenged the perception of the quantum of assurance required and that organisations may need more assurance than they appreciate. Therefore, there may be a gap between the assurance the organisation has agreed and the level of assurance it needs to obtain sufficient feedback and comfort on key risks, priorities and systems.

The quantum of audit provided is perhaps the most challenging question for management and the head of internal audit, and it is not easy to set out a de minimis level that would work for two similar organisations, as there will be many factors that affect the risk profile and assurance needs of two organisations that, from the outside, seem similar.

Questions around this may therefore cover areas that are not always easily quantifiable.

- How much assurance do I need to provide to support the annual internal audit opinion? What areas of coverage should that include?
- Is there an imbalance between the assurance I believe is needed by the organisation and what we are able to provide?
- What change or transformation is occurring and where would assurance or advice from internal audit be useful? How do we maintain a balance between assurance on business as usual and areas of change and development?
- What other sources of assurance exist? Does the scope of these support the work of the audit committee and is that assurance robust and reliable?

One of the main factors in different levels of assurance is the wider organisation and the budget and resources available for internal audit, likely linked to attitude to assurance and previous impact of the internal audit function. From group discussions, it is possible that difficult conversations will be needed around priorities, coverage, resources and internal audit's ability to deliver a more strategic plan.

Smaller internal audit teams noted that networking and maintaining relationships with senior management is important, but more challenging when the size of the internal audit plan does not allow for internal audit to do more than a minimum assurance plan – an interdependency between resources, impact and engagement with the organisation.

Recommendation:

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, which can be used to inform discussions around prioritisation of the use of internal audit resources to facilitate a meaningful discussion with the audit committee.

Impact of the pandemic

The question of how much assurance is needed has been a particular focus during the pandemic. From March 2020, the amount of internal audit delivered was impacted in many organisations, with internal auditors often redeployed to support the first line elsewhere in the organisation. For some local government and NHS organisations, this meant halting the internal audit plan for April to summer 2020, with further redeployments and delays during infection surges in winter 2020/21 and 2021/22.

Thirty-six percent of respondents said that their internal audit plan had been suspended for a period of time. Fifty-four percent noted that at least some of the internal audit team was redeployed to other roles. Eighty-five percent of internal audit plans were flexed to respond to emerging risks and priorities relating to the pandemic. One of the challenges of such disruption is the impact on the ability to provide an annual internal audit opinion. Guidance was provided by the IASAB, CIPFA, GIAA and HFMA for internal auditors across different parts of the public sector. During the pandemic, many heads of internal audit had to decide what work must continue as a bare minimum to be able to give an annual internal audit opinion.

During the pandemic, internal audit team members were redeployed in both 2020/21 and 2021/22 to support the trust where additional resource was needed. While internal audit resource was reduced, we pivoted the work of remaining team members to provide quick-response advisory reviews on emerging issues such as the setup of a Nightingale Hospital. Even when the team returned to internal audit, delivery of the plan was challenging due to pressures on frontline personnel and management.

While I determined how much assurance I needed to support my annual opinion during the pandemic, these were exceptional times. As a profession, we must acknowledge that the reduced quantity of assurance is not sustainable to routinely support an opinion in the longer term.

Mike Townsend, Head of Internal Audit, Barts Assurance

It was also noted that working remotely has reduced internal audit's ability (as with many teams) to have quick, informal chats with colleagues across the organisation, which help maintain effective working relationships. Others noted that greater pressure on management in response to the pandemic meant that in some areas there was less willingness to engage with internal audit.

Challenges in delivering the annual internal audit opinion

The PSIAS require public sector internal auditors to provide an annual opinion. This should inform the organisation's annual governance statement. In some sectors such as higher education, the annual internal audit opinion will be used by the audit committee in developing its own annual report to the governing body.

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Extract from PSIAS

It is the head of internal audit's responsibility to ensure that the audit plan, when taken together with other sources of assurance, will provide sufficient assurance to support this opinion. In CIPFA's experience of quality assessments, a range of approaches exist to underpin the opinion. For this report, we undertook a review using publicly available resources of the 2020/21 annual opinion provided at 33 London boroughs. This analysis reflects the variability of the nature and volume of audit work that heads of internal audit drew on when forming their annual opinion for 2020/21.

Many of the opinions reflect the considerations of the head of internal audit regarding whether sufficient work has been completed on which to base the opinion; reference was made in reports to CIPFA's guidance for internal auditors during the pandemic.

Other variations noted across those authorities' annual internal audit reports include the following.

- **The scope of the opinion given.** While relevant coverage may have been included within internal audit plans, 36% of the opinions reviewed did not explicitly mention governance or risk management in the opinion statement, therefore appearing to omit a requirement of PSIAS.
- **The scope of the organisation on which the opinion is given.** Some annual opinions appear to be based on work both at the authority's centre as well as in schools. Others were silent on this or appear to omit schools audit from their opinions, setting out schools' audit work as a separate schedule of activity.
- **The volume of audit work supporting the opinion.** Several heads of internal audit made a clear statement confirming they were satisfied that sufficient quantity and coverage of work had been undertaken to allow a conclusion to be drawn, and there were none stating they were unable to provide an opinion. There was a significant difference in the number of audits undertaken across the boroughs to support the 2020/21 opinion, varying from seven 'systems audits' and four 'schools audits' to authorities drawing on over 40 audits to form the opinion.

- **The form of wording.** Many reports remind the reader that the assurance provided cannot be absolute, and therefore only reasonable assurance can be provided. However, the specific wording of the opinion varies, and these variations include the following: "adequate and effective", "generally satisfactory", "reasonable assurance", "moderate assurance", "limited assurance", "a reasonable level of confidence", "adequate and remains robust" and "good with improvements required in a few areas". The most common conclusion wording used was "reasonable assurance".
- **The work and assurances on which the opinion is based.** Some opinions clearly state that they are based solely on work undertaken by internal audit. Others refer to consideration of risk management arrangements and other assurances available, including the work of second line functions such as anti-fraud teams. Some annual reports reflect the nature of audit work, setting out the number of assignments in year that were assurance, consultancy, follow-up or grant claim reviews, for example. Hillingdon is a useful example of this, informing the reader that the total number of audit assignments in each year has reduced by nearly a third between 2017 and 2021, although the overall number of assurance assignments has increased within that period.

Notwithstanding CIPFA's recognition that factors such as organisational complexity and appetite for assurance will impact on the quantum of audit, the variability identified in the quantum of audits underpinning the annual opinion is concerning.

Agreed action

- CIPFA will work with the CIIA and IASAB to develop guidance on annual internal audit opinions to help heads of internal audit provide an opinion and audit committees in using that opinion.
- CIPFA will consider options on how it can facilitate a thematic review of annual internal audit opinions, which will help heads of internal audit provide context and comparators with peers.

Recommendation:

For local government with education responsibilities, consider an annual internal audit report that splits out schools' audit work from the main opinion. This would make clearer the nature and quantum of assurance on which the opinion relating to the organisation's central risk management, governance and control environment is based.

As a small internal audit team covering both the police force and office of the police and crime commissioner, I proactively seek out other independent assurances and feedback that are relevant to the framework of governance, risk management and control.

The annual opinion I give each year is based on the internal audit work my team has delivered. I use the other assurances available to support and sense-check that opinion; it is a useful triangulation and also provides the Joint Independent Audit Committee with a view of the broader assurances and feedback from external parties during the year. This may include a report by Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services, or assurance from another organisation's internal audit function where a service is outsourced or with whom the force collaborates.

Neil Shovell, Chief Internal Auditor, Thames Valley Police and the Office of the Police and Crime Commissioner

Organisational culture

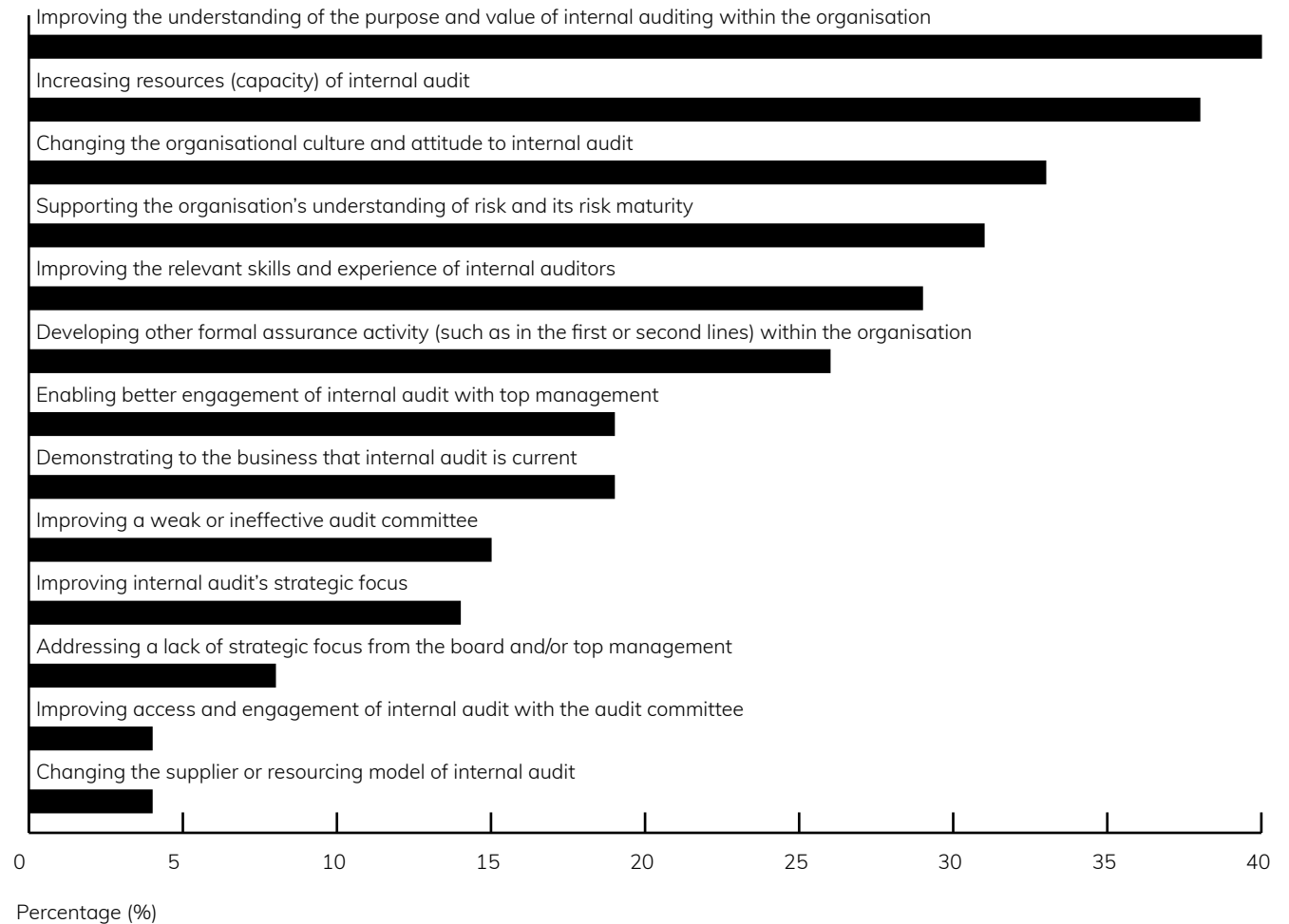
Respondents were invited to provide any additional comments at the end of the survey. Analysis of text responses highlighted that culture was commented on as much as resources available for internal audit.

Comments were shared on the scope and coverage of internal audit, and that it is important to have a culture where internal audit findings are taken as independent, objective, professional advice to be acted on and taken into consideration. The need for a risk management culture to be embedded was also shared, and the ability for internal audit to have a voice at the top table to be able to engage in new initiatives, change or transformation at an early stage. Twenty-six percent of heads of internal audit surveyed felt that their role did not have appropriate status within the organisation.

There was also recognition that greater use of data-driven tools for routine coverage should release audit resource to focus on more impactful work, including areas such as ethics and culture as well as governance.

Survey respondents shared views on what could improve the impact of internal audit in their organisation. As well as comments regarding resources and skills, the responses reflect the need for a cultural change, including one of assurance in all lines and not just by internal audit, and improving the risk maturity of the organisation.

While these areas will require buy-in from management and the audit committee, there is clearly a driver for internal audit to demonstrate its currency and that it can be strategic in its coverage and approach.

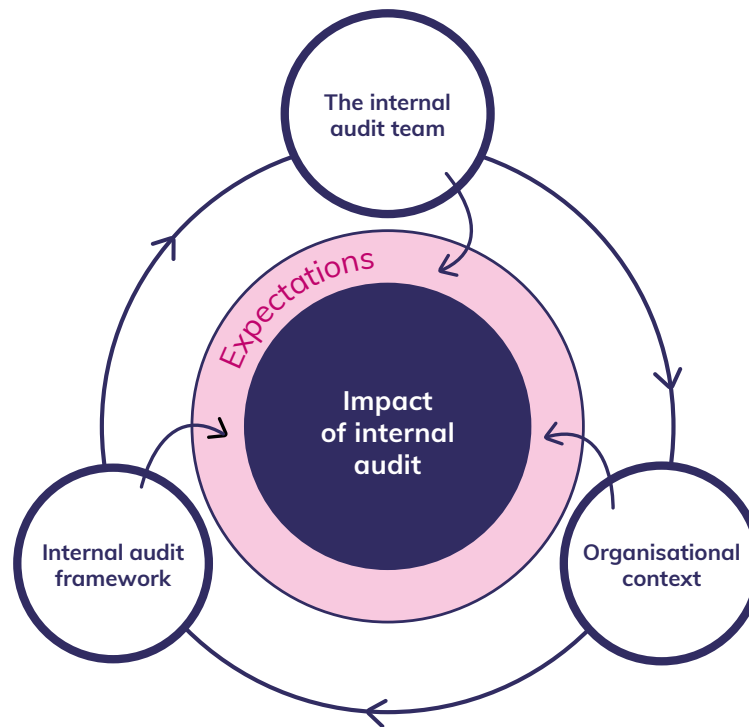


Views on what could improve the impact of internal audit in the organisation (respondents were asked to select their top three priorities).

Appendix A:

The framework for internal audit impact

The key elements of the internal audit impact model are defined below:



Impact

The ability of internal audit to support the organisation in achieving its strategic objectives and priorities. This will be through an appropriate mix of assurance, consulting activity and advice. The impact of internal audit will vary across organisations based on assurance needs, organisational culture, appetite for assurance and driving continual improvement.

Expectations

Stakeholder expectations: an impactful internal audit service will understand and manage stakeholder expectations. Where expectations of internal audit are low, the function will exceed these and raise expectations to help stakeholders understand the benefits of a modern, engaged internal audit function. Stakeholders are likely to include senior management, the audit committee and other assurance functions.

Audit expectations: internal auditors also set their own expectations in response to their professional judgement based on standards and their assessment of risks and audit needs.

Internal audit framework

Internal auditing standards: the professional framework that provides the foundation for the core quality of internal auditing. As a minimum, internal audit functions should be conforming with the requirements of these standards.

Internal audit leadership: the function must be led in such a way that it strives to make an impact, while engaging with the organisation and maintaining its independence and objectivity. The head of internal audit must be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and the audit committee.

Alignment with strategic priorities: the internal audit plan should be developed to address not only the key risks that the organisation faces but also support strategic objectives and priorities. This will also entail understanding where other assurance exists around strategic objectives and avoiding duplication or gaps in assurance.

Internal audit team

Internal audit skills and resources: there should be a clear view of the skills and resources required to deliver the assurance that is needed by the organisation to support an effective governance and risk management framework. Where there are gaps, there are discussions with top management and the audit committee to understand the impact and to agree action.

Service delivery model: the selected model of delivery should enable internal audit's professional delivery to the organisation according to its needs.

Organisational context

Governance framework: the organisation has an effective governance framework and a high-performing audit committee, with members with appropriate skills and experience. There are clear and unrestricted reporting lines for the head of internal audit to the audit committee, including private meetings between the head of internal audit and the committee.

Internal audit access to senior management: internal audit has unrestricted access to senior management, including the chief executive. There is regular dialogue, and the head of internal audit attends senior management meetings to be able to best understand the changing risks and assurance needs of the organisation.

Risk and assurance culture: the organisation, led by those charged with governance, seeks assurance as an integral part of its risk management framework and the decision-making process. Assurance is used to drive improvement and is viewed as an activity that supports decision making in all aspects of the organisation, both strategic and operational. The three lines model may be used as a structure to identify and plan assurance activity.

Appendix B:

Maximising the impact of internal audit

Ten questions to ask your internal auditors

Suggested questions that senior management and audit committees should be asking to obtain the maximum impact from internal audit. Comparing views on these questions with the head of internal audit may also lead to some useful discussions.

Engagement with the organisation

1. Does internal audit receive the right level of support and engagement from the audit committee?
2. Does internal audit get good engagement from across the organisation when it plans and conducts audits?
3. Do managers within the organisation seek advice or assurance from internal audit?
What are the drivers of or obstacles to this?
4. Has the head of internal audit indicated that resources (capability or capacity) need to increase?
What steps are being taken to address this?

Quality, impact and continual improvement

5. Does internal audit conform to PSIAS as demonstrated by an independent external quality assessment undertaken within the last five years?
For local government organisations, this should also include conformance with the Local Government Application Note.
6. What action is internal audit taking to continually improve its quality, engagement and impact for the organisation?
Is internal audit considering the skills and competencies it will need in the future as well as now?

Assurance

7. Is there a clear view of the assurance that internal audit does, and does not, provide?
What assurance is provided by other functions or parties?
Are there gaps in the assurance that management or the audit committee require?
8. How do internal audit plans map to the organisation's strategic priorities and risks?
9. How is internal audit developing its approach to providing assurance – for example, making greater use of data or undertaking audits with a more strategic focus?

Strategy

10. What factors currently determine our internal audit strategy?
Are we confident that the strategy will deliver our internal audit needs in the future?

Appendix C:

References and literature considered in our research

In addition to references cited in footnotes, a wide range of literature, websites and reports were reviewed as part of this research. The following bibliography provides details of the main sources consulted and contains links to the relevant website or document for ease of access.

CIPFA resources

[Benchmarking analysis: internal audit in local government](#) (2015)

[Facing up to COVID-19 in the public sector: the internal audit response](#) (2020)

[Financial Management Code](#) (2019)

[Financial Resilience Index](#) (2022)

[Local Government Application Note for the UK PSIAS](#) (2019 edition)

[Perceptions of audit quality: a survey analysis](#) (2009)

[Position statement on audit committees in local authorities and police](#) (2018)

[Statement on the role of the head of internal audit in public service organisations](#) (2019)

Online resources

[Assurance frameworks](#) (HM Treasury, 2012)

[Assurance, reassurance and performance](#) (Good Governance Institute, 2021)

[Audit and Inspection of Local Authorities in England: five years after the Local Audit and Accountability Act 2014 – Parliamentary Academic Fellowship report by Professor Laurence Ferry](#) (UK Parliament, 2019)

[Avoiding the blind spot: supporting financial stability and resilience](#) (Chartered Institute of Internal Auditors, 2021)

[Developing an overall opinion during the pandemic crisis – considerations for 2021/22 and reflections on 2020/21](#) (Internal Audit Standards Advisory Board)

[Government Functional Standard GovS 009: Internal Audit](#) (Government Internal Audit Agency)

[Head of internal audit annual opinion: key considerations for 2021/22](#) (HFMA, 2022)

[Independent review into the oversight of local audit and the transparency of local authority financial reporting](#) (Sir Tony Redmond, 2020)

[Internal Audit Code of Practice: guidance on effective internal audit in the private and third sectors](#) (Chartered Institute of Internal Auditors, 2020)

[Local authority governance](#) (National Audit Office, 2019)

[Models of effective internal audit: how to organise a successful internal audit function](#) (Chartered Institute of Internal Auditors, 2015)

[Public Sector Internal Audit Standards \(PSIAS\)](#) (Internal Audit Standards Advisory Board, 2017)

[The Future of Jobs Report](#) (World Economic Forum, 2020)

[Value proposition for internal audit](#) (The Institute of Internal Auditors)

Legislation

[The Accounts and Audit Regulations 2015](#)

Other academic references

Domingos M. Sequeira de Almeida (2007): *The Value of Internal Audit* (first published in *Auditoria Interna*), Lisbon: Instituto Português de Auditoria Interna (IPA)

Eulerich, M and Lenz, R (2020): *Defining, Measuring and Communicating the Value of Internal Audit*, Florida: Internal Audit Foundation

Eulerich A and Eulerich M (2020): *What is the value of internal auditing? – A literature review on qualitative and quantitative perspectives* (published in *Maandblad Voor Accountancy en Bedrijfseconomie*, Amsterdam University Press)

Appendix D:

Research methodology

This project was initiated in autumn 2021, with a survey open for one month, and roundtable discussions, wider research and interviews held during winter 2021.

Online survey – technical summary

On 6 October 2021, 5,120 individuals were invited by email to take part in the 'Internal audit in public services' online survey.

These individuals worked in central government, education, local government or housing and were in a job role described as being either audit or finance related or were a political appointment, eg a councillor.

Each person was contacted a maximum of four times: the initial email followed by up to three reminders (issued on 13 October, 20 October and 27 October). Potential respondents only received a reminder if they had not started or fully completed the survey. The number of people contacted/responded per wave is as follows.

- Wave 1 (initial): 5,120 issued/193 completed (45%)
- Wave 2 (first reminder): 4,921 issued/112 completed (26%)
- Wave 3 (second reminder): 4,179 issued/83 completed (20%)
- Wave 4 (third reminder): 4,720 issued/37 completed (9%)
- **Total completed: 425**

Links to the survey were also distributed to members of the following organisations and groups: HAIF, TIAN, CHEIA, National Housing Federation, GIAA, BUFDG, CIPFA Internal Audit Special Interest Group, IASAB, CIAA and the CIPFA Governance Audit Risk and Assurance working group. This yielded a further 328 responses. We also received 78 responses that we judged to be sufficiently complete to include in our report. This brought the total number of responses to 831.

The survey consisted of 23 questions, and if the respondent was not in an audit role, four questions were omitted. From a statistical perspective, while we're unable to provide a total response rate, we can make certain judgements about the reliability of our results.

Responses	Confidence level	Error rate
400	95%	±5.0%
700	95%	±4.0%
1,000	95%	±3.0%

Consequently, the statistical validity for this survey can be viewed as being highly credible.

Responses	Confidence level	Error rate
831	95%	±3.4%

What does this mean, or what impact does this error rate of ±3.4% have on our results? The simplest way to describe this is by example. If the result for any given question is, say, 51% 'yes' and 49% 'no', then this difference (2%) is lower than our error rate and is consequently not significant. If the result is 55% 'yes' and 45% 'no', then the difference (10%) is greater than the error and can be consequently said to be significant.

The other method by which we can assess the integrity of the survey is by undertaking an evaluation of potential bias. In other words: to what extent do the profiles of respondents match those of our population of interest? However, this assessment of bias comes with a caveat: the only profile information we have access to is that of the 5,120 we originally canvassed. Consequently, we have to assume that the profile of this cohort is similar to that of the other member organisations that raised awareness of our survey.

The profiling information being used for assessing bias relates to the person's level of seniority and their job role – see tables below.

Level of seniority	Population	Respondents	Difference
Operational	53.2%	38.1%	-15.1%
Head	16.2%	23.7%	7.5%
Director	16.1%	18.5%	2.4%
Manager	13.3%	16.8%	3.5%
Other	1.2%	2.8%	1.7%
Total	100.0%	100.0%	

The 'difference' illustrates the extent to which the respondent profile differs from that of the population of interest, ie the 5,130 people canvassed. The results would appear to suggest that we had a smaller proportion of operational staff taking part than that of our population, and consequently larger proportions of managers and senior managers. It could be argued that having a larger proportion of managers/senior managers' views is a positive thing.

Job role	Population	Respondents	Difference
Audit	69.1%	67.5%	-1.5%
Finance	12.4%	14.6%	2.2%
Councillor	11.2%	7.6%	-3.5%
Other	7.4%	10.2%	2.8%
Total	100.0%	100.0%	

An identical comparison but based on the job role shows that any bias is far less obvious. Essentially, where the 'difference' is at or around 2%, then we would claim that any bias is within acceptable bounds. From this perspective, we can claim that our results are representative.

Roundtable meetings

Of the 831 survey respondents, 143 agreed to get involved. Respondents were organised into five groups, generally corresponding to their job roles, eg heads of internal audit; clients, audit committee chairs; clients, senior managers; auditors, excluding heads of; and selected heads of internal audit together with clients. Four of these roundtables took place in November 2021 and one took place in December 2021. To help stimulate debate and to ensure that specified topics were discussed, a guide was created based on the findings from the online survey.

However, the content did vary from group to group, but it generally covered:

- assurance frameworks/risk management
- resources and skills
- IT, including digitisation, real-time assurance and analytics
- being strategic
- changing perceptions/improving understanding of internal audit
- the future.

Each roundtable was hosted on Microsoft Teams and, with the necessary approvals in place, recorded. The recordings were uploaded to Otter AI for transcription, and a Word document was created for each roundtable. The original audio/visual document was also retained. The contents of the various Word documents were imported into NVivo's text analytics software, allowing us to identify the key themes arising and the comments that best illustrated them.

Sector of respondents	%
Local government body	76
Civil Service – central government department, including NDPB/agencies	9
Police/fire	6
Education/FE/HE	4
Other public sector/social enterprise/charity/not-for-profit/housing/social care	3
NHS/health body	2

Role of respondents	%
Qualified/experienced internal auditor, including trainee internal auditor	37
Head of internal audit or equivalent	29
Executive/senior manager	18
Audit committee member	13
Other	3

Internal audit resourcing model	%
In-house internal audit team	57
Outsourced to an external provider	23
In-house team with a co-sourced arrangement	18
Contractor/outsourced head of internal audit managing an in-house team	3



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