

We need to talk about internal audit

By:

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Organisations need to take decisive action to improve the scope and role of internal audit, to avoid weakening risk-management and oversight, says Diana Melville.

CIPFA's recent report, *Internal Audit: Untapped Potential*, lifts the lid on internal audit in public services. For some chief financial officers and chief executives, it will confirm the value and contribution of internal audit teams. The report found 87% of clients recognised the contribution internal audit makes, which is good news. However, for some leadership teams it might come as a surprise that internal audit can do more than provide a basic service at minimal cost.

Whatever the scope of your organisation, internal audit deserves attention. But, getting the most out of the function requires honest conversations and long-term planning. If the risks are not addressed, high quality internal audit in public services may become a thing of the past. Chief financial officers, chief executives, audit committee members and heads of internal audit need to talk about internal audit more. But what exactly should those discussions be about?

Culture and governance

The work of internal audit does not exist in a vacuum. If the audit committee is ineffective, then internal audit's delivery and output will have a low profile. Where risk management is weak, internal audit can end up trying to fill the gap. Similarly, if managers are not interested in internal audit recommendations, then it will be unable make much impact.

Capacity

Public services are under immense pressure, especially when it comes to resources. Low capacity in areas such as finance, internal audit or legal affairs can lead to a lack of 'corporate grip'. This could result in errors and prevent problems being fixed at an early stage. Around two-thirds (62%) of management clients and only 49% of internal audit leaders stated their organisation has the required internal audit capacity. This raises doubts over the capacity of many public sector bodies.

During our focus groups several issues were raised, including the difficulty of recruiting and retaining experienced auditors while working with low budgets.

Additionally, limited career choices can make internal audit in public services an unattractive option. Across all sectors, it's becoming more challenging to recruit and retain internal auditors, so employers need to make themselves an attractive option for the best candidates.

Expectations

To maximise the impact of internal audit, a clear and aligned approach is most effective. The intentions of all stakeholders should be agreed upon at the outset, and professional standards should be prioritised. If a client's expectations of internal audit do not line up with those of the team or provider, then the outcome will be unsatisfactory. Similarly, if professional standards are not adhered to, the organisation will miss out on a high-quality internal audit and will become an unattractive employer for professional auditors.

Future plans

There are many challenges facing public services, such as climate change, technological developments and ongoing financial and service pressures. Internal audit needs to adapt to this changing landscape, while providing 'business as usual' assurance. Making greater use of data analysis is an effective way to improve professional development of internal auditors, but there is more to be done. Internal audit teams need long-term strategies to ensure they are ready to deliver, come what may. Leadership teams should step up and present a clear and consistent view of what their assurance needs will be.

A comprehensive report

Internal Audit: Untapped Potential is a comprehensive report. Not every topic covered will be an immediate concern for all audit teams or clients, but if these issues are not considered, they could become problematic in the future. We need to talk more about internal audit, and organisations need to take decisive action. Whether that's improving risk management, investing in audit training or developing an internal secondment programme – action is needed now. After all, better internal audit means better public services.

Only then can we be confident that public services will have a high-quality internal audit provision in the future.

- **Diana Melville**

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