

For publication

CIPFA Publication – Internal Audit Untapped Potential

Meeting:	Standards and Audit Committee
Date:	27 th July 2022
Cabinet portfolio:	Governance
Directorate:	Finance
For publication	

1.0 Purpose of the report

1.1 The purpose of this report is to make Members aware of a recent CIPFA publication – Internal Audit Untapped Potential.

2.0 Recommendation

2.1 That the report be noted.

3.0 Reason for recommendation

3.1 To ensure that Members are aware of the role, impact and future potential of internal audit as identified by the CIPFA survey.

4.0 Report details

4.1 CIPFA have recently conducted a survey in respect of internal audit and the results of that survey are reflected in their publication Internal Audit Untapped Potential (Appendix 1).

4.2 The publication promotes the importance of internal audit and the benefit that it can bring to the organisation in terms of managing risks and improving the governance and control framework.

4.3 This report is valuable as it highlights for Members and Officers what makes an effective internal audit service, what the current impact of internal audit is and how internal audit can become more effective.

4.4 The publication covers the following areas: -

1. Identifying the impact of internal audit
2. How internal audit is making an impact
3. The potential for internal audit
4. What is holding internal audit back

Some of the main points arising from the survey are: -

- That since 2008 the perception of internal audit has improved.
- The role of internal audit varies greatly between organisations.
- That internal audit provides a range of services in addition to assurance such as providing advice and sharing best practice.
- The independence of internal audit is critical – internal audit can attend steering or project groups as a critical friend but should not have a decision-making role
- Capacity is highlighted as a key issue for many internal audit services.
- Internal audit need to be able to provide assurance on emerging issues whilst still providing a core assurance on business as usual activities.
- That recruiting and retaining the right skills is a challenge.

4.5 The research highlights the top 6 areas that should be covered by internal audit for the most impact in coming years: -

1. Cybersecurity
2. Digitisation and the greater use of data within the organisation
3. Environmental sustainability / climate change
4. Financial viability
5. Culture and ethics
6. Supporting improved risk maturity

4.6 It is pleasing to note that all of these areas are covered within CBC's internal audit plan although we will continue to develop our work in these areas. The research recognises that internal audit is unlikely to have the significant technical knowledge in respect of cyber security but can provide assurance in terms of the Council's strategic approach.

4.7 The conclusions of the publication are 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.
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.
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.

4. Discussion 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.

5.0 Alternative options

- 5.1 Not Applicable

6.0 Implications for consideration – Financial and value for money

- 6.1 The publication demonstrates that internal audit is an important resource that can add value to the Council's governance, risk and control arrangements.

7.0 Implications for consideration – Legal

- 7.1 N/A

8.0 Implications for consideration – Human resources

- 8.1 N/A

9.0 Implications for consideration – Council plan

- 9.1 Utilising internal audit to its full potential will mean that the service is better contributing towards the achievement of the council plan.

10.0 Implications for consideration – Climate change

- 10.1 Whilst there are not considered to be any direct climate change impacts in relation to this report, sound internal control, governance and risk management arrangements will support the achievement of the Council's objectives.

11.0 Implications for consideration – Equality and diversity

- 11.1 N/A

12.0 Implications for consideration – Risk management

- 12.1 Unless the full potential of internal audit is appreciated and utilised then there is a risk that the service is not reaching its full potential.

Decision information

Key decision number	<i>N/A</i>
Wards affected	All

Document information

Report author	
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Background documents	
These are unpublished works which have been relied on to a material extent when the report was prepared.	
<i>This must be made available to the public for up to 4 years.</i>	
Appendices to the report	
Appendix 1	CIPFA Publication – Internal Audit Untapped Potential