

Chartered Institute of Internal Auditors' Autumn Budget 2025 Representation: Driving Growth and Public Sector Efficiencies with Internal Audit

Summary

The Chartered Institute of Internal Auditors (Chartered IIA) welcomes the opportunity to make representations to HM Treasury ahead of the Autumn Budget on Wednesday 26 November 2025. There are several key areas that we believe the Budget should address and support, and these are set out in greater detail over the following pages.

In case you are not aware, the Chartered IIA is the professional body for internal auditors across all industries, representing over 10,000 professionals across the UK and Ireland. We advocate for good corporate governance, strong risk management and a rigorous control environment, leading to the long-term success of organisations and aim to highlight the critical contribution internal audit makes to these aims.

First, we urge the Government to invest more in apprenticeships, in-work training, and other measures that help upskill the workforce. In particular, we encourage the Government to reconsider its plans to remove Apprenticeship Levy funding for Level 7 qualifications for apprentices over the age of 22. We believe these changes risk undermining the Government's plan for growth, as upskilling workers of all ages is critical to boosting productivity.

Second, in addition to supporting investing in apprenticeships, skills and training, we urge the Chancellor of the Exchequer to use her Budget speech to reinforce and re-emphasise the Government's commitment to the Audit Reform and Corporate Governance Bill announced in last year's King's Speech. The case for reform is now more pressing than ever.

Strengthening audit and corporate governance is essential to laying the foundations for long-term sustainable growth and economic stability. Investors, the public, and other stakeholders must be able to rely on accurate, transparent reporting from our largest companies—covering both financial performance and other business-critical matters. This is fundamental to restoring trust and confidence in UK markets.

As the Chancellor of the Exchequer herself said in April 2019:

"The reform of audit in the UK should form one key part of the corporate governance reforms that we have been pressing for. On pay, fairness, diversity, transparency and stewardship. It is ever more important that the UK can market itself as the best place to locate a business; of having the highest standards, of fair competition and the best regulators".

Although audit and corporate governance reform technically falls under the remit of the Department for Business and Trade, including a clear commitment in the Autumn Budget speech would demonstrate a joined-up approach to delivering the reforms needed to support greater economic stability and sustainable growth across Government.

Third, we recommend the Government uses the Budget as an opportunity to ensure internal audit functions are appropriately resourced across the public sector through adequate budgetary support. This should include ensuring that internal audit is properly funded across both national and local government.

An appropriately resourced, focussed, and independent internal audit function—operating in accordance with the International Professional Practices Framework and Global Internal Audit Standards—is vital to ensuring public sector organisations maintain good governance, strong risk management, and a rigorous control environment.

Where internal audit functions are adequately resourced and empowered, they play a key role in driving public sector efficiencies, supporting the reform agenda and delivering greater value for money for taxpayers.

In conclusion, we are calling on the Government to use the budget to invest in skills to boost productivity, make a clear commitment to delivering audit and corporate governance reform to support economic stability and ensure appropriate investment in public sector internal audit. We believe these measures will help to drive economic growth and public sector efficiencies.

1. Investing in apprenticeships and skills to boost UK productivity

Using the forthcoming Budget to invest in apprenticeships and skills is critical to supporting the UK's long-term economic growth and boosting productivity. This is particularly relevant given that UK productivity continues to lag behind other G7 countries and has proven difficult to improve. Furthermore, it has been widely speculated in the media that the Office for Budget Responsibility is likely to downgrade the UK's productivity forecast, which would create a further shortfall in the public finances. This underscores the need for urgent action to invest in upskilling the workforce.

The Chartered IIA welcomes the change from the Apprenticeship Levy to the Growth and Skills Levy from April 2026, which allows a wider range of uses for levy funds to support training and development. However, the Government should reconsider its plans to remove Apprenticeship Levy funding for Level 7 qualifications for apprentices over the age of 22, as this risks undermining efforts to upskill the current workforce and drive growth. If the age cap is implemented, then this would exclude many who wish to change career and impact on professions such as internal audit, but also other important professions such as accountancy and the teaching profession, where level 7 apprenticeships currently exist. Greater investment in apprenticeships, skills, and training across the board would encourage lifelong learning, help address the UK's productivity gap, and ensure that employers can invest in the skills needed for the future.

The evidence to support this is clear. A McKinsey UK report published in 2020 found that effective reskilling (including upskilling) typically results in a productivity uplift of 6–12%. It also showed that 75% of reskilling efforts yield positive economic returns for employers, especially when compared to hiring externally. Meanwhile, only last year, the IMF warned that the UK has more chronic skills gaps than peer countries—particularly in high-skill sectors like digital, life sciences, and construction. These gaps directly impact output and productivity, reinforcing the need for targeted upskilling initiatives.

2. A clear commitment to delivering audit and corporate governance reform

The Government should use the Budget to reaffirm its commitment to delivering audit and corporate governance reform. The case for reform is now more urgent than ever. Despite the Government's commitment in last year's King's Speech to publish the draft Audit Reform and Corporate Governance Bill, progress has stalled, with the draft Bill yet to be published and no timetable for pre-legislative scrutiny. This continued delay raises serious concerns about the UK's commitment to strengthening audit and corporate governance, especially as the country faces ongoing economic and geopolitical uncertainty.

The consequences of inaction are stark. In recent years, we've witnessed a series of corporate collapses linked in varying degrees to poor external audits and weak governance—including BHS, Bulb, Carillion, Greensill Finance, ISG, Patisserie Valerie, Thomas Cook, and Wilko. Notably, many of these cases were also characterised by the absence of an internal audit function. These events stand in stark contrast to economic growth and underscore the harm caused when companies collapse due to shortcomings that tighter market and regulatory oversight — supported by robust internal audit, external audit, and governance arrangements — might have prevented. The impact has been

devastating for jobs and growth, including smaller grassroots businesses in the supply chain. Furthermore, research by the Audit Reform Lab shows that statutory auditors failed to raise the alarm before three-quarters of major UK corporate collapses since 2010.

A robust and effective audit and corporate governance framework is not a luxury—it is a business necessity. The Bill will deliver three essential reforms:

- Establishing the Audit, Reporting, and Governance Authority (ARGA): Replacing the Financial Reporting Council with a statutory regulator equipped with the legal powers needed to enforce high standards in corporate reporting and audit.
- Accountability for Company Directors: Introducing measures to hold all company directors accountable for financial reporting failures, closing significant loopholes.
- Expanded Public Interest Entity (PIE) Status: Broadening the definition of PIEs to include the largest private companies, ensuring consistent regulatory oversight for all businesses with significant public interest implications.

These reforms will help restore trust and confidence in UK markets, protect jobs and pensions, and reinforce the UK's reputation as a world-leading destination for investment.

Delays in delivering this legislation have already sent mixed signals to businesses and global markets. Advancing the Bill would send a clear message that the UK is serious about raising standards, restoring investor confidence, and supporting economic stability and sustainable growth.

The Government should use the Autumn Budget to set out a clear timetable for delivering the Audit Reform and Corporate Governance Bill and associated secondary legislation. HM Treasury must use its influence to help ensure the Bill moves forward without further delay, so that the UK can establish a modern, robust, and trusted audit and corporate governance framework fit for the future.

3. Ensuring internal audit is appropriately funded and resourced across local government

The Government should use the Budget to address the severe resource constraints facing local government internal audit functions, as highlighted in our 2024 report, *An Evaluation of the Health of Internal Audit in Local Authorities*. Local government financial stability is at a critical juncture, and according to our research, over a third of councils were likely to face severe financial difficulties in the 2024/25 financial year—threatening the delivery of essential services such as social care, waste management, and public safety. One in ten Chief Internal Auditors predicted their council may issue a Section 114 notice and face bankruptcy within the next two years, adding to the half a dozen or so councils that have already declared bankruptcy since 2021.

Since conducting this research, we've seen the situation worsen. This is echoed by findings from the Local Government Association (LGA) in December, which revealed that nearly one in five council leaders and Chief Executives believe it is very or fairly likely they will need to issue a Section 114 notice either this financial year or next, due to funding shortfalls. The LGA estimates that local authorities in England face a £4 billion funding gap over the next two years.

In February, MPs on the Levelling Up, Housing and Communities Select Committee stated in a report that this gap should come as “no surprise,” citing “significant reductions in local authorities' spending power,” alongside rising demand for services and inflationary pressures. Committee Chair Clive Betts MP warned: “If the government fails to plug this gap, well-run councils could face the very real prospect of effectively going bust. Long-term reform is vitally needed. The funding model for local councils is broken.”

Our research also revealed a staggering 88% of local authority internal audit functions have been unable to complete their audit plans, primarily due to staff shortages and inadequate team size, as this leads to gaps in skills and knowledge to deliver the internal audit plan effectively and efficiently. At the time of our survey, nearly half of councils reported a decrease in internal audit staff over the past two years and we have no evidence to suggest this has changed. This lack of capacity means

councils may not have adequate independent assurance on major risks, leaving them vulnerable to financial mismanagement, fraud, and operational failures.

Internal audit functions are pivotal in maintaining the stability of local authorities by providing independent assurance on risk management, control processes, and governance. They help councils anticipate and respond to financial challenges proactively, safeguard public funds, and ensure the effective delivery of public services. Transparent and effective internal audit also builds public trust in local authorities by demonstrating responsible management of public resources.

The Government should ensure local authorities have access to the resources and expertise needed to maintain robust internal audit functions. Investing in local government internal audit will help councils better manage risks, protect essential public services, and deliver greater value for money to taxpayers. HM Treasury should deliver this by providing additional ring-fenced funding for local authorities to bolster internal audit services.

4. Ensuring internal audit is appropriately funded and resourced across national government

The Government should use the Budget to ensure that internal audit is adequately funded and resourced across national government, including through investment in the Government Internal Audit Agency. Internal audit is a strategic enabler of good governance, fiscal responsibility, and operational excellence within central government departments. Appropriately resourced internal audit functions provide independent assurance over the effectiveness of governance, risk management, and internal controls—supporting departmental leaders in making better-informed decisions and driving public sector efficiencies. By identifying operational inefficiencies and opportunities for digital transformation, public sector internal auditors help ensure that public funds are spent effectively and transparently.

The Government should prioritise maintaining and strengthening internal audit capacity across all national government departments, recognising its vital role in safeguarding taxpayer value and supporting the delivery of well-run public services.

As HM Treasury considers how best to plug the budget deficit across national government, internal audit can be a strategic tool to drive greater efficiencies, streamline processes, and ensure that public sector reforms are implemented effectively and responsibly. Given the mounting pressures on the public finances, internal audit is well placed to serve as a champion of fiscal prudence and responsible governance—and can help ensure that every pound spent delivers maximum value for the British people.