



Chartered Institute of
Internal Auditors

Parliamentary Briefing: Internal Audit – Protecting and Building Local Government's Future

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A LOOMING LOCAL GOVERNMENT FINANCIAL CRISIS: AN URGENT CALL TO STRENGTHEN INTERNAL AUDIT FUNCTIONS

Local government financial stability is at a critical point. The Chartered IIA's report, "An Evaluation of the Health of Internal Audit in Local Authorities," shows that over a third of councils may face severe financial problems in 2024/25. This conclusion is based on a survey of 168 Chief Internal Auditors, representing 44% of local authority internal audit functions across the UK. These financial risks threaten essential services like social care, waste management, and public safety.

Parliamentarians should play a crucial role in advocating for strong audit, governance, and assurance frameworks in local councils. These frameworks are key to how well councils are run and this can directly affect your constituents in terms of the quality of service they receive. This briefing outlines the role of internal audit in identifying, managing, and reducing risks, which helps strengthen local government and protect essential public services.

Action is needed to strengthen local authority internal audit to help prevent further decline and maintain trust in local governance.

Key Findings from the Chartered IIA Report

Over a third (35%) of Chief Internal Auditors surveyed said that their local authority is likely to face severe financial difficulties in the 2024/25 financial year significantly impacting the delivery of essential statutory services.

One in ten of them (11%) predict their council might issue a Section 114 notice and face bankruptcy within the next two years, adding to the six that have declared bankruptcy since 2021.

A staggering 88% of local authority internal audit functions have been unable to complete their audit plans, which means councils may not have adequate independent assurance on major risks. Among those unable to complete their plans:

- **39%** cited staff shortages as the primary reason.
- **32%** pointed to inadequate team size, structure, and competencies.

Nearly half (48%) reported a decrease in internal audit team staff over the past two years.

Parliamentarians may be aware of recent headlines that paint a stark picture of the challenges faced by local authorities. Many councils are now at risk of financial collapse, potentially joining the six that have already declared bankruptcy since 2020:

Croydon Council: In November 2020, Croydon Council declared effective bankruptcy by issuing a Section 114 notice after facing nearly £1.3bn of debts. This was followed by another Section 114 notice in December 2022, highlighting the ongoing financial distress and the severe cuts to public services and jobs.

Thurrock Council: In December 2022, Thurrock Council declared effective bankruptcy by issuing a Section 114 notice after revealing a £469 million deficit. This has caused severe cuts to services and government intervention to oversee its recovery.

Birmingham City Council: In September 2023, Birmingham City Council faced a severe financial crisis due to a £760 million equal pay liability. The council declared bankruptcy, issuing a Section 114 notice and halted all non-essential spending.

Woking Borough Council: In June 2023, Woking Borough Council declared effective bankruptcy by issuing a Section 114 notice, after declaring £1.2 billion worth of debt. The council is now prioritising essential services while seeking government support to navigate its financial collapse.

However, even councils that are not facing bankruptcy are experiencing serious internal control failures. For instance, *at Bristol City Council¹, a recent internal audit uncovered critical weaknesses in managing £1.8 million in petty cash transactions*. The audit revealed that inadequate controls allowed payments to be issued without proper checks, underscoring the risks that arise when internal audit functions are under-resourced.

The repercussions of financial instability across local government are far-reaching, affecting every community, business, and constituent in the country. Our report calls on local authority leaders, audit committees, and senior management to collaborate closely with internal audit teams to proactively address risks and safeguard the future of public services.

Click here to download our [An Evaluation of the Health of Internal Audit in Local Authorities](#) report.

THE FINANCIAL HEALTH OF LOCAL AUTHORITIES

The financial health of local authorities is under significant strain, with many councils struggling to operate amid budget cuts and increased demand. The cost-of-living crisis has intensified these pressures, making it increasingly difficult for them to balance their budgets. Here are some of the key challenges local authorities face and how internal audit can help address them.

Overstretched Budgets and a Spike in Demand

Local authorities are grappling with the dual challenges of reduced funding and a spike in demand for services. Budget cuts, inflation, and rising social care needs have created a perfect storm of financial pressure on local authorities. Councils are being forced to make difficult decisions about which services to cut, which can have a direct impact on vulnerable constituents who rely on these essential public services.

Incomplete Audit Plans

An alarming 88% of internal audit functions within local authorities have been unable to complete their audit plans. This is partly due to a lack of skilled personnel and inadequate resources. Without an appropriately resourced and capable internal audit function, councils lack insights and assurance into their financial health and operational risks. This gap in oversight makes it more challenging to identify and address potential problems before they escalate.

Staffing Challenges

The decline in internal audit staffing levels is a significant concern. Nearly half of all councils reported a decrease in audit team staff over the past two years. This reduction in capacity hampers the ability of internal audit functions to conduct thorough independent risk assessments and provide necessary assurance. To address this, local authorities need to invest in recruiting and retaining qualified internal audit professionals.

THE ROLE OF INTERNAL AUDIT IN ENSURING STABILITY

Internal audit functions play a pivotal role in maintaining the stability of local authorities. By providing independent assurance on risk management, control processes, and governance, internal audit can not only help councils navigate financial risks but also operational risks such as cybersecurity threats, health and safety, compliance and environmental risks.

¹ [Council 'lost track' of £1.8m in cash transactions, BBC 2024](#)

Enhancing Risk Management

Internal audit is essential for enhancing risk management and internal control practices within local authorities. They help identify, manage, and mitigate potential risks such as financial mismanagement, fraud, inadequate governance, and compliance failures. By providing targeted recommendations to address these risks, internal audit can help councils anticipate and respond to financial challenges more proactively, safeguarding public funds and ensuring the effective delivery of services.

Building Public Trust

Transparent and effective internal audit functions help build public trust in local authorities. When councils can demonstrate that they are managing public funds responsibly and transparently, it enhances their credibility and fosters public confidence in local governance. ***Swindon Borough Council's internal audit team² saved taxpayers about £3 million over two years by identifying fraudulent right-to-buy applications***, reclaiming properties from fraudulent tenants, and uncovering additional billable income. This highlights how robust internal audit functions can help safeguard public resources and enhance trust in local governance.

Strengthening Governance

Good governance is crucial for local authorities' sustainability. Internal audit functions help ensure that policies and procedures are followed correctly, preventing financial mismanagement and promoting accountability. ***At Cheshire East Council³, internal audit downgraded the council's control environment to "limited," citing widespread failures, such as staff using purchase cards without providing receipts or invoices***. Although there was no suggestion of misuse, the audit revealed inadequate oversight and control practices across multiple departments. This example highlights the need for strong internal audit functions to detect weaknesses, enforce proper controls, and safeguard public funds.

RECOMMENDATIONS FOR PARLIAMENTARIANS: SUPPORT FOR LOCAL AUTHORITY RESOURCES

The Chartered IIA's report, ***"An Evaluation of the Health of Internal Audit in Local Authorities"*** highlights the severe financial challenges facing many local authorities. By strengthening internal audit functions, we can support councils to better manage their risks and protect the essential services that our local communities depend on.

As a parliamentarian, you need to understand the current pressures on local authorities and their internal audit functions. Policy intervention is needed to address the underlying causes of budget deficits to help alleviate the risks and financial distress local authorities are facing. Advocating for increased funding and resources to support the internal audit functions of local authorities will help ensure that they are adequately resourced to provide independent and objective assurance, advice, and insight. As highlighted in the various case studies throughout this briefing this investment in independent assurance can lead to greater financial efficiency and save the Council's and tax-payers' money over the longer term.

Contact us:

We hope that you find this briefing useful so you can better understand some of the challenges local authorities and their internal audit functions are facing. For any enquiries regarding this briefing or if you would like to set up a meeting to find out more about how we can support your work as a parliamentarian please contact **Gavin Hayes, Head of Policy and Public Affairs at gavin.hayes@iia.org.uk**.

² [Fraud team's crackdown saves taxpayers millions](#)

³ [Cheshire East Council to tighten up its control measures following multiple failures](#)