

Chartered Institute of Internal Auditors' Response to the Local Audit Reform Consultation: Enhancing Governance and Collaboration

The Chartered Institute of Internal Auditors (Chartered IIA) welcomes the opportunity to respond to this consultation on the future of local audit. The Chartered IIA is the principal body for internal auditors 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 the contribution internal audit makes to these aims, including within the public sector. This consultation is an opportunity to enhance the relationship between internal audit and external audit in local authorities, as well as address broader challenges facing local audit.

As is the case with this consultation often the policy discussion on local audit focuses primarily on the role of external or statutory audit and we agree that there are significant issues that need to be addressed as demonstrated by the local audit backlog. However, we believe that a stronger internal audit profession also has a vital role to play in enhancing governance across local government. At present internal audit is also facing significant challenges around a lack of skills and resources as highlighted by our [recent research on the health of internal audit in local authorities](#) and these are significant issues that also need to be addressed.

The consultation document rightly highlights the importance of collaboration between internal audit and external audit, stating in paragraph 102: *“Regular engagement and firming up of this relationship would also build links in support of Sir Tony’s recommendation that internal audit is recognised to be a key support in the delivery of external audit, where consistent with the Code of Audit Practice.”*

Regular and constructive engagement between internal audit and external audit has the potential to align focus on key risk areas and reduce duplication of efforts. Indeed, we advocate that internal audit has an open, constructive and cooperative relationship with external audit. However, it is essential to clarify that internal audit cannot be directly responsible for supporting the delivery of an external audit. Both functions must maintain their independence and objectivity and therefore when internal audit develops its internal audit plan, it must do this without undue influence from the external audit firm. It is then incumbent on the external audit firm to independently assess the assurance provided by internal audit to identify whether it is relevant to the scope of the external audit plan of work, whether it is reliable and whether it breaches the UK version of the FRC’s *International Standard on Auditing 610 (UK) (Using the Work of Internal Auditors)* that sets clear boundaries for this relationship for external auditors: *“The external auditor shall not use internal auditors to provide direct assistance to perform procedures that: (a) Involve making significant judgements in the audit; (b) Relate to higher assessed risks of material misstatement where the judgement required in performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited; (c) Relate to work with which the internal auditors have been involved and which has already been, or will be, reported to management or those charged with governance by the internal audit function; or (d) Relate to decisions the external auditor makes in accordance with this ISA (UK) regarding the internal audit function and the use of its work or direct assistance.”*

These provisions ensure that external auditors must undertake their own independent work in areas requiring significant judgement or involving higher risks, safeguarding the independence of both functions.

The [Public Sector Internal Audit Standards \(PSIAS\)](#) also emphasise the importance of internal audit coordinating with external audit while maintaining independence, stating: *“The chief audit executive should share information, coordinate activities and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of efforts” (PSIAS 2050)*. This is echoed in the [Global Internal Audit Standards](#) that all our members must adhere to.

These standards underline that while regular communication, coordination and information sharing are valuable and encouraged, each function must retain its independence and adhere to its respective responsibilities. This perspective is supported by the Brydon Report, which states: *“Whilst there are limits to the reliance that external auditors may wish to place on the work of internal audit, the external and internal auditors should meet to share all relevant information at the start of setting the audit plan and assessing the environment in which an audit is to take place.”*

As well as there being clear standards and guidelines on how internal audit and external audit should work together, resource constraints have also limited the collaboration between the two. Budgets are stretched, [The Local Government Information Unit for England and Wales reports](#) that 51% of senior council figures warn their councils risk bankruptcy within five years without reform. Our understanding having spoken to our members is that heavy workloads and limited resources reduce external auditors’ capacity to engage effectively with internal audit teams or gain a detailed understanding of local authority systems. Simultaneously, internal audit functions face increasing demands and staffing shortages, further limiting their capacity for collaboration with external audit partners.

Our 2024 research report, [An Evaluation of the Health of Internal Audit in Local Authorities](#), surveyed Heads of Internal Audit from 44% of UK local authorities. It revealed that 11.3% cited financial constraints, 38.7% identified staffing shortages, and 14.3% reported a lack of skills within their teams as barriers to completing their internal audit plans. Furthermore, 35% believed their authority might face significant financial difficulties in 2024/25, potentially impacting statutory services. These constraints not only hinder internal audit’s ability to fulfil plans but also restrict collaboration and coordination with external auditors, weakening alignment on risk coverage and assurance in local authorities.

In paragraph 121, the consultation proposes a review to “consider whether to require internal audit reports to be considered by the full council or board of a smaller body.” We strongly support any proposal mandating that internal audit reports must be considered by the governing body of the Council, including, where appropriate, the full council or board of a smaller body. This is crucial to strengthen the audit regime, ensure risks are properly managed and provide adequate assurance for local taxpayers.

Furthermore, internal audit functions operate most effectively when reporting to a dedicated Audit or Audit and Risk Committee, which ensures focused oversight of audit, risk, and governance issues. The Audit Committee can also facilitate a coordinated approach to assurance, helping to coordinate internal audit and external audit efforts. For smaller bodies without such sub-committees, having internal audit report to the full council or board is a suitable alternative. Even for Councils with an Audit Committee, significant internal audit findings on high-risk issues should be escalated to the full council or board to ensure those charged with governance are informed and able to act when necessary.

We would further add that effective governance depends on councils, boards, and Audit Committees having members with diverse skills and experiences, including knowledge of internal audit and external audit. However, gaps in understanding of internal audit’s role by local government leaders remain a concern, particularly among new councillors and board members. Structured training for councillors and local government board members could enhance their understanding of the role of both internal audit and external audit and contribute to better governance across local government.

The consultation provides an opportunity to address systemic capacity issues that underpin many challenges in local government audit, including collaboration, governance, and the current backlog. The effectiveness of both internal audit and external audit depends on sufficient resourcing to address increasing assurance demands placed upon them and to ensure a robust and effective local government audit and governance framework.

We thank you for the opportunity to contribute to this consultation and look forward to further discussions on these important matters.