

Making internal audit count

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Abstract

In recent years the role of the internal audit function has gained increasing prominence and is now seen as a cornerstone in the overall governance of public sector bodies. This article explores the experience of 127 public sector bodies and illuminates key insights for public sector bodies seeking to realise more meaningful results from the efforts currently directed towards the internal audit function. Among the most significant research findings is the evidence that the function is not viewed by its most key stakeholders as a primary driver of continuous improvement. This finding identifies a disconnect between the real-world practice of internal audit function and the definition of the function across relevant academic literature, public policy and practitioner guidance. The author concludes that an overemphasis on assurance activities can be to the detriment of the other value-add functions which the internal audit function can deliver. While currently widely viewed as a divorced function, the real value of internal audit will only be realised by integrating it within the organisation. Such integration will allow the sharing of enterprise-wide learning, thus enabling the function to become a primary driver of a permanent culture of continuous improvement.

Keywords: Internal audit, governance

Introduction

In recent years the role of the internal audit function has gained increasing prominence and is now seen as a cornerstone in the overall governance of public sector bodies. Indeed, under the *Code of Practice for the Governance of State Bodies*, as laid out by the Department of

Public Expenditure and Reform (DPER, 2016a), the board of each public body is required to have an internal audit unit operating to the international standards of the Institute of Internal Auditors (IIA) or equivalent professional standard. The manner in which the internal audit function is executed can, however, differ greatly from one public body to another.

The discussion in this article is based on a research study undertaken by the author in 2020/1. Emerging themes are firstly drawn from the literature and their impact on the execution of the internal audit function is explored. Following on from this research section, the methodology for the research undertaken is described. The research design allowed for a range of themes and practices to be explored and understood. Analysis of these findings are then set out alongside the data set derived from the *Internal Audit Common Body of Knowledge Global Stakeholder Survey 2015* (CBOK) (Internal Audit Foundation, 2015), which allows for benchmarking of the Irish context against international experience. This approach supports a greater depth of understanding of the findings of the Irish study and provides an accurate picture of internal audit in the Irish public sector compared to global norms.

Evolution of the internal audit function in the Irish public sector

The public sector can be defined in many ways. However, in general terms, it can be understood, as defined by the IIA, to consist of ‘governments and all publicly controlled or publicly funded agencies, enterprises, and other entities that deliver public programs, goods, or services’ (IIA, 2011, p. 3). Within this study, public sector bodies refer to those public organisations that work on behalf of the government to deliver public programmes, goods or services, but exist as separate organisations in their own right, possibly as distinct legal entities, and operate with a partial degree of operational independence. They are often, but not necessarily, governed by a board of directors, council, commission or other appointed body. While a common code of practice sets the broad operating context for the sector, including the required standards of corporate governance, this sector does not represent a homogeneous group. The diversity of this sector, depending on type, nature and governance structures of the individual bodies, can lead to practice variations in how particular functions, including internal audit, are executed.

The Central Statistics Office maintains a detailed register of public sector bodies in Ireland. This register is reviewed and updated regularly, as government-controlled bodies are established, closed and merged over time. For most public bodies, the governing legislation which established the body sets out that the CEO, or equivalent, is accountable to the Public Accounts Committee of the Oireachtas on the basis that the financial statements of the public body are first audited by the state's supreme audit institution (SAI) and then laid before the Houses of the Oireachtas. The external audit, conducted by the Office of the Comptroller and Auditor General (C&AG), in its role as SAI, is an independent examination of the financial statements. The mission of the C&AG, as external auditor, is to provide independent assurance that public funds and resources are used in accordance with the law, managed to good effect and properly accounted for, and to contribute to improvement in public administration. While the role of the external auditor is well understood, and clearly set out in legislation, the role of the internal audit function is set out within the provisions of a code of practice and, as such, it is open to a greater degree of interpretation, which gives rise to a level of practice variation in terms of its execution.

The internal audit function has developed alongside a raft of public sector reform initiatives spanning over two decades, but with limited deliberate integration through central policies. While the Irish public sector has established a performance management and enhanced accountability framework, which it continues to refine, many of the initiatives that have contributed to this overall framework are surprisingly silent on the role of the internal audit function. A range of central policies and initiatives, which were implemented to enhance accountability, governance and performance management across the sector, have not identified specific roles or responsibilities for the internal audit function. Under the *Public Spending Code* (DPER, 2012b), public sector bodies are obliged to treat public funds with care, and to ensure that the best possible value for money is obtained whenever public money is being spent or invested. As the areas on which this code focuses (which include evaluating, planning and managing current expenditure, quality assurance processes, value-for-money reviews and focused policy assessments) fall so firmly within the potential remit of the internal audit function, with the benefit of hindsight it appears a missed opportunity that a specific role was not identified for the internal audit function. A further evolution of this guidance (DPER, 2019) introduces a new project life cycle, tightens

the arrangements for project decision-making and clarifies the roles of parties involved, but again remains silent on any particular role for the internal audit function.

Ireland's Open Government Partnership National Action Plan 2016–2018 (DPER, 2016b) includes commitments to make the state more transparent, more accountable and more inclusive in how it reaches decisions, delivers services and communicates with its citizens. Once again there was an opportunity to explicitly call out a role for the internal audit function, given that this plan includes a commitment to increase accountability, which requires public bodies to assess their financial results in the context of the achievement of service-delivery objectives and requires reporting of non-financial as well as financial information about service delivery activities, achievements and/or outcomes during the reporting period. Through this plan, the compilation of relevant and meaningful performance information may have received a new-found emphasis. However, no particular role has been identified for the internal audit function in this regard. A further example of a missed opportunity for integration of the internal audit function was the omission of a defined role for this function in the public service reform plans (DPER, 2011, 2014). These reform plans set the scene for the management of the relationship between departments and bodies under their aegis through specific performance delivery agreements (PDAs). A very valuable contribution could have been called out for the internal audit function in monitoring ongoing performance against the agreed PDAs.

Rather than stitching the role of the internal audit function into the operational fabric of the public sector in an integrated fashion, instead the function has been defined and developed in a stand-alone manner. In 2012 DPER published its *Internal Audit Standards* (DPER, 2012a), which comprised the 'Definition of Internal Auditing', the 'Code of Ethics' and the 'Standards' issued by the global professional body, the IIA. In response to a revised set of standards issued by the IIA with effect from January 2017, DPER issued its *Internal Audit Standards for Government Departments and Offices* in December 2018, which updated its 2012 guidance. These new standards comprise the 'Mission of Internal Audit', the 'Definition of Internal Auditing', the 'Core Principles for the Professional Practice of Internal Auditing', the 'Code of Ethics' and the 'International Standards for the Professional Practice of Internal Auditing', issued by the IIA. The published document is addressed to accounting officers, management board and audit committee members, heads of internal audit, internal auditors

and their customers, as well as external audit providers and other stakeholders. The IIA standards have been adopted without amendment for the purposes of the practice of internal audit in the central government sector and will be updated in line with any future revisions by the IIA. The revised standards from DPER set out to define the nature of internal auditing within central government; to set basic principles for carrying out internal audit in central government; to establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and to establish the basis for the evaluation of internal audit performance and to drive improvement planning.

While the lack of integration of internal audit within central policies could leave the function isolated, equally it is worth considering whether an overly prescriptive role assigned by central government could conflict with the independence of the function to survey its own universe and set its own objective audit plan to focus on areas it identifies as most relevant. In an effort to retrospectively balance the lack of integration, the *Code of Practice* sets broad operating parameters for the function, and seeks to create linkages to other central policies; for example, by reminding stakeholders that in planning, executing and reporting its work, the internal audit unit should ensure that value-for-money auditing receives adequate attention based on the principles and provisions of the *Public Spending Code* (DPER, 2012b). The most significant change for the function, arising from the *Code of Practice*, is a broadening of scope from the traditional approach, which centred on assurances related to the system of internal financial control, to a wider focus to include the overall system of internal control, thus expanding the narrow focus away from merely financial matters and bringing into scope all aspects of the public body's operations.

Research methodology

This study set out to explore how the internal audit function is executed in practice in the Irish public sector. A comprehensive review of the literature on internal audit, through the theoretical lens of agency theory, identified six key themes relating to the execution of the function, which merited further exploration. Based on these themes, a framework of analysis emerged, and twenty research topics were identified, which informed the research design of this study. A non-experimental cross-sectional design was developed, and an

appropriate sample frame was selected, comprising principals and agents, primarily representing board chairpersons and CEOs, in 127 selected public sector bodies in the Republic of Ireland. Participants completed a highly structured online questionnaire, which included several questions deliberately crafted to allow for international benchmarking against the results of CBOK 2015 (Internal Audit Foundation, 2015). With 134 valid responses received, the final sample represented 95 of the 127 public sector bodies (75 per cent), with a ratio between principal and agent within the sample of 2:3. Data were analysed using a series of analytical methods and techniques within IBM Statistical Package for the Social Sciences 24 (SPSS).

Research findings

At the core of this research study was a desire to learn more about the real-world execution of the internal audit function in the Irish public sector. The key findings from the study are presented here, and their significance and implications are further considered in the next section.

Among the most significant findings from the study was the discovery that the prevalence of outsourcing in the Irish public sector is more than 2.5 times the global public sector average, with over 84 per cent of Irish public sector organisations employing an outsourced function. While partnering, co-sourcing and partially outsourcing models do exist, the most typical model applied by the organisations in the Irish public sector is one where the internal audit function is wholly outsourced to a private firm. Two specific high-profile firms provide the internal audit function in over half of Irish public sector agencies, with the remaining agencies engaging a small pool of other firms. This experience of drawing from a small pool is similar to that reported by Selim & Yiannakas (2000, p. 221), who found that of those public sector bodies in the UK that had outsourced their internal audit function to some degree, almost 65 per cent engaged one of what were then known as the 'Big Five' public accounting firms.

In general, individual public sector organisations consume around fifty days of internal audit activity per year. Adherence to the IIA standards is high across the sector. The study reveals that the allocation of resources is clearly stacked towards the provision of assurance rather than consulting. Traditional accounting and auditing skills are by far the most dominant skill background among internal

audit teams within the Irish public sector, which can lead to challenges due to a lack of real knowledge or understanding of the business or operations of the public sector organisation.

Alignment of the internal audit function to the organisation's strategic plan is an indicator of internal audit maturity and ensures a synergy between the work of the unit and the overall organisation. The evidence suggests strong and deliberate alignment between internal audit strategies and the organisation's strategic plan across the Irish public sector, with results tracking well ahead of global norms. Most organisations operate to a three-year internal audit strategy, with annual plans which are then updated once or twice per year. While such strong alignment to the overall strategic planning mechanisms can only be regarded as positive, the results of the study do raise a concern over a potential disconnect between the internal audit function and the implementation of the general risk-management framework, characterised by the remarkably low level of respondents (3 per cent) who indicated that their internal audit strategy is informed by the corporate risk register. When compared to the global norms, the contrast is particularly stark, with 85 per cent of respondents to CBOK 2015 indicating that they employed a risk-based methodology to develop their internal audit strategy.

Whereas a risk-based methodology is the primary driver in developing an internal audit strategy in other jurisdictions, the Irish public sector relies most significantly on requests from its audit committee, analysis of its organisational strategy or business objectives, and compliance or regulatory requirements. For those who fully outsource their internal audit function, consultation with the parent department is not a major factor (13 per cent) in developing their internal audit strategy, whereas this is as high as 60 per cent among respondents representing a partially outsourced model. A consequence of the prevalence across the Irish public sector of outsourcing the internal audit function to private firms is evident in the high number of organisations that had limited knowledge of their internal auditing procedures. The areas that the internal audit function is most likely to review include the system of internal financial controls, followed by review of operational matters, risk management assurance/effectiveness and corporate governance.

The Three Lines of Defence Model, in which internal audit is positioned as an independent and separate function in the third line of defence, is considered by the IIA to be good practice from the perspective of independent assurance. Management acts as the first

line of defence (owning the processes, controls and risks); various support functions, including risk management, internal control and compliance, are the second line of defence (monitoring the processes as well as its risks and controls); and internal audit represents the independent third line of defence. The evidence from this study confirmed that almost two in every three organisations in the Irish public sector currently follow the Three Lines of Defence Model. A related, and much less encouraging, statistic, however, is that over 25 per cent of respondents were unfamiliar with this established model. The levels of unfamiliarity with the Three Lines of Defence Model, which were more pronounced in smaller organisations, are concerning as they indicate a potential lack of understanding among key stakeholders across the sector as to the very basis of the role of the internal audit function.

The experience of the Irish public sector in relation to risk-management processes and procedures is particularly positive. Worldwide, less than half of public sector bodies with internal audit functions also have formal risk-management processes and procedures (Internal Audit Foundation, 2015). The Irish public sector is well ahead of this global norm, as over 97 per cent of public sector bodies have formal risk-management processes and procedures in place, with almost 35 per cent having a formal enterprise risk-management process with a chief risk officer in place. The study revealed interesting insights as to the areas of responsibility of the internal audit function related to risk management. Best-practice guidance from the IIA proposes that the internal audit function should provide assurance on risk management as a whole, not just on individual risks. Irish public sector bodies were found to be operating ahead of the global norm in this regard, with 65 per cent of Irish public sector bodies indicating that their internal audit has responsibility for risk management as a whole, as compared to the global average of 41 per cent. At almost 46 per cent, the percentage of internal audit units within the Irish public sector who have responsibility for providing assurance on individual risks is higher than the global norm, whereas with 32 per cent of internal audit functions having responsibility for advice and consulting on risk-management activities, the Irish public sector is severely lagging behind the global norm of 53 per cent.

The application of a risk-based approach to auditing has been commonplace for many years. The results of this study reveal an Irish public sector underpinned by well-established and mature risk-management processes; however, upon further investigation of the

risk-assessment information relied upon by the internal audit function, as a foundation for their activities, cracks begin to emerge. The experience of the Irish public sector diverges quite significantly from the experience of internal audit functions worldwide, with the most common approach for internal audit functions in the Irish public sector being to rely upon a comprehensive risk-assessment performed by management (61.1 per cent), and the second most common approach being a focused risk assessment conducted by internal audit (17.9 per cent). The divergence from the public sector global norm – where less than 29 per cent of internal audit functions worldwide rely on management’s risk assessments – may be related to the high prevalence of outsourced service-providers, and perhaps points to a reluctance by management to involve the private providers overly in the management of risk. When considered alongside the earlier finding that the corporate risk register is rarely used to inform the internal audit strategy, it conveys an approach that views the internal audit function as being a stand-alone function, and indicates a potential widespread lack of integration between risk management and the internal audit function across the sector.

In the Irish public sector 81 per cent of internal audit functions perform risk assessments. While 28 per cent of these risk assessments are deemed as continuous, and 37 per cent are undertaken on an annual basis with periodic formal updates, this leaves 35 per cent of internal audit functions that either are not considering how risks change within the year or are doing so informally. The fact that more than one in three internal audit functions in the Irish public sector are not formally updating their risk assessments in some way over the course of a year raises questions as to whether due diligence is being effectively exercised. Within this cohort, it is interesting to note that almost three-quarters have their internal audit function outsourced wholly to a private firm. Having such a large cohort of organisations within the Irish public sector whose internal audit functions do not formally update their risk assessments begs the question as to whether this activity is occurring elsewhere in the organisation, perhaps being undertaken directly by management, or simply not happening at all. Furthermore, stakeholders such as the audit and risk committee may assume that emerging and changing risks are being considered by internal audit in a timely manner, when this might not be the case. Considering the example of 2020, where the operating environment was heavily and very quickly impacted by an unexpected pandemic, those who fail to undertake formal processes to update their risk

assessments may be exposed and will not be in a position to be sufficiently nimble to react appropriately to changes.

The IIA considers the use of technology to be an indicator of internal audit department maturity. Within the Irish public sector, less than half of internal audit functions use specific software designed to manage risk information, with the other half relying on spreadsheet or database software to maintain their risk assessments. In this study the Irish public sector was found to lag behind global norms in relation to the use of technology to support internal audit processes, with only 5 per cent of internal audit functions using extensive technology across the entire audit process, including data mining and analysis. Almost one in three Irish public sector bodies – over 32 per cent – reported using only manual systems and processes, which signals a general lack of maturity of the internal audit function.

The overall level of development of quality assurance and improvement programmes (QAIPs) within the internal audit function of the Irish public sector is immature. At one end of the spectrum, almost one-third (29 per cent) of public sector bodies have a well-developed system in place; however, an equal number at the opposite end of the spectrum have either no system or an ad hoc system in place. The largest cohort (42 per cent) rests in the middle and deems this function to be under development. QAIPs evaluate how the internal audit function conforms to relevant policies, procedures and standards, and are intended to enhance the quality and value of internal audit services. Such programmes are a specific requirement of the IIA standards, to which 87 per cent of Irish public sector bodies claim to adhere. While the Irish experience is broadly in line with the global norm, considering that so few bodies have a well-developed QAIP in place, the real level of conformance to, or indeed understanding of, the IIA standards amongst the Irish public sector is called into question.

Ensuring that audit recommendations are enacted is one of the greatest ways that an internal audit function can add value to an organisation, but it is also one of the more challenging aspects of the function in trying to bring about real change by providing ongoing levels of scrutiny and follow-up in areas that are often, to a large degree, outside of the function's direct control. In the Irish public sector, where the internal audit function is so often outsourced, the responsibility to follow up on audit recommendations most frequently rests with the business-process owners. Where the internal audit function has a role in follow-up, this can often simply be a case of

asking management to confirm implementation of recommendations, without any formal testing. Several factors are potentially at play here, and chief among them, without doubt, are questions of operating models and resource allocation, but ultimately this points to myriad challenges for an outsourced function to effect meaningful change within the inner workings of an organisation. This approach dilutes the potential value of the internal audit function, and points to an overall lack of buy-in by the organisation, with the function being viewed as an add-on, rather than being fully empowered to add real value. A further challenge arises in that seeking to embed the internal audit function in the ongoing operations of the organisation also risks spreading resources too thinly, thus decreasing the overall value being added elsewhere.

Access arrangements within organisations provide useful insight into levels of transparency and trust, and a general sense of how embedded the internal audit function is within the organisation. While the results of the study were generally positive towards providing unfettered access to the internal audit function to key documentation and personnel, there exists a reluctance to make all documents/personnel available all of the time. Overall, one-fifth (20 per cent) of public sector bodies hold documents which they deem too sensitive to share with internal audit, with smaller organisations (<75 staff) being much more likely to deem documents to be too sensitive to share with internal audit. This result points towards a lack of transparency between public sector bodies, particularly smaller bodies, and their internal audit function, which raises questions surrounding trust and confidence.

Following a similar thread relating to transparency, regular attendance by the head of internal audit at meetings of the public sector body's audit and risk committee was investigated as a potential indicator of an open and well-functioning relationship between the parties. The internal audit function was found to be represented at between 76 and 100 per cent of audit and risk committee meetings in over half of Irish public sector bodies. In almost one-quarter (24 per cent) of cases, attendance falls to 0–25 per cent of meetings, with a further 20 per cent attending 26–50 per cent of committee meetings. When frequency of attendance at audit and risk committees was cross-tabulated with the model of internal audit employed, it became apparent that the closer the model was to in-house, the more frequent the attendance at committee meetings. Assuming that regular attendance by the internal audit representatives at meetings of the

audit and risk committee is a legitimate indicator of an open and well-functioning relationship between the parties, the evidence suggests that this relationship is affected by the model of internal audit function employed.

This study revealed the internal audit activities believed to bring the most value within the Irish public sector from the perspective of senior decision-makers. Results were firstly mapped against the IIA's 'value proposition', which focuses on three core elements of value delivered by internal auditing to an organisation – assurance, insight and objectivity – and were then also compared to the results of CBOK (Internal Audit Foundation, 2015). While it is not surprising to see 'assuring the adequacy and effectiveness of the internal control system' topping the poll as the most commonly selected activity, the margin of more than 21 percentage points between it and the second most frequently selected option was remarkable. All of the top five activities identified in this study as adding most value represent assurance activities, which underscores the position of a higher recognition among the Irish public sector of the value of assurance activities relating to the internal audit function, with less importance being placed on objectivity and insight activities.

The study discovered that 86 per cent of public sector bodies monitor and review the effectiveness of their internal audit unit, with the most common methods of measurement including 'percentage of audit plan complete', 'timely closure of audit issues' and 'completion of mandated coverage', which are also among the top-ranked selections within the corresponding global study. Further analysis of this topic reveals a distinct cause for concern, however, with over one in five Irish public sector bodies indicating that no formal measures to evaluate performance have been established. The absence of such measures make it more difficult to conform to the relevant IIA standards ('1311: Internal Assessments'), which require the conducting of periodic assessments to evaluate conformance with the Code of Ethics and the IIA standards, but more fundamentally these bodies risk not knowing or understanding the quality of return on their efforts.

Significance and implications of the findings

The study set out to understand how the internal audit function is executed in practice in the Irish public sector. It also sought to provide insights into whether the role of the internal audit function, as

currently executed, is perceived to add value, provide sufficient assurance or drive continuous improvement.

The results of this study paint a picture of an Irish public sector in which the internal audit function is largely outsourced to a small pool of private firms. Most value is placed by senior decision-makers on the assurance activities undertaken by the internal audit function, with less importance given to objectivity or insight activities. Results indicate a lack of familiarity among senior decision-makers as to the procedures in place within their own internal audit function, but also a lack of familiarity with recognised standards and best practice, which is most notable in the fact that over 25 per cent of public sector bodies are unfamiliar with the established Three Lines of Defence Model.

Due perhaps in part to the prevalence of outsourcing and an associated deficiency of a well-developed knowledge or understanding of the business or operations, the function can often be disconnected from other aspects of the organisation. This disconnect and lack of understanding is a double-edged sword. On the one hand, senior decision-makers might not have sufficient respect for, or understanding of, how the internal audit function could be used to realise meaningful value. On the other hand, the internal auditors, being outsourced and isolated from other parts of the organisation, do not have sufficient knowledge of business operations or sufficient influence to insert themselves fully in the inner processes of the organisation. Practical challenges present as a result of this disconnect, and frequently the responsibility to follow up on audit recommendations rests solely with the business process owners. Often the only follow-up undertaken by the internal audit function is to ask management to confirm implementation of recommendations, without any formal testing. This can be perceived as a tick-box exercise, which does not add tangible value and serves to reduce further the credibility of the internal audit function. An even more concerning finding, however, is that in over one-quarter of public sector bodies the responsibility to monitor the implementation of corrective actions rests with the audit committee, a committee which, due to its being deliberately removed from day-to-day operations, is unlikely to be in a position to ensure that audit recommendations are effectively and appropriately followed through.

While access to key documentation and personnel is generally quite good, there exists a reluctance to make all documents or personnel available to the internal audit function all of the time. Overall, one-fifth (20 per cent) of public sector bodies hold documents

which they deem too sensitive to share with internal audit, with smaller organisations – those with fewer than 75 staff – being much more likely to deem documents to be too sensitive to share with internal audit.

Risk-management processes are well established and mature across the sector; however, the evidence suggests that these processes have not been well integrated with the internal audit function, and are viewed as stand-alone or divorced functions, a consequence of which is that obvious synergies are not being exploited. This is most clearly portrayed in the extremely low level (3 per cent) of public sector bodies whose internal audit strategy is informed by the corporate risk register. This finding corroborates the findings of Coetzee (2016), who investigated the contribution of the internal audit function to risk management in the South African public sector and found that internal audit functions fail to incorporate the risks of the organisation appropriately into internal audit-engagement plans. The results also present a cause for concern as to whether due diligence is being effectively exercised, with more than one in three internal audit functions in the Irish public sector not formally updating their risk assessments in some way over the course of a year.

The *Code of Practice* which introduced an emphasis on an overall system of internal control, replacing the more traditional focus on the system of internal financial control, has been in place since 2016; however, the evidence suggests that the primary concern of the internal audit function remains focused on the system of internal financial control. Use of technology is not being optimised by the public sector in relation to its internal audit function, with only 5 per cent of internal audit functions using extensive technology across the entire audit process, including data mining and analysis. Furthermore, almost one in three Irish public sector bodies use only manual systems and processes, which signals a general lack of maturity of the internal audit function. Use of technology is further developed, however, in relation to risk management, but is far from being optimised. While some bodies have begun to use specific software designed to manage risk information, most still rely on spreadsheet or database software to maintain their risk assessments. An appropriate focus on the incorporation of QAIPs within internal audit functions has not been achieved across the sector. While 86 per cent of public sector bodies monitor and review the effectiveness of their internal audit unit, there is a tendency for this to be undertaken in an informal manner, with over one in five having no formal performance measures established,

which puts these bodies at great risk of failing to understand the quality or outcome of their efforts.

While the picture painted here may appear to be one of a function that is under-used, under-resourced and at times under-valued, and one that competes for management prioritisation against myriad other priorities, it is noteworthy that this is not the view expressed by senior decision-makers within the sector. In fact, an overwhelming majority of respondents – over 91 per cent – agree that the internal audit function adds value to their organisation. Board chairpersons appear to place most weighting on the function's understanding of operations and organisational complexities, along with the function having the right mix of skills and competencies, whereas, in general, CEOs have a more practical leaning, linking the value of the function more closely to the internal audit function's capacity to evaluate systematically the effectiveness of internal controls, risk management and corporate governance. While the internal audit function is seen as a major tool to provide assurance and increase the effectiveness of risk management, control and governance processes, surprisingly, the evidence from this study reveals that the function is being underexploited by not being viewed or used as a primary driver of continuous improvement across the organisation. This finding is significant as it so clearly jars with the academic literature and practitioner guidance, in that it even conflicts with the accepted definition of the function.

It is evident from the research that the internal audit function as currently executed is not viewed as a catalyst for ongoing improvement throughout the organisation. Furthermore, the evidence suggests that the function is sometimes not viewed as a trusted partner, but as a stand-alone function that is not well integrated into the workings of the organisation. In considering the issues presented, an obvious question arises as to whether the typical model applied across the sector, whereby the function is outsourced to one of a small pool of private firms, is creating inefficiencies or is serving to prevent or hinder the function's progress. As these private firms are competitors of one another, there is no incentive for them to share learning, or to work together in a coordinated fashion to identify emerging patterns and trends that might be of benefit to other agencies. We now know that there is a high degree of overlap between the topics reviewed by the internal audit functions across the public sector, so it would appear to make sense from both an efficiency and a consistency point of view for these overlapping matters to be reviewed by the same team, using

a standardised methodology, rather than the current disparate approaches. Individual public sector organisations consume around fifty days of internal audit activity per year. If we assume a blended daily rate based on current market trends, this leads to an annual cost per organisation of somewhere in the region of €50,000 inclusive of VAT. With 127 organisations in this study, the spend across this sector is in the region of €6.5 million per annum. Pooling the resources of the sector and seeking a solution from the market that would provide a single provider with a standardised methodology might seem a feasible option, but this hands over control to just one market entity and reduces competition, thereby shrinking the pool of suitable providers when the contract comes up for renewal. The greatest challenge to this option, however, is that it requires buy-in from across the sector and is administratively burdensome, in that it would require a high degree of coordination with no current nominated ‘owner’ for this coordinating role.

An alternative proposal would be for a decision to be taken by central government that the public sector should go it alone and adopt a strategy that aims to discontinue its reliance on the private market to provide its internal audit function. The public sector currently has one body tasked with undertaking the external audit function to agencies on behalf of the state – the C&AG. In a similar way, it would be technically feasible to establish a new state agency, which could adopt a single audit methodology and deliver professionally robust, high-impact audit and advice that gives objective information and insight, and drives improvement. A similar model has been in operation in the UK since 2015, and now provides services to over 75 per cent of central government, which includes 13 departments and over 120 arm’s-length bodies. The primary benefit of this approach would be that one agency working across government would provide unparalleled access, and a stand-alone agency would be best placed to develop the expertise and the relationships required to provide better insights and better outcomes for its clients (the public sector bodies) and their customers (the Irish public). This approach would also engender greater trust, which would perhaps improve the identified issues surrounding information-sharing and transparency.

A single agency tasked with providing internal audit would have a line of sight across the entire sector, which would allow for the prompt identification of emerging patterns and trends. If such information were analysed strategically and communicated effectively, it could provide benefits right across the public sector, by sharing lessons

widely to allow work streams and operational units that have not been audited to learn from the experience of those that have. The shared-services approach would also lead to enhanced career-development opportunities within the public sector internal audit function, and over time might address the current failing of the internal audit function to develop a good understanding of the business operations of the individual agencies. The downside of such an approach would be that individual organisations might have less autonomy to tailor the approach adopted to suit their individual requirements, and this approach does not necessarily help to overcome the challenge of the function being seen as separate, stand-alone or divorced from other internal units. Similarly, such an approach might make individual organisations and their audit and risk committees feel that they were moving from being policy-makers to policy-takers in relation to internal audit, that they were no longer driving this function, but rather that their internal controls were being subjected to external assessment.

Establishing a new agency to provide internal audit services across the public sector might also give rise to practical issues. Given the current buoyant market for employees from auditing backgrounds in the private sector, it might prove difficult to source and retain strong talent. According to Mubako (2019, p. 532), the practice of outsourcing has been fuelled by an increase in the demand for internal auditors worldwide, and Sanglier (2015) suggests that the demand for internal auditors has risen significantly while the number of candidates seeking roles in internal audit has fallen. Also, given that so many public sector bodies rely on the internal audit function to provide assurance in relation to submissions that are driven by the same statutory deadlines, it might be challenging to manage capacity in a way that addresses the inevitable peaks and troughs in demand over a calendar year. In executing its external audit function, the C&AG relies on the private market to address temporary capacity demands driven by shared statutory deadlines across the entire sector, with a number of external audits for recent financial years being outsourced to private firms. In doing so, the C&AG is drawing from the same resource well and the same small pool of private firms currently servicing the internal audit needs of the sector. Similar capacity challenges would likely arise if a new agency were established for internal audit.

Finally, the question of cost-benefit analysis arises. Considering that the single agency model would not be on the basis of profit

maximisation, and assuming that the current model is costing the state in the region of €6.5 million per year, it would be reasonable to assume that centralisation would bring with it economies of scale, which might achieve lower operational costs. With a starting base as low as €6.5 million, and bearing in mind that it would require the coordination and buy-in of up to 127 organisations, with the accompanying administrative burden and change management transformational processes this would entail, a back-of-an-envelope exercise would quickly dismiss this to be a non-runner. Potential savings would be extremely limited and almost insignificant in the context of the totality of the collective annual budgets. Furthermore, it is worth noting that while the internal audit activity can be outsourced, the literature and professional guidance reminds us that the associated responsibilities cannot be successfully devolved to an external party. The other alternative to outsourcing is that agencies would establish their own internal units to satisfy their internal audit requirements, but with the average consumption currently at only fifty days per annum, this is not a feasible option, as it would not merit hiring specific talent to staff the function. Splitting the role, whereby a staff member is part-time internal auditor while also having other responsibilities elsewhere in the organisation, would also be problematic as it would erode the objectivity and independence required for the role.

Having considered, and dismissed, the alternative options, the most viable option available is to continue with the current model, whereby the function is directed by the organisation, but the service is provided by the open market, albeit by a very small pool of competitors. To continue with the current outsourced model does not mean that it cannot be improved, and the results of this study give food for thought for practitioners and senior decision-makers across several areas relevant to maximising the performance and impact of the internal audit function. Key areas of focus should include the appropriate integration with risk-management processes and the application of a risk-based approach to internal auditing transparency and information-sharing, ensuring that audit recommendations are appropriately enacted and improving the use of technology. The final area for decision-makers and practitioners to reflect on is arguably the greatest challenge relevant to the internal audit function, and is not unique to the public sector, and that is how to leverage audit findings for enterprise-wide improvements. Decision-makers and practitioners alike must begin to understand that a preoccupation with assurance

can be to the detriment of the other value-add functions that internal audit can deliver. The real value of the internal audit function lies not as a divorced function but in its integration within the organisation to share enterprise-wide learning and become a primary driver of a permanent culture of continuous improvement.

Conclusion

This study set out to explore how the internal audit function is executed in practice in the Irish public sector. The research findings address an identified gap in the literature and offer a practical contribution to knowledge, by providing a comprehensive account of how the internal audit function is currently being executed across a broad range of public sector bodies in the Republic of Ireland whose purpose, size and structure vary greatly.

Among the most significant findings from this research is the evidence that the function is not viewed by its most key stakeholders as a primary driver of continuous improvement within their organisations, which causes its real-world implementation to conflict with its very definition. This finding conflicts with the accepted definition of internal auditing, and identifies a disconnect between the real-world practice of internal audit function and the relevant academic literature, public policy and practitioner guidance.

The study shows widespread adoption of outsourcing of internal auditing services across the sector. Having considered the various resourcing models currently employed, along with further potential models from other jurisdictions, the author concludes that the practice of outsourcing the internal audit function to a small pool of private firms is here to stay.

Overall, the research shows both some of the strengths of internal audit practice in the Irish public sector and also some of the opportunities, related both to structures and to practices, to enhance internal audit practice to add greater value to the activities of public sector bodies in Ireland.

Further information

This article stems from research undertaken as part of a Doctorate in Governance, which was supervised by Professor Colin Scott and Dr Michael Mulreany. For further information in relation to this research study, please see De Barra (2022).

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