



Things to consider when preparing for your annual internal audit opinion



Overview

This guidance is designed to support chief audit executives (CAEs) in preparing for their annual opinion or for the more experienced to review and possibly rethink their approach.

An overall opinion is the professional judgement of the CAEs based primarily on the results of individual internal audit engagements, supported in some instances by incorporating other reliable assurance information. It is for a specific time interval determined by an organisation, most commonly a year.

There are always choices in how assurance is provided and how it is reported. CAEs, in partnership with their governance leaders, should debate the level of overall assurance that is required to provide an opinion and how the different resourcing options enable it: in-house, co-sourced, outsourced.

CAEs are encouraged to provide an overall opinion in line with IPPF [Standard 2450](#).

An overall opinion is mandatory in the public sector to inform and be part of the organisation's annual governance statement, as detailed in the public sector internal audit standards ([PSIAS](#)). It is also mandatory within financial services, as explained in the Guidance on Effective Internal Audit in the [Financial Services](#) Sector.

[Purpose of the overall opinion](#)

[Principles](#)

[Minimum expectations](#)

[Preparing to make an opinion](#)

[Assessment criteria](#)

[Forming an opinion](#)

Purpose of the overall opinion

All organisations have defined accountabilities for governance, risk management and internal control, such as audit committees and boards. These bodies are often required to sign-off or make statements on the adequacy and effectiveness of these matters yet they work remotely from the day-to-day of the organisation and need support, a trusted advisor...internal audit.

Individual audit engagements provide targeted micro-assurance.

The overall opinion is different; it is macro-assurance over a defined period of time.

This requires CAEs to bring these disparate assurance threads together using themes, trends, evidence and professional judgement to provide holistic, strategic insight into an organisation.

Principles

Providing an overall opinion can be a daunting task for a CAEs, interpreting the various standards and making a statement based on an accumulation of numerous different sources of evidence. It is a CAEs professional not personal opinion.

The Institute recognises this and offers five principles for CAEs to apply.

1. Authentic

Opinions are fair, reliable and honest

2. Transparent

Opinions are qualified with evidence and professional judgement

3. Strategic

Macro level information without undue detail

4. Insightful

Information is engaging and generates discussion

5. Resolute

Opinion is delivered with courage and conviction

Minimum Expectations

There is no step-by-step guide for CAEs to produce their opinion. The IPPF, PSIAS and FS Code all set out their minimum requirements of an overall opinion, using IIA Standard 2450 as the base line.

Preparing to make an opinion

There are some straightforward steps that CAEs could consider as advance planning.

Time period

1. **Public sector** - annually to inform the governance statement.
2. **Financial services** - at least annually.
3. For all other CAEs it is a discretionary period.

CAEs should consider the speed at which risks emerge and change within their organisation together with the dynamics of strategy and decision making.

What is meaningful - annual, quarterly, twice a year?

The time period must be discussed and agreed with the board/audit committee.

Assurance gap/mapping

The ability to provide a robust, strategic and insightful opinion starts with the annual audit plan. Sufficient, balanced engagements, taking into account the principal risks of the organisation, need to be undertaken to provide the assurance on which the opinion is based.

The process to agree a **risk-based audit plan** should include and acknowledge the associated assurance gap (ie assurance that ideally should be provided but due to finite source is excluded from coverage).

Does the board/audit committee take assurance from other sources to fill some of the gap? **Assurance mapping** is a useful tool to demonstrate this.

Internal audit is one source of assurance in the organisation's governance framework; the independent third line in the **three lines of defence** model.

This is a key building block in the partnership approach between the board/audit committee and CAE; creating a shared accountability for the assurance limitations of the overall opinion to be produced later in the year. It is also an opportunity to clarify and educate stakeholders on sources of assurance that could be used by the CAE in forming the overall opinion; second line of defence such as risk function, health and safety, information security and regulators such as Ofsted or Care Quality Commission.

Reliance on other assurance providers

Internal audit is one element of the governance framework. CAEs must consider material factors that they are aware of that are outside the work of internal audit:

- CAEs must determine the extent to which they place reliance on the work of others. Standard 2450 states the communication will include 'consideration of all related projects, including the reliance on other assurance providers'.
- CAEs should clearly state within their opinion the rationales for inclusion or exclusion of the vast array

of other valid assurance contributors both internal and external.

- CAEs must assure themselves that their information sources are legitimate before relying upon the output of other assurance providers. Where relied on or to build confidence, auditing 2nd line functions on a regular basis should be considered as part of the strategic/annual audit plan.

There is a **practice guide** to support forming this judgement which includes five principles amongst other advice; purpose, objectivity, competency, elements of practice and impact. □

Assessment criteria

CAEs should define the assessment criteria for their overall opinion and agree it in advance with their own governance leaders eg audit committee, board. This reduces subjectivity and ensures year-on-year consistency. The IPPF guidance states this should be included in the report; failure to do so could undermine the opinion and add unnecessary complexity for a non-executive serving on multiple boards.

Criteria should be unambiguous and relevant; this methodology supports aggregation of individual audit engagements that form a key part of the overall opinion. A brief review of published opinions found that approaches vary considerably from no explanation, to multiple criteria, basic tables and narrative statements. CAEs should consider the relationship between the inputs to their opinion and the assessment criteria.

Assessment criteria

Currently there are no criteria guides for CAEs that would also enable calibration between organisations. Each CAE is free to define the criteria and language for their own audit opinion. The Chartered Institute recognises this is an area of concern for many CAEs and is working collaboratively with the RIASS (Relevant Internal Audit Standard Setters) to progress a solution.

To avoid subjectivity, CAEs should agree with the board the way in which their opinion will be assessed. This should be agreed/reaffirmed before the period under review begins, perhaps as part of the annual planning process.

CAEs should consider continuity between their opinion ratings for individual audit engagements and their overall opinion, disconnects should be clearly explained. For example, it could be confusing if overall opinion ratings are *full, reasonable, limited, none* and the individual engagement ratings are *high, satisfactory, inadequate, scarce*. This may simplify the aggregation of micro audit opinions at the end of the year enabling CAEs to focus on how other assurance information (if used) dovetails with their activity-based opinion.

It is noted that some CAEs provide a single opinion while others provide separate opinions for financial and non-financial controls. Some also breakdown opinions into risk, governance, internal control and financial control. This can add clarity where there are distinct differences in assurances or add complexity to the opinion itself; this is a judgement for individual CAEs.

CAEs must be mindful to include governance, risk management and internal control factors when forming their opinion; it is, after all, a holistic view of the organisation.

An illustrative framework is included below. It is based on a sample review of reports.

Type of opinion	Guidance for when opinion may be provided
Substantial Assurance	<p><i>There is a sound framework of control operating effectively to mitigate key risks, which is contributing to the achievement of business objectives.</i></p> <ul style="list-style-type: none"> • No individual audit engagement classed as limited or no assurance. • Occasional medium risk rated weaknesses identified in individual audit engagements although mainly only low/efficiency weaknesses. • Internal audit has confidence in managements attitude to resolving identified issues.
Reasonable Assurance	<p><i>The control framework is adequate and controls to mitigate key risks are generally operating effectively, although a number of controls need to improve to ensure business objectives are met.</i></p> <ul style="list-style-type: none"> • Medium risk rated weaknesses identified in individual audit engagements. • Isolated high risk rated weaknesses identified for isolated issues. • No critical risk rated weaknesses were identified. • Internal audit is broadly satisfied with management's approach to resolving identified issues.
Limited Assurance	<p><i>The control framework is not operating effectively to mitigate key risks. A number of key controls are absent or are not being applied to meet business objectives.</i></p> <ul style="list-style-type: none"> • Significant number of medium and/or critical risk rated weaknesses identified in individual audit engagements. • Isolated critical and/or high risk rated weaknesses identified that are not systemic. • Internal audit has concerns about managements approach to resolving identified issues.
No Assurance	<p><i>A control framework is not in place to mitigate key risks. The organisation is exposed to abuse, significant error or loss and/or misappropriation. Objectives are unlikely to be met.</i></p> <ul style="list-style-type: none"> • Serious systemic control weaknesses identified through aggregation of individual audit engagements. • Significant number of critical and/or high risk rated weaknesses identified for isolated issues. • Internal audit has serious concerns about managements approach to resolving identified issues.
No Opinion	<p>Insufficient internal audit work has taken place during the period to substantiate an independent opinion. The rationale for this will be fully explained in the report.</p>

NOTE:	<ul style="list-style-type: none"> • Results and observations of internal audit advisory/consultancy work form an important part of the opinion. Where they have material weighting this will be fully explained in the report. • Internal audit may downgrade an opinion based on the work of internal audit where it is aware of material findings by another trusted assurance party. This will be fully explained in the report. • Circumstances may arise where internal audit is aware of specific issues within the control environment that negate the use of this framework. The rationale for such deviation will be fully explained in the report.
--------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

This framework assumes that individual engagements use the same four ratings and resulting agreed actions are risk rated critical, high, medium, low, efficiency/value for money.

Forming an opinion

Supplemental guidance by IIA Global (aged but relevant) is essential reading for differentiating between the micro opinion in individual engagements and the broader macro 'overall' opinion, see Appendix 1. Issues that cause concern at an operational level are not relevant to the board (unless thematic). CAEs must elevate out of the micro/operational detail of individual engagements to think like a director at a macro/strategic level when preparing their overall opinion.

The guidance also advises against providing an overall opinion if an organisation's board has not defined its expectations for governance, risk and control through policies, standards and ways of working. This is important and especially relevant for opinions related to risk appetite as it is not possible to do so without a *stake in the ground* agreed by the board. CAEs should consider the use of a caveat to surface the issue where opinions have to be provided under such circumstances.

CAEs should be ready to provide an assurance opinion at any time, for instance at an unplanned crisis meeting or an impromptu visit by the audit committee chair. Many will also be used to doing this at regular audit committee meetings. Rather than developing a process to produce an overall opinion at year end, CAEs may prefer to consider a way to collate and monitor themes and trends on an ongoing basis.

Typical inputs for opinions include:

- completed audits (during a defined period)
- observations from consultancy/advisory support
- follow up of previous audit activity, including agreed actions
- significant/material risk where management has not accepted the need for mitigating action
- notable changes to an organisation's strategy, objectives, processes or IT infrastructure
- assurances from other providers, including second line, third parties, regulator reports etc.

During the course of a year, material issues may arise and be resolved. Such instances may form part of the overall opinion in respect of the effectiveness of governance and risk management frameworks. Opinions are a balanced reflection over the defined time period not a snapshot in time.

There may also be occasions when work performed in a prior reporting period supports the current audit opinion. By exception, where the CAE is satisfied that the original findings remain relevant and valid such

evidence may be cited with appropriate narrative to state that it is supplementary to the reporting period. This is most likely to be the case when reporting trends or when an ad-hoc engagement revealed significant findings that take time to resolve.

Our review of reporting criteria did not find examples that looked broader than internal controls. This is reasonable as it qualifies opinions based on evidence, the accumulation of individual assignments performed either by internal audit or other assurance providers. However, it does not take into account cultural observations, corporate knowledge or potential viability concerns. Where the need arises, CAEs should not be afraid to make additional narrative opinions that are judgement rather than evidence based.

An example of this was noted in a [Mendip District Council](#) report.

I have considered the balance of audit work in 2016-17 and the assurance levels provided, profile of each audit and outcomes together with the response from Senior Management and I can offer **'Reasonable Assurance'** in respect of the areas reviewed during the year, as most were found to be adequately controlled. Generally, risks are well management but some areas require the introduction or improvement of internal controls to ensure the achievement of objectives. 2016-17 has been a challenging year with the level of change currently being undertaken at Mendip District Council. In keeping with the public sector in general, there continues to be challenges for the Senior Management at Mendip District Council, with the extremely complicated five councils project carrying significant risk to the Authority. Successful delivery of the project will be required to ensure savings are realised to help address the budget shortfall. There will have to be acceptable risk taking to ensure this project is delivered as well as the wider transformation programme.

It may also be worth considering research material relevant to the sector/industry to support identified themes to add insight. For example a [BSI report](#) found more than half of UK public-sector organisations admit they are concerned or not confident about being able to access their applications systems after a cyber-attack.

Qualifying the opinion

Although supporting information is summarised in the report that forms part of the overall opinion, it is vital to provide a concise list of what the opinion is based on. Do not assume that the board/audit committee remembers the IA charter, the annual programme of work and associated assurance gap they approved at the start of the year!

CAEs should consider their inputs and define appropriate caveats. In-house CAEs without legal restrictions may have few limitations although it is still useful to look at the detailed statement used by PwC, outsourced providers of internal audit services for the 2016-17 [Northampton Borough Council report](#). An in-house function has the potential to provide a much richer overall opinion utilising judgement and assurances from the first and second line without risk of breaching contractual terms. We are not suggesting this example is used verbatim; it is merely illustrative of a comprehensive caveat.

We are satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control. In giving this opinion, it should be noted that assurance can never to absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

They also included within their limitations section:

The opinion is based solely on the work undertaken as part of the agreed internal audit plan. There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence management and the Audit Committee should be aware that our opinion may have differed if our programme of work or scope for individual reviews was extended or other relevant matters were brought to our attention.

Reporting format

CAEs are free to decide a format that works for their organisation. The IPPF states what should be included in an overall opinion but not how it is presented.

In considering the format, CAEs should be mindful that the content of their annual report and the organisation's broader annual governance statement have the potential for overlap when drawing audit opinions from a broad source of assurance data. Reviewing the drafted report against the principles outlined earlier is important to maintain professional integrity.

The firms providing outsourced internal audit services often format their reports in a visually creative, structured and easy to digest format which in-house CAEs may take inspiration from, mindful however that the content may be limited by caveats solely to work completed by internal audit.

It's easy to forget the basics of report writing; displaying data in charts instead of text, being concise with standard information and front loading the most important information.

An illustrative report structure is included below based on a sample review across the sector.

1. Executive Summary

Introduction/Background/Purpose of report, including period under review (concise)

Internal audit opinion

Inputs for opinion or Basis of opinion

Limitations on opinion (concise or included as appendix).

2. Summary of Internal Audit Activity during the period

- Ideally graphic, table or infographic
- Follow up of previous audit work.

3. Themes, Trends and Issues

- Governance
- Risk Management
- Adherence to Risk Appetite
- Internal Control.

4. Quality Assurance and Improvement Programme

- Adherence to professional standards
- Commentary on significant aspects of QAIP plan.

5. Appendices

- Opinion assessment criteria
- Individual audit engagement rating criteria – report, findings, actions etc
- Table of audit work completed in the period, including for example rating, number of actions, material findings. A concise summary of activity. Consultancy should be included
- Detailed QAIP plan including progress, work ongoing etc.

Conclusion

The overall opinion is a CAEs opportunity to demonstrate the unique value of internal audit, its independence and objectivity. In a world increasingly shaped by uncertainty, volatility, complexity and austerity it might not be easy to be a CAE so talk to others, use networks, research, learn from others.

For many CAEs, their opinion is personal, a reflection of their ability or views. It is important to remember that it is a professional opinion provided by a governance leader within the organisation. It is respected if not always welcomed when based on evidence and fair judgement. Be brave.

Appendix 1

Formulating and expressing internal audit opinions

Further reading

Standards

2450 Overall opinions

Implementation guidance

2450 Overall opinions

Supplemental guidance

Coordination and reliance - developing an assurance map

Formulating and expressing internal audit opinions

Reliance by internal audit on other assurance providers

Position paper

The three lines of defence

Guidance

Effective internal audit in the financial services sector

Webinar

Risk based internal auditing

External resources

Public Sector Internal Audit Standards