

The importance of a CAE's opinion



Audit leaders are nothing without an opinion. An internal auditor's opinion is also a differentiator in the boardroom; independence and objectivity make it unique. All chief audit executives regardless of sector and size of organisation should provide, at least annually, an assessment of the overall effectiveness of the governance, risk and control framework of the organisation.

Do you?

Is it informative, insightful, and does it influence decision-making?

Amid the uncertainty and consequences of COVID-19, the climate crisis and Brexit there will be positives for some organisations. However, the stark reality for many governing bodies (individuals accountable for the success of the organisation, principally the board and its sub-committees) will be tough decisions and perhaps a degree of wariness when presented with information by senior executives fearful of their jobs; especially when opportunities are seized without the normal controls in place.

The value of an independent opinion should be increasing.

Are you being asked for yours?

This thought leadership piece examines the professional requirements of providing an overall audit opinion, the benefits of providing a trusted opinion and delivering it with impact.

Skip ahead for 10 key things to do to help others respect and trust your opinion.

Professional requirement

Historically, an annual internal audit opinion or statement was largely associated with the public sector. This is no longer the case.

CAEs are required to provide an overall opinion as outlined in the Internal Audit Code of Practice: [Guidance on effective internal audit in the private and third sectors](#) supporting [Standard 2450](#) in the IPPF.

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](#).

Taking learnings from colleagues in the public sector, the Institute created practical [guidance](#) to help audit leaders develop their opinion, further guidance on forming an opinion can also be found [here](#). The Institute has, likewise, produced a [dedicated live stream on forming an opinion](#), as part of its weekly Facebook Live series, Talk to Internal Audit.

Marketing the opinion

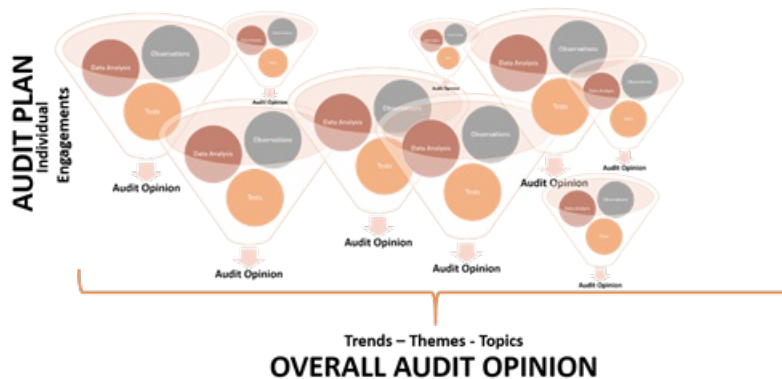
In the public sector and regulated industries, the governing bodies will expect to receive an annual opinion from the CAE; elsewhere there may be a need to explain the benefits of receiving one.

A governing body, particularly the audit committee, often suffers from information overload and a shortage of time. Overlay this with crisis management, surviving a recession and COVID-19 social distancing measures and the situation becomes even more challenging.

CAEs can contribute to the solution.

The annual audit opinion formed by the CAE is at a macro level as opposed to the micro level ones that internal auditors form for example about individual processes, risks, projects or functional areas of the organisation.

***Click thumbnail image below to enlarge**



There are clear benefits to those receiving an audit opinion:

- *Should I lose sleep over this* is a question often asked by governing bodies. Alongside an unqualified

opinion from the external auditors, members can take comfort from a constructive, positive opinion from their internal audit function. Conversely, as with a qualified opinion, CAEs can use their opinion to draw attention to matters of material interest

- Provides insight and early warnings from evaluation of trends and themes
- Offers objective and constructive scepticism
- Draws attention to the linkages between different audit findings, something that governing bodies do not always have the capacity to do for themselves
- Encourages open dialogue and discussion about subjective topics such as culture, internal politics, and management style.
- Focuses attention on prioritised outstanding concerns

The CAEs opinion helps the governing body discharge its duties effectively as it focuses on governance, risk management and internal controls.

Don't wait to be asked. Be proactive.

The CAEs opinion is a key part of the governance partnership that provides objective and independent oversight of the organisation; non-executive directors/trustees and internal audit. It is a fundamental element in the IIA's Three Lines Model (formerly known as the Three Lines of Defence).

Often referred to as an annual opinion, it is much more than that, CAEs should always be ready to provide one at regular audit committee meetings or in conversation with governance partners. The timing of the formal written opinion should be appropriate to all parties and given such high levels of disruption and uncertainty organisations are experiencing, not to mention a global recession, it should be a key element of the governance framework.

During the coronavirus pandemic some CAEs were asked by their governing body to provide an informal weekly opinion as to the state of governance, risk and internal control within their organisations.

The benefits to a CAE of sharing their opinion are obvious, it raises profile, establishes independence from management and showcases the value of the work being done by the internal audit function.

Respect and trust

Internal audit professionals are entitled to an opinion, a judgement; not just to repeat facts but to interpret them. A doctor who only read out the results of a blood test would be of little use to a patient as they need to be explained and understood.

Because opinions are not the same as facts there needs to be trust and respect between the CAE and governance bodies. This is built over time and influenced by a variety of factors such as emotional intelligence, personal behaviours and reputation.

Here are 10 key things to do to help others respect and trust your opinion.

1. Treat others as you would wish to be treated
2. Give people time to share their opinion with you
3. Let people speak without interruption
4. There is no such thing as a wrong opinion
5. Avoid arguing over opinions

6. Everyone is entitled to have an opinion
7. Be open minded to a variety of opinions
8. Try to see things from their perspective
9. Do not belittle the opinion of others
10. Never force your way of thinking onto someone else

Trust is also maintained through the reliability of the opinion.

The detailed audit findings and individual reviews that form the basis of the CAEs perspective of the organisation can be subject to error. Misinterpretation of results and unconscious bias are risks that can be mitigated through ongoing review and supervision; part of a quality and improvement programme (Standard 1300). There are safeguards and often prescribed methodologies for forming the opinions on individual engagements.

This is not always the case for the annual opinion that is the responsibility of the CAE.

There are two ways in which a CAE can depersonalise their statements: using calibration criteria that is pre-agreed with the governing body and relating it to the defined risk appetite of the board. Whether these are simple lists of words with a brief definition or a complex matrix of interconnected factors will largely be driven by the risk maturity of the organisation. This is detailed in the guidance referred to earlier; **things to consider when preparing your annual opinion and forming an opinion.**

Delivering with impact

CAEs are free to decide a format that works for their organisation. The IPPF states what should be included in an overall opinion as a minimum but not how it is presented – why rely solely on a written report when you could supplement it with a vlog or podcast for convenience.

A bland statement that is constantly repeated such as *'the CAE confirms that based on the work performed this quarter, no significant reduction in the control environment has been identified'*, derives little value and is easily ignored.

The opinion must be relevant and pitched at a level that makes it meaningful for the recipients; context and root cause are essential. It is a risky strategy to assume that board/audit committee members will remember everything you previously told them!

Emotional engagement is key to delivering a memorable message.

People remember what matters to them.

It may be as simple as saying 'this might keep you awake tonight' or 'you are steering a tightly maintained ship at the moment.' Or it may need a more subtle and intellectual approach.

Delivering the opinion in person is always more impactful than leaving people to read it for themselves where there is a risk that it is overlooked. The coronavirus pandemic has taught everyone that in person does not have to mean in the room, it can be a virtual meeting (with the video on!).

Closing thoughts

Take a moment to put yourself in the position of a non-executive/trustee; unprecedented uncertainty, copious

amounts of information, complex information, limited time and accountable for significant decisions. The opinion of a competent, honest CAE as a governance partner is essential.

Are you fulfilling that role today to the best of your abilities?

"Don't let the noise of others opinions drown out your own inner voice."

Steve Jobs, co-founder Apple Inc

Professional requirements

Professional Requirement	Detail
<p>Internal Audit Code of Practice: Guidance on effective internal audit in the private and third sectors</p> <p>Guidance on effective internal audit in the financial services sector</p>	<p>IAC paragraph 11c / FS paragraph 6c</p> <p>Internal Audit is not responsible for setting the risk appetite but should assess whether the risk appetite has been established and reviewed through the active involvement of the Board and Executive Management. It should assess whether risk appetite is embedded within the activities, limits and reporting of the organisation; and it should report annually to the Audit Committee its conclusions on whether the organisation's risk appetite framework is being adhered to.</p>
	<p>IAC paragraph 13 / FS paragraph 8</p> <p>Internal Audit's reporting to the Board Audit and/or Risk Committees should include: at least annually, an assessment of the overall effectiveness of the governance, and risk and control framework of the organisation, and its conclusions on whether the organisation's risk appetite framework is being adhered to, together with an analysis of themes and trends emerging from Internal Audit work and their impact on the organisation's risk profile.</p>
<p>International Performance Practice Framework (IPPF): Performance Standards</p>	<p>2060: Reporting to senior management and the board</p> <p>The chief audit executive must report periodically to senior management and the board...on the internal audit activity's purpose, authority, responsibility and performance relative to its plan and on its conformance with the Code of Ethics and the Standards. Reporting must also include significant risk and control issues, including fraud risks, governance issues and other matters that require the attention of senior management and/or the board.</p>
	<p>2450: Overall opinions</p> <p>When an overall opinion is issued, it must take into account the strategies, objectives and risks of the organisation; and the expectations of senior management, the board and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant and useful information.</p>

Public Sector Internal Audit Standards (PSIAS)	Addendum to 2450: Overall opinions The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.
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