

Developing an overall opinion during the pandemic crisis – considerations for 2021-22 and reflections on 2020-21

The IASAB has developed this guidance to support heads of internal audit and individual internal auditors in the UK public sector. It has the backing of all of the UK Responsible Internal Audit Standard Setters (RIASS)¹.

Governments in the UK and worldwide have started programmes of vaccination which it is hoped will ameliorate the effects of the coronavirus pandemic in the medium to longer term. However, it remains likely that the functioning of civil society and the working practices of the public sector and internal auditor will still be profoundly affected for the duration of 2021-22.

Heads of internal audit will therefore need to plan for another difficult year, conducted under very different conditions to those which operated before the pandemic.

This document sets out considerations for heads of internal audit as they plan the programme of work which will generate the evidence base for the 2021-22 annual overall audit opinion and which will support the 2021-22 Governance statement. It builds upon the principles set out by IASAB in *Conformance with the PSIAS during the coronavirus pandemic* (May 2020). This new guidance may also be helpful when developing the 2020-21 annual opinion, although many key communications with stakeholders and the majority of audit work will already have been undertaken.

Other relevant guidance

This guidance should be read alongside any relevant sector specific guidance issued by the RIASS; it may also be useful to consider other relevant guidance such as that issued by the Chartered IIA *Things to consider when preparing for an annual internal audit opinion*.

The Government Internal Audit Agency (GIAA) has issued Internal Audit Guidance Note 30, *Audit and Risk Assurance Committee (ARAC) reporting* which provides guidance to GIAA teams working in central government on overall annual opinions. In similar vein, CIPFA has issued *Head of Internal Audit Annual Opinions, Addressing the Risk of a Limitation of Scope*, which sets out how the standards should be applied to reach overall opinions in local government internal audit engagements.

Both documents are framed in terms of how the UK PSIAS should generally be applied, but provide specific guidance having regard to issues around the impact of Covid-19. Each considers the risks and required reporting where the evidence supporting the overall audit opinion is different to what would be expected under more normal circumstances. They reflect on how audit plans may have changed to reflect the crisis situation, the need to express a limited opinion in some circumstances, while also noting

¹ The Relevant Internal Audit Standard Setters (RIASS) are:

- HM Treasury in respect of central government;
- the Scottish Government, the Department of Finance Northern Ireland and the Welsh Government in respect of central government and the health sector in their territories;
- the Department of Health in respect of the health sector in England (excluding Foundation Trusts); and
- the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK.

that limiting the opinion may not be needed where revised plans have been agreed with audit committees and other senior stakeholders.

Key principles

The IASAB's previous guidance *Conformance with the PSIAS during the coronavirus pandemic* noted that in times of crisis internal auditors will be fulfilling their Mission in different ways than usual. However, the critical point is that they should still fulfil that Mission. The guidance recognised that ideally heads of internal audit will have access to enough assurance to support the overall annual opinion, but it would generally be appropriate to draw attention to the context within which this assurance was gained and, if in the view of the head of internal audit it is appropriate, provide a commentary on potential limitations.

This new guidance seeks to

- clarify how the requirements in the PSIAS feed in to the overall audit opinion,
- reinforce the need to communicate changing circumstances to the Audit Committee and other key stakeholders, and if necessary, agree changes to audit priorities and planned assurance
- describe how to report on the assurance obtained in an overall opinion, setting out any limitations or caveats in relation to the work done, or the assurance achieved

We have used the informal term 'caveat' rather than more formal terms like 'scope limitation' because there is no universally agreed terminology to describe the variety of circumstances under which the assurance provided by internal audit requires additional explanation or fails to fulfil the expectations implicit in the agreed audit plan. However, such terms should be used where this is required and explained in relevant sector specific guidance issued by the appropriate RIASS.

Relevant requirements in the PSIAS

PSIAS 2450 "Overall Opinions" states that 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.

The accompanying Interpretation notes state that the communication will include:

- the scope including the time period to which the opinion pertains
- scope limitations
- consideration of all related projects including the reliance on other assurance providers
- a summary of the information that supports the opinion
- the risk or control framework or other criteria used as a basis for the overall opinion, and
- the overall opinion, judgment or conclusion reached. And that
- the reasons for an unfavourable overall opinion must be stated.

PSIAS 2450 includes a public sector requirement that the Chief Audit Executive² 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. It must also include a statement on internal audit's conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

PSIAS 1321 makes it clear that the use of "Conforms with the International Standards for the Professional Practice of Internal Auditing" is only appropriate if supported by the results of the quality assurance and improvement programme. PSIAS 1322 requires that when non-conformance with the Code of Ethics or the Standards impacts the overall scope or operation of the internal audit activity, the fact and impact of non-conformance must be disclosed to senior management and the board, and there is an additional public sector requirement that such non-conformance must be highlighted to be considered for inclusion in the governance statement.

Implications for the organisation and for internal audit

Whatever internal audit work is undertaken, it should be in accordance with PSIAS. In times of crisis the operational situation is likely to make this more challenging. Challenges might include: redeployment of internal audit staff and/or operational staff to other duties; communication problems and reduced access to people and systems arising from home-working; and increased levels of sickness absence/sick leave. While each internal auditor retains their personal responsibility for operating in accordance with PSIAS and should aim to act professionally, the crisis conditions may make it more difficult to maintain usual levels of quality and adherence with professional standards.

It may be that the originally agreed audit plan is changed, by agreement with the Audit Committee, during the year. In such cases heads of internal audit should ensure that the changes and their implications for attaining assurance are documented, and that these are understood and approved by the Audit Committee and senior stakeholders. They should be satisfied that the plan still provides for sufficient assurance to be acquired across each of the three aspects of the opinion, in order to be able to support an overall opinion. The sufficiency of that assurance being assessed in accordance with the expectations agreed with the Audit Committee and as expressed in the audit plan.

If, however, it is not possible to achieve sufficient assurance across any of the governance, risk management and internal control aspects of the opinion it will be necessary to caveat the overall audit opinion in part or in whole. The wording of such caveats is not prescribed and should be tailored to the organisation and considering any RIASS guidance relevant to the organisation. It would be helpful however for any caveat to be accompanied by an explanation of the rationale for the caveat, the impact of the associated issue(s), and what will be done to retrieve the position in future.

Where the reason for a caveated opinion also reflects significant non-conformance with PSIAS during the year this must be reported as part of the Quality Assurance and Improvement Programme (QAIP) (PSIAS 1320). The results of the QAIP must be included in the annual report (PSIAS 2450).

In the worst case scenario, heads of internal audit may consider that the caveats to their opinion are so significant that they cannot provide an annual opinion that fulfils the PSIAS requirement. If this is the case, the HIA will need to seriously consider whether

² The term Chief Audit Executive in the PSIAS encompasses heads of internal audit and others in a senior position responsible for effectively managing the internal audit activity

there are other areas of non-conformance which taken together lead them to conclude that the internal audit function does not conform with PSIAS. Issues around conformance are discussed in PSIAS 1321 which reflects on the QAIP process, and PSIAS 1322 which sets out requirements for disclosure of non-conformance.

Organisational Considerations

If the internal audit opinion is caveated then senior management and the board will need to consider the implications of that on the Governance Statement. A key step to take will be the need to understand the impact of the caveat(s), and set out what will be done to retrieve the position in future.

Considerations for heads of internal audit

In forming their judgement on whether to caveat the whole or part of the overall internal audit opinion heads of internal audit will need to consider issues including:

- How much assurance is enough to form a reasonable opinion i.e. has the audit work obtained sufficient assurance across each of the three aspects of the opinion (governance, risk management and internal control)? Conversely, what gaps, findings, or lack of depth of coverage are sufficient to caveat part/all of one or more aspects of the opinion, and whether those caveats prevent the issue of an overall opinion?
- Does the audit documentation provide sufficient, reliable, relevant and useful information to justify the judgement they have come to on whether or not to caveat (in part or otherwise) their overall opinion?
- Does the audit documentation provide sufficient, reliable, relevant and useful information to justify their judgement as to whether or not significant caveats to the overall opinion reflect a failure to achieve conformance with PSIAS.

The various stakeholders that will need substantiation of these judgements will include: senior management and the board, the Audit Committee Chair and the Audit Committee, and EQA reviewers. External audit will also be interested in any caveats on the opinion and the implications for the annual governance statement.

Heads of internal audit should consider the issues above in the context of public accountability requirements and of the organisation's risk appetite. Public sector internal auditors have a responsibility to work in the public interest and at a time of crisis this may change perspectives on the balance between acquiring assurance, and protecting the health, safety and livelihoods of the public, and supporting the operational needs of the organisation. Furthermore, the crisis conditions mean that the organisation's risk tolerance may be legitimately recalibrated to accept risks and impacts as 'low' or 'medium' that previously would have been evaluated as 'high'.

In making their judgments, heads of internal audit will have regard to their Cumulative Audit Knowledge and Experience (CAKE). This knowledge is relevant to all stages of audits, informing how risks are evaluated, the planning process which determines the areas on which assurance should be obtained and how evidence should be acquired, and the assessment of both positive and negative results. It can be particularly helpful in helping to develop an opinion based on rather different evidence to what was planned or would be obtained in more normal circumstances.

Heads of internal audit should however be cautious about placing too much reliance upon CAKE. There is a risk that knowledge and experience gained in previous periods may incorporate assumptions on logic, dependencies and risk which are out of date, or which are invalidated by changes which arise as a result of the pandemic or other factors. Such

changes and impacts may be significantly less visible to the internal audit function under current working conditions.

Key Steps to Take

In undertaking such considerations and making judgements about the wording of the annual opinion heads of internal audit should:

- Maintain open and continuous dialogue with the audit committee and other key stakeholders in the governance process, including external audit. (PSIAS 2060 - Reporting to Senior Management and the Board).
- Assess the potential impact on assurance of any reassignment of internal audit staff from assurance engagements to advisory or consultancy work, or operational roles, and communicate this to the audit committee and other key stakeholders in the governance process.
- Keep clear records of all changes agreed to the audit plan and the expected impacts on the assurance available to inform the overall audit opinion.
- Read this guidance in conjunction with and conform to any relevant sector specific guidance issued by the appropriate RIASS.

External Quality Assessment

Assessors undertaking a PSIAS review in the next year should take into account the significant interruption to business as usual experienced by internal audit teams in the public sector. Assessors may also need to be flexible in order to schedule and conduct their work in a manner which does not interfere with response to the crisis. The IASAB would encourage assessors to have regard to this guidance note.