

Internal Audit Update Note

Internal Audit Assurance Opinions - Standardisation across the public sector

September 2020

Official

Devon Audit Partnership

Internal Audit

Update note on the standardisation of Assurance Opinions across the public sector as recommend by CIPFA, and adoption of this by DAP.

1 Introduction

- 1.1 The professional practice of internal audit within the public sector is governed by a set of overall standards, being the Public Sector Internal Audit Standards (PSIAS). Whilst these are now consistent across the public sector, there is no common practice regarding how best to report the overall results, i.e. the “engagement opinion”, of internal audit work at the end of each assignment.
- 1.2 The “Engagement Opinion” is:-
“The rating, conclusion and/or other description of results of an individual internal audit engagement, relating to those aspects within the objectives and scope of the engagement.”

2 Work of the CIPFA Special Interest Group (SIG)

- 2.1 The CIPFA Special Interest Group for Internal Audit have undertaken a review of assurance opinions used and identified a range of current reporting practices and opinions in use, but by far the most common practice was four levels of assurance opinion on the engagement.
- 2.3 There are a number of clear advantages to introducing common practice for reporting opinions on Internal Audit engagements. These include:
- a standard opinion and underlying definition would increase confidence that the engagement opinion issued is consistently applied;
 - In particular, it would aid those who sit on more than one public sector audit committee;
 - It would support the training of internal audit staff, helping to drive up the quality and consistency of audit opinions.
- 2.4 The principal arguments against adopting standard opinion levels are that this might constrain innovation in the profession, or it may not suit the particular needs of an organisation or its audit team.

3 DAP – Current Approach

3.1 DAP currently already use four assignment assurance opinions levels which are set out below:-

High Standard.	The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.
Good Standard.	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.
Improvements required.	In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.
Fundamental Weaknesses Identified.	The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.

3.2 In practice it is difficult to be able to provide a “High” standard assurance within the reduced internal audit budgets that we work with. The scope of our work is focussed on key risks, and so we are only able to give our opinion on those risk areas reviewed, not the whole system of control.

4 **CIPFA Recommendations** - Based on their analysis of existing practice, the CIPFA SIG have recommended that the following standard internal audit assurance opinions are provided for engagements, as follows:-

Substantial Assurance	“A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.”
Reasonable Assurance	“There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.”
Limited Assurance	“Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.”
No Assurance	“Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.”

4.2 We considered that it would be appropriate to adopt the CIPFA recommended assurance opinions. However, it should be noted the use of the standardised definitions is ‘recommended’, not mandated.

4.3 DAP Management Board agreed to adopt the new assurance opinions for all internal audit completed from **2020/21** for all **our partners and clients**.

5 Annual Assurance Opinions

5.1 Further to the above, our annual audit report aims to provide a statement for senior management and the Audit Committee (or equivalent) on the overall organisational control environment. Again, there is no prescribed way in which Internal Audit should provide this; DAP currently use four categories for the annual opinion as set out below:-

Full Assurance	Risk management arrangements are properly established, effective and fully embedded, aligned to the risk appetite of the organisation. The systems and control framework mitigate exposure to risks identified & are being consistently applied in the areas reviewed.
Significant Assurance	Risk management and the system of internal control are generally sound and designed to meet the organisation's objectives. However, some weaknesses in design and / or inconsistent application of controls do not mitigate all risks identified, putting the achievement of particular objectives at risk.
Limited Assurance	Inadequate risk management arrangements and weaknesses in design, and / or inconsistent application of controls put the achievement of the organisation's objectives at risk in a number of areas reviewed.
No Assurance	Risks are not mitigated and weaknesses in control, and /or consistent non-compliance with controls could result / has resulted in failure to achieve the organisation's objectives in the areas reviewed, to the extent that the resources of the Council may be at risk, and the ability to deliver the services may be adversely affected.

5.2 It would seem logical to closely mirror the individual assignment opinions when providing our annual, overall assurance opinion. Some small changes are required to make this work, but we suggest that the following four ratings should be used for our overall audit opinion provided during 2020/21.

Substantial Assurance	A sound system of governance, risk management and control exists across the organisation, with internal controls operating effectively and being consistently applied to support the achievement of strategic and operational objectives.
Reasonable Assurance	There are generally sound systems of governance, risk management and control in place across the organisation. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of some of the strategic and operational objectives.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified across the organisation. Improvement is required to the system of governance, risk management and control to effectively manage risks and ensure that strategic and operational objectives can be achieved.
No Assurance	Immediate action is required to address fundamental control gaps, weaknesses or issues of non-compliance identified across the organisation. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of strategic and operational objectives.

6 DAP Management Board – May 2020

It was agreed to adopt the new assurance opinions for all internal audit completed from 2020/21 for all **our partners and clients**.

Robert Hutchins
Head of Devon Audit Partnership
Sept 2020