



**HFMA briefing**  
Updated February 2022



# Head of internal audit annual opinion

## Key considerations for 2021/22

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# Introduction

The accountable officer of each NHS organisation has the responsibility for maintaining a sound system of internal control and governance that supports the achievement of the organisation's policies, aims and objectives, while safeguarding quality standards and public funds. Internal audit has a key role in providing assurance over these arrangements, which is reported in the annual head of internal audit (HoIA) opinion.

Over recent years, the HoIA has needed to consider a number of significant changes, emerging risks and pressures. In 2022, the pressures placed on the NHS due to the Covid-19 pandemic have continued and as in 2020/21 will be a key feature of the considerations for the HoIA opinion.

This paper looks at what the HoIA opinion is; why it is important; the requirements for the HoIA opinion; and key considerations for 2021/22. This paper will be of particular interest to internal auditors, finance directors and their teams, non-executive directors, lay members and directors of governance.

## Head of internal audit (HoIA) opinion

### What is the HoIA opinion?

The provision of the HoIA opinion is a requirement of Public Sector Internal Audit Standards (PSIAS). The HoIA opinion is 'the rating, conclusion and/or other description of results provided by the chief audit executive addressing, at a broad level, governance, risk management and/or control processes of the organisation. An overall opinion is the professional judgement of the chief audit executive based on the results of a number of individual engagements and other activities for a specific time interval'<sup>1</sup>.

The HoIA opinion must be provided to support the organisation's annual governance statement (AGS) and inform and comment on the adequacy of the organisation's assurance framework. This opinion is based on a combination of the assurance work that internal audit staff carry out during the year (as set out in the annual audit plan) and its assessment of other available evidence and assurances about the organisation's arrangements for internal control and managing risk. Internal auditors use a range of assurance levels when providing opinions.

The HoIA opinion is usually included within internal audit's annual report, along with a summary of the work that supports the opinion and a statement on conformance with the PSIAS. It needs to be written at the appropriate time, promptly after the year-end, so as to inform the AGS and be referenced within the AGS.

Where the organisation produces accounts and a governance statement covering a part year (for example, resulting from mid-year mergers or as will be the case in 2022/23 when CCGs close down at the end of the first quarter and new statutory ICBs are expected to be created on 1<sup>st</sup> July) then the HoIA should issue an opinion covering audit and assurances relevant to the period.

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<sup>1</sup> [Relevant Internal Audit Standard Setters in collaboration with Chartered Institute of Internal Auditors, \*Public sector internal audit standards - applying the IIA International Standards to the UK Public Sector\*, March 2017](#)

## Why is the HoIA opinion important?

The mission of internal audit is 'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'<sup>1</sup> The HoIA opinion is a key reporting component of internal audit's role within an organisation's governance framework. In particular, it informs the AGS - a public document reviewed by the audit committee - providing assurance to executives, audit committees, external auditors, other regulators and the public.

The purpose of the AGS is to report on the extent to which the organisation has maintained control and managed risks in line with its own risk appetite, approved policies and applicable legislation and codes of governance. The AGS is the responsibility of management, but it is informed by the HoIA opinion. The AGS is a high level and strategic document that also contains any significant governance issues identified during the year. 'The accounting officer and the board have a number of inputs into this process...(including) insight into the organisation's performance from internal audit, including an audit opinion on the quality of the systems of governance, management and risk control.'<sup>2</sup>

Each year the relevant regulatory body<sup>3</sup> issues guidance for NHS bodies to use when preparing their governance statement. The statement must cover a number of areas including:

- the scope of the NHS body's accounting (or accountable) officer's responsibilities
- information about the NHS body's governance framework (including its committee structure)
- a description of how risk is assessed and managed
- information about how the risk and control framework works
- a review of the effectiveness of risk management and internal control
- any significant control issues and how they are being addressed.

Examples of factors to consider when determining whether an internal control issue is significant are included within the guidance.

As well as providing assurance, the HoIA opinion is also an important governance tool in identifying areas for improvement.

## What are the requirements for the HoIA opinion?

The Relevant Internal Audit Standard Setters (RIASS) – including the Department of Health and Social Care (DHSC) for the NHS (excluding foundation trusts) and HM Treasury which covers NHS foundation trusts – have adopted the PSIAS<sup>1</sup> from 1 April 2017, on advice of the UK Public Sector Internal Audit Standards Advisory Board (IASAB). These set out the requirements for the HoIA opinion. Key elements include:

- 'The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.' PSIAS 2010
- 'The risk-based plan must explain how internal audit's resource requirements have been assessed. Where the chief audit executive believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board.' PSIAS 2030
- 'Where reliance is placed on the work of others, the chief audit executive is still accountable and responsible for ensuring adequate support for conclusions and opinions reached by the internal audit activity.' PSIAS 2050

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<sup>2</sup> [HM Treasury, Measuring public money – annexes, September 2019](#)

<sup>3</sup> For NHS trusts guidance is included in *NHS trusts – AGS and year end requirements*; for foundation trusts guidance is included in *the FT annual reporting manual*; and CCGs must follow template and guidance published via the NHS England/CCG sharepoint.

- ‘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. 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 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.
  - the reasons for an unfavourable overall opinion must be stated.’ PSIAS 2450

### Key considerations for the HoIA in relation to 2021/22 opinions

Every year it is important for the HoIA to consider whether they have sufficient evidence to complete their opinion in accordance with the PSIASs. The Covid-19 pandemic has significantly impacted the NHS since March 2020 with the Omicron surge being declared a ‘national incident’ in December 2021 and resulting in major disruption to many normal NHS services and planned internal audit work. At the year-end consideration will therefore be required to be given to the impact of the pandemic within NHS organisations’ AGS and as part of the HoIA assessment. NHS England and NHS Improvement provided guidance in 2020 on Covid-19 related considerations for annual reports<sup>4</sup> and the HFMA provided specific guidance for non-executive directors and lay members<sup>5</sup>.

For 2021/22, the impact has been less significant and prolonged than 2020/21 for many NHS bodies. The response by internal audit during 2020/21 and the need to work differently has also provided a strong basis for the delivery of planned work in 2021/22. However, some organisations may have continued to experience significant issues with the delivery of planned internal audit work and to the organisation’s normal control framework, in particular:

- changes to individual organisations’ governance arrangements, including reduced scope and frequency of key committee/ board meetings
- reduction in internal auditors’ capacity due to staff being redeployed to support the pandemic response, or due to staff sickness
- reduced auditor access to staff and records due to remote working, sickness and other priorities
- temporary changes in finance staff roles causing the potential breakdown in segregation of duties and lack of experience or knowledge in undertaking unfamiliar tasks
- delays and reprioritisation of planned work due to the pressure on management and the need to address new risks and increased remote working.

For 2021/22, the re-introduction of restrictions and increased levels of staff sickness due to the Omicron variant has provided additional challenges to the delivery of planned work during the final quarter of the year.

For most organisations there have been ongoing discussions about changes of priorities and capacity. Engagement with organisations and the audit committee often includes regular briefings and updates to support assurance requirements and audit plans should have been revisited to ensure that they are focused on the key risks to achieving the level of assurance required.

The IASAB has produced guidance to support HoIAs and individual auditors in the UK public sector in response to the Covid-19 pandemic<sup>6</sup>. It has the backing of all the UK RIASS, including the DHSC. The guidance sets out key steps to take including:

<sup>4</sup> [NHS England and NHS Improvement, NHS providers: covid-19 related considerations for 2019/20 annual reports and accounts disclosures, April 2020](#)

<sup>5</sup> [HFMA, NEDs and Covid-19 – guidance for non-executive directors and lay members, March 2020](#)

<sup>6</sup> [IASAB, Conformance with the PSIAS during the coronavirus pandemic, 2020](#)

- regularly keeping audit committees and other key stakeholders updated on changes to audit plans
- maintaining regular and constructive communications with external audit
- considering the standards relating to consulting activities and steps needed to address any impacts on independence and objectivity where internal audit staff are diverted to consultancy or operational roles
- keeping clear records of changes to roles and plans.

The IIA(UK) has also issued some practical guidance<sup>7</sup> regarding the impact of pandemic disruption on annual opinions. It recognises that internal audit prepares an opinion based on the work completed which may be limited dependent upon the impact of Covid-19. In cases where the audit committee has agreed to change the plan, the opinion should reflect the work detailed and agreed.

For 2021/22, clinical commissioning groups (CCGs) will also have been planning for the introduction of statutory integrated care boards (ICBs). In many areas, significant work will have been undertaken by internal auditors considering the key risks associated with CCG cessation and verifying that internal controls are in place. NHS England and NHS Improvement documentation include a CCG closedown and ICB establishment due diligence checklist<sup>8</sup> which outlines several activities and tasks that need to be completed by CCGs and ICBs as part of the transition process. The checklists include a range of elements specifically relating to internal audit.

## Conclusion

The HoIA opinion is an integral piece of an organisation's governance framework, providing assurance to inform the AGS, and identifying improvement opportunities. It is informed by internal audit work throughout the year, as set out in the risk-based audit plan. Regular reporting and monitoring should take place to ensure that the achievement of the plan is on track. The HoIA opinion needs to appropriately reflect any significant impacts arising from the Covid-19 pandemic. To ensure no year-end surprises, any changes or issues - particularly arising from the impact of the Covid-19 pandemic on the delivery of planned internal audit work and on the organisation's wider governance and control framework during the year - need to be discussed as they arise.

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<sup>7</sup> IIA, [\*Chief audit executive and the audit committee no surprises in surprising circumstances\*](#), webpage

<sup>8</sup> [FutureNHS Collaboration Platform. CCG close down and ICB establishment due diligence checklist, November 2021](#)

## **About the HFMA**

The Healthcare Financial Management Association (HFMA) is the professional body for finance staff in healthcare. For over 70 years, it has provided independent and objective advice to its members and the wider healthcare community. It is a charitable organisation that promotes best practice and innovation in financial management and governance across the UK health economy through its local and national networks.

The association also analyses and responds to national policy and aims to exert influence in shaping the wider healthcare agenda. It has particular interest in promoting the highest professional standards in financial management and governance and is keen to work with other organisations to promote approaches that really are 'fit for purpose' and effective.

The HFMA offers a range of qualifications in healthcare business and finance at undergraduate and postgraduate level and can provide a route to an MBA in healthcare finance. The qualifications are delivered through HFMA's Academy which was launched in 2017 and has already established strong learner and alumni networks.

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