



International Professional
Practices Framework

Supplemental Guidance
Practice Guide

Audit Reports

Communicating Assurance
Engagement Results



The Institute of
Internal Auditors

Global

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Executive Summary

As the demand for internal audit value shifts from a retrospective view to a forward-looking perspective, internal auditors are expected to adapt with innovative methods to assess and communicate internal audit results. Communicating engagement results effectively provides management the opportunity to take corrective actions in a timely manner.

Timely and proficient communication of internal audit results can increase the effectiveness of governance and risk management, provide opportunities for process improvements, and influence positive change. This practice guide focuses specifically on communicating internal audit results through written reports, and provides guidance on how to:

- Identify the key components of an effective internal audit report or presentation.
- Create and organize an effective written internal audit report.
- Present internal audit engagement results to relevant stakeholders.
- Develop a follow-up process to monitor and report corrective actions taken by management.

Engagement results may be communicated through a formal presentation or exit interview, rather than a traditional written internal audit report. The method to communicate results may vary based on the organizational structure, type of internal audit, and related recommendations. However, the information communicated should still contain the key concepts included in this guidance. Guidelines for communicating engagement results should be established with the board, and senior management.

Through this guidance, the internal auditor will come to consider that:

- Stakeholders have diverse needs. Written reports may be structured for multiple types of recipients, or more than one type of report may be needed based on stakeholders' needs
- Effective internal audit communication needs to be accurate, objective, clear, concise, constructive, complete and timely to be relevant.



- The internal audit report must include the objectives, scope, and results of the engagement.
- Management's action plans must be included, as they are often the most referenced segment of the report over time. Ensuring that the tone and expected completion of the response is in line with the significance and urgency of the issue is important.
- It is important to conduct a thorough review of the content to validate factual accuracy, completeness of reporting, and ensure the engagement results and conclusions are supported by sufficient, reliable, relevant, and useful information.
- A concise executive summary may highlight good practices observed during the engagement and any steps taken by management to improve governance, risk management, and internal controls (refer to Standard 2410.A2). It is also important to include straightforward, topical issue descriptions that could be adapted for a senior management or board presentation as needed.
- The distribution of the report must be validated and approved by the chief audit executive to ensure it is directed to the intended recipients and disseminated to the appropriate parties who can ensure that the results are given due consideration.

Introduction

Internal auditors must communicate the results of engagements (Standard 2400: Communicating Results). However, the format, content, and timing of such communications may vary by organization and engagement type. Agreeing to a communication plan with stakeholders during engagement planning will help establish how, when, and with whom interim and final results will be communicated. Written internal audit reports provide a formal means of notifying senior management, the board, and other stakeholders of audit observations, related risks, and areas for improvement. Many internal audit activities communicate engagement results via internal audit reports, which include the engagement's objectives, scope, applicable conclusions, recommendations, and management's action plans. This guidance specifically focuses on communicating assurance engagement results in a written internal audit report format.

Business Significance, Challenges, and Opportunities

A well-written audit report provides senior management, the board, and other stakeholders a better understanding of the audited activity's governance, risk management, and control processes. It also provides an opportunity to point out the means by which potential impact of significant risk is kept to an acceptable level and/or acknowledge the engagement client's satisfactory performance. In addition, a well-written audit report presents an opportunity to market the internal audit activity by showcasing internal auditors' in-depth knowledge of the organization's business processes and internal audit's willingness to partner with management and provide recommendations for improvement.

Outdated, inaccurate, and poor quality audit reports can discredit the importance of the work performed by the internal audit activity. When drafting the audit report, internal auditors should be careful to avoid these potential pitfalls:

- Significant errors and omissions.
- Language that is too technical or filled with too much jargon.
- Observations and recommendations that are not well-formulated.
- Failing to acknowledge satisfactory performance.

- Omitting or not explaining the scope limitations.
- Issuing late reports or issuing them to inappropriate parties.

These pitfalls can be avoided through careful preparation and review of the audit report before it is issued. This practice guide takes into consideration the business significance, challenges, and opportunities of drafting the audit report.

Audit Report General Guidelines

Understanding the Stakeholders / Users of Internal Audit Reports

Internal audit reports should consider the diversity of the report recipients and their individual information needs. Report recipients may vary based on the organizational structure, type of audit, and related recommendations. The CAE should establish guidelines for report distribution with the board and senior management (such as the chief executive officer (CEO), chief financial officer (CFO), legal counsel, etc.). Internal audit reports are typically distributed to the following stakeholders:

- Process owners and management.
- Senior management.
- The board.
- Other stakeholders as deemed necessary (such as external auditors).

According to Standard 2440 – Disseminating Results, “The chief audit executive must communicate results to the appropriate parties.” A standard distribution list often exists and should be adjusted based on the particular internal audit engagement. Recipients may include managers who have direct responsibility for the audited activity and individuals with authority to take action on internal audit’s recommendations. The CAE (or designee) may coordinate with management to determine an appropriate distribution list so that due consideration is given to the results. The final engagement communication and decision to whom and how to disseminate is ultimately the CAE’s responsibility.

Internal audit reports are confidential documents and distribution should be on a need-to-know basis. Condensed versions of reports may be created if certain information is to be shared with

other entities/units in the organization. Different formats may be created, depending on the recipient (e.g., the board may receive an executive summary rather than the entire detailed report).

Also, depending on the industry — such as within the public sector — reports may be publicly available. In regard to distributing internal audit reports outside of the organization, Standard 2440.A2 states, “If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the chief audit executive must: assess the potential risk to the organization; consult with senior management and/or legal counsel as appropriate; and control dissemination by restricting the use of the results.”

Report Content and Structure

The style and format of written internal audit reports varies across organizations. The internal audit report structure could be consistent with the organization’s communication templates and practices, reflect the organization’s culture, and/or incorporate suggestions from senior management and the board.

According to Standard 2420 – Quality of Communications, “Communications must be accurate, objective, clear, concise, constructive, complete, and timely.” The content and level of detail should be determined by the needs of the audience. As such, some organizations may deem it appropriate to utilize different formats/versions that are customized for the audience. Consider these questions about the audience(s) when customizing reports:

- Who are the most important readers of the report?
- How much do they know about the audited activity?
- How do they plan to use the report?
- How do the identified issues impact the reader?

The structure of a report often includes the following components:

- 1) Audit report title.
- 2) Objective (purpose of engagement).
- 3) Scope (audited activities, nature and extent of work, scope limitations).
- 4) Background (brief synopsis of the activity being audited or an explanation of the process).

- 5) Recognition (positive aspects of area or activity audited or appreciation of cooperation).
- 6) Engagement rating (ranking, outcome [i.e., satisfactory, marginal, unsatisfactory, pass, fail]).
- 7) Conclusions (summary opinion/assessment of the engagement, often highlighting critical observations).
- 8) Observations (also referred to as findings) — each observation should be listed in order of significance (grouped by activity if applicable) and often include:
 - a. A title and reference.
 - b. Criticality rating (measure of risk significance [i.e., high, medium, low, critical, significant]).
 - c. Statement of facts (condition, criteria, cause, effect/risk), which can be substantiated with relevant examples, data, analytics, tables, or charts.
 - d. Audit recommendations (corrective action to mitigate the risk identified in the observation).
 - e. Management's action plans (corrective action, activity owner, and target date for completion).
- 9) Distribution list.

The use of Standard 2430 – Conducted in Conformance with the *International Standards for the Professional Practice of Internal Auditing* may be indicated only if supported by the results of the quality assurance and improvement program.

An audit report template is provided in Appendix C and simplified audit report examples are provided in Appendix D.

Report Issuance

Engagement results should be communicated according to the agreed communication plan. Timely communication allows management to take appropriate corrective action. The appropriate timing of issuing written reports may depend on several factors:

- **Audit engagement type.**
 - For regular audit engagements, such as those reflected in the annual internal audit plan, the CAE establishes the issuance timetable in accordance with defined policies and procedures. To ensure timely communication of engagement results and execution of internal audit plans, a good practice is to issue the draft report within a few days of the exit meetings and the final written report within two weeks of the draft.
 - For special engagements, such as those requested by management outside of the internal audit plan to address an urgent issue, the issuance of the report ordinarily takes priority over regular engagements. This is essential to effectively and efficiently address higher risk situations.
 - For complex, lengthy internal audit engagements with multiple audited activities (such as branches or units with many departments), interim reports or status updates could be issued upon completion of each audited activity for immediate consideration of observations and applicable corrective action.

- **Interim communication considerations.**
 - For high-risk observations, it is prudent and typical for the CAE to verbally discuss items well in advance of the formal written report. In addition to the verbal discussion, the CAE may also authorize the issuance of an interim report to management so that action plans can be implemented immediately, prior to the issuance of the final written report.
 - For medium-risk observations, an interim report could be drafted for management for more timely actions. The final written report could also be issued following the procedure for regular internal audit engagements on medium-risk observations.
 - For low-risk observations, other alternatives could be considered, such as verbally reporting the observations to responsible management or issuing a separate memo to management.

- **Report recipient.**
 - As stated previously, ongoing communication (verbal and/or written) should occur throughout the internal audit engagement with the activity process owners and management. In addition to interim reports, internal auditors may consider having management review a draft of observations and recommendations. This practice helps build a partnership with the organization and reduces engagement observation errors, misunderstandings, and disagreements.
 - Frequency and type of communication to the board varies by organization. Final written internal audit reports or executive summaries may be provided to the board at the conclusion of all internal audit engagements. Alternatively, a status update highlighting recent internal audit results can be scheduled at regular intervals (e.g., quarterly) or issued on an ad hoc basis. These reports usually contain the most significant internal audit observations (the executive summary of the audit report is often sufficient), audit conclusion, and progress of management's follow-up.
 - Reports to external auditors, other stakeholders, and/or external parties, such as regulators, can be issued as needed. For example, external auditors and/or external parties might require a summary of internal audit engagements completed within a specified time period. Also, government and public sector internal audit reports may be public record based on the organization's geographic location and/or industry and may require a different approach.

The written internal audit report should be issued in a timely manner after the conclusion of the internal audit engagement and should not contain any surprises.

Writing Style Considerations

When drafting the internal audit report, readers' needs should be considered. The results should be presented in an organized way, such as placing observations in chronological order, by significance, or grouping by topic, cause, or effect/risk. To achieve this, wording that is simple and relatively free of technical jargon should be used, and sentences should be short and to the point. Charts, graphs, diagrams, tables, illustrations, and other graphics help to highlight key messages. The tone of the report should be constructive, not adversarial.

The writing style should follow the organization's protocols for written communications. Additional guidance can be found in *Internal Auditing: Assurance and Advisory Services*¹, *Sawyer's Guide for Internal Auditors*², and *Clarity, Impact, Speed: Delivering Audit Reports That Matter*.³

The Executive Summary

The stakeholders' desire to continue reading a report often depends on the impression of the executive summary, which is designed to provide a clear and concise overview of the engagement results and efficiently deliver critical information with a persuasive, well-substantiated key message to stakeholders.

The executive summary generally highlights good practices observed during the audit and any significant steps taken by management in improving the governance, risk management, and internal controls of the organization. The summary should not contain technical jargon and internal audit methodologies. Such information could be referenced in the detailed report if needed by the reader to obtain a more in-depth understanding of the information presented. The key components of an executive summary generally include:

- Introduction, objectives, scope, and engagement results.
- Conclusions for the audited activity/processes.
- A summary of significant observations or key messages.
- Concerns encountered with management, relating to establishing corrective actions, deadlines, and/or situations where the CAE concludes that management has accepted a level of risk that may be unacceptable to the organization.

¹ Kurt F. Reding, et al. Third Edition, p. 14-26

² The Institute of Internal Auditors Research Foundation (IIARF), vol. 2, pp. 238-277, 2012

³ Sally F. Cutler, The IIARF Handbook Series, 2011

Introduction and Scope of the Internal Audit Engagement

The introduction provides basic information about the entity, activity, or process audited. The scope may indicate the period covered, the type of internal audit being conducted (i.e., assurance engagement, advisory/consulting engagement, or follow-up audit), specific risks, relevant systems, and/or the departments or functions assessed.

Internal Audit Engagement Conclusions

According to Standard 2410.A1, “Final communication of engagement results must include applicable conclusions, as well as applicable recommendations and/or action plans. Where appropriate, the internal auditors’ opinion should be provided. An opinion must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.” Internal auditors’ conclusion of the condition of the audited activity/process helps the reader understand the significance of the observations. The financial impact caused by the internal control weaknesses and irregularities also can be used to convey the significance of the observations. Guidance on internal audit opinions is provided in The IIA Practice Guide “Formulating and Expressing Internal Audit Opinions.”

Summary of Significant Observations

The executive summary generally contains significant observations or key messages from the internal audit report and may also include concerns encountered with management relating to establishing corrective actions. It is often beneficial to include a dashboard that lists the findings in the form of a table, depicting the number of observations/recommendations per audited activity, according to their importance.

The key observations can be summarized in a positive manner (focus toward enhancement) or a negative manner (focus toward weaknesses). Internal audit is encouraged to acknowledge satisfactory performance when applicable and to show the trend (positive or negative) compared to prior audits of the same activity.

Repeat Observations from Previous Audits

The executive summary may include repeat observations from a previous audit. Additionally, information on action plans from previous audits that have not been completed, or have

implementation dates that have expired, may also be included. In such cases, it is beneficial to include historical information on the repeat observations and management's action plans.

Audit Report Elements

Figure 1 illustrates the process flow of audit report elements.

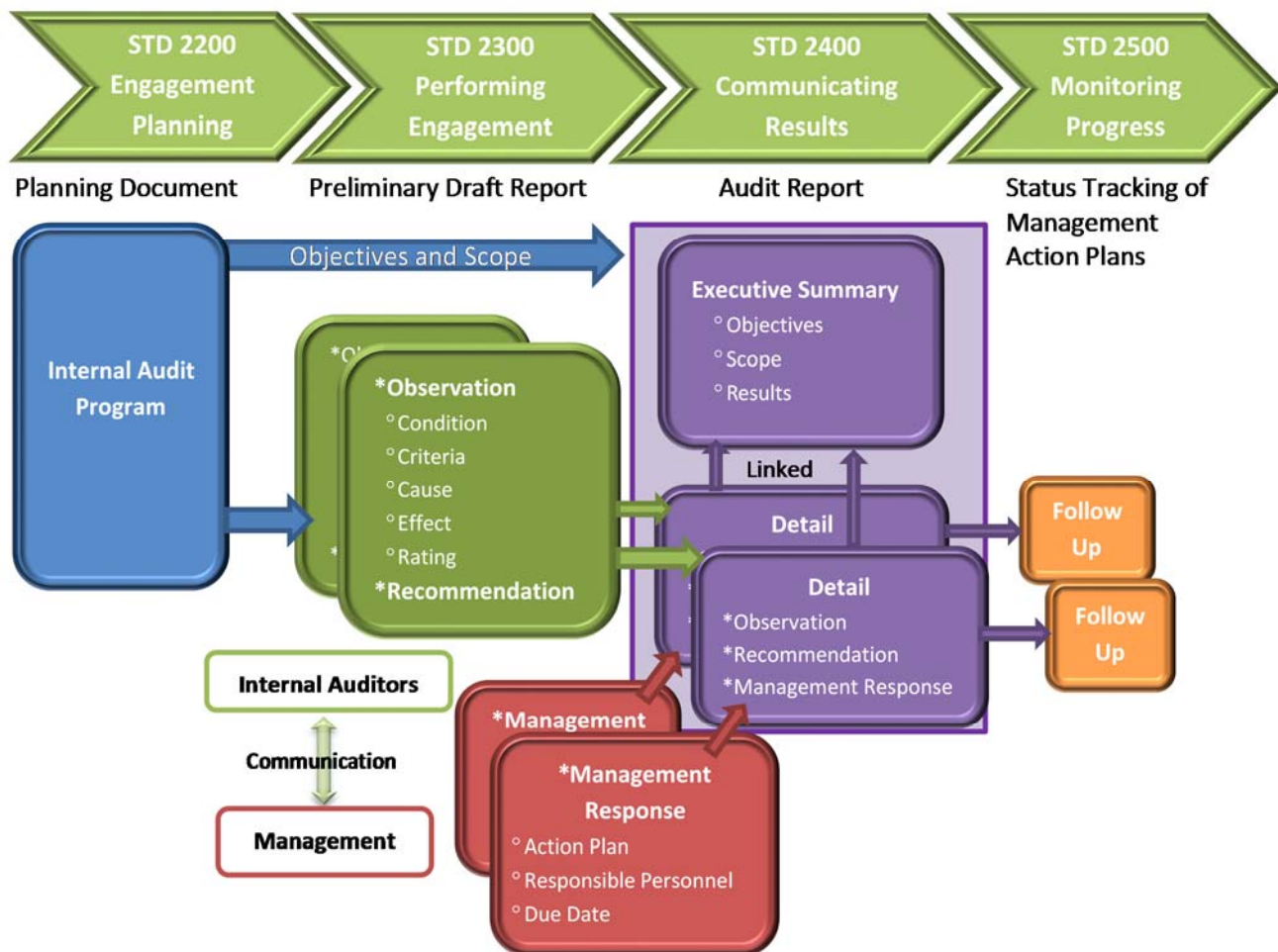


Figure 1: Information flow of audit report elements.

Objectives and Scope

The objectives and scope in the internal audit report should be consistent with the approved engagement plan. This section typically describes the audit purpose, risks, scope, and scope limitation, if any. An example is illustrated in Exhibit A, below.

Standard 2410 – Criteria for Communicating states “Communications must include the engagement's objectives, scope and results.”

Exhibit A: Example of Objectives and Scope

Objectives and Scope

The objective of our audit was to ensure adequate procedures and processes are in place to properly account for Sportsplex revenue and that all required reports were submitted by the contractor to the Parks and Recreation management.

This audit included the Sportsplex owned by the City and managed via contractor through management agreements with the City.

It did not include transactions and activities in other departments or centers under the Parks and Recreation management (scope limitation).

The audit covered revenue from Calendar Year 2015. Our fieldwork concluded on February 15, 2016.

Observations

Observations (also referred to as findings), recommendations, and management's action plans (responses) make up the core of the written internal audit report. These components enhance communication between internal auditors and stakeholders, and are linked together as illustrated in Figure 2, on page 15. The starting point used to develop the observation is “condition.” The goal is to develop a condition-based and a root cause-based recommendation/management action plan.

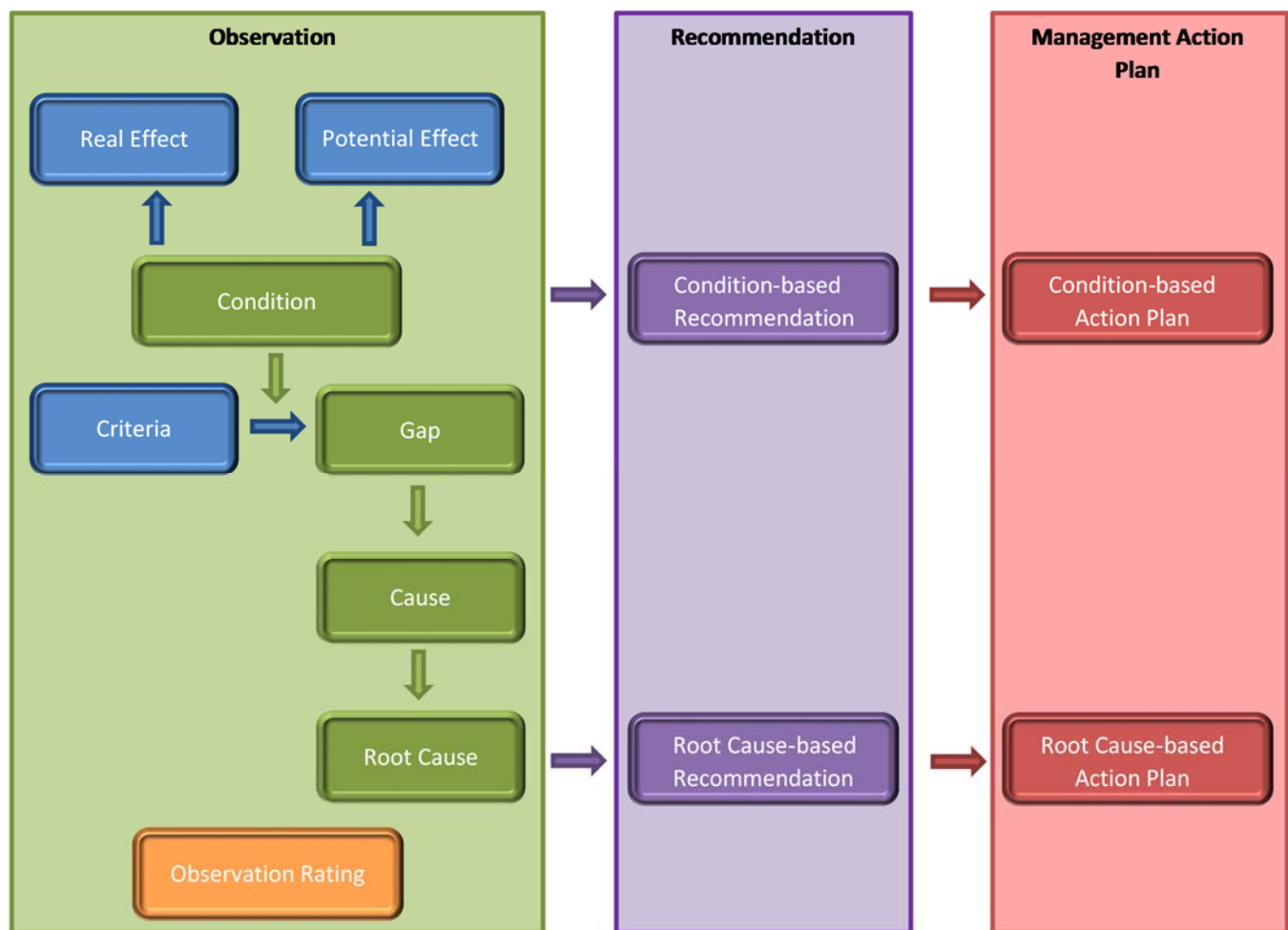


Figure 2: Observation, recommendation, and management action plan.

Root cause-based action plans are ideal, as they mitigate the underlying cause of the condition that triggered the observation. Internal auditors must understand the meaning of condition, cause, and root cause, as well as related effects and recommendations to develop root cause-based recommendations. This concept is illustrated in Figure 3, on page 16.

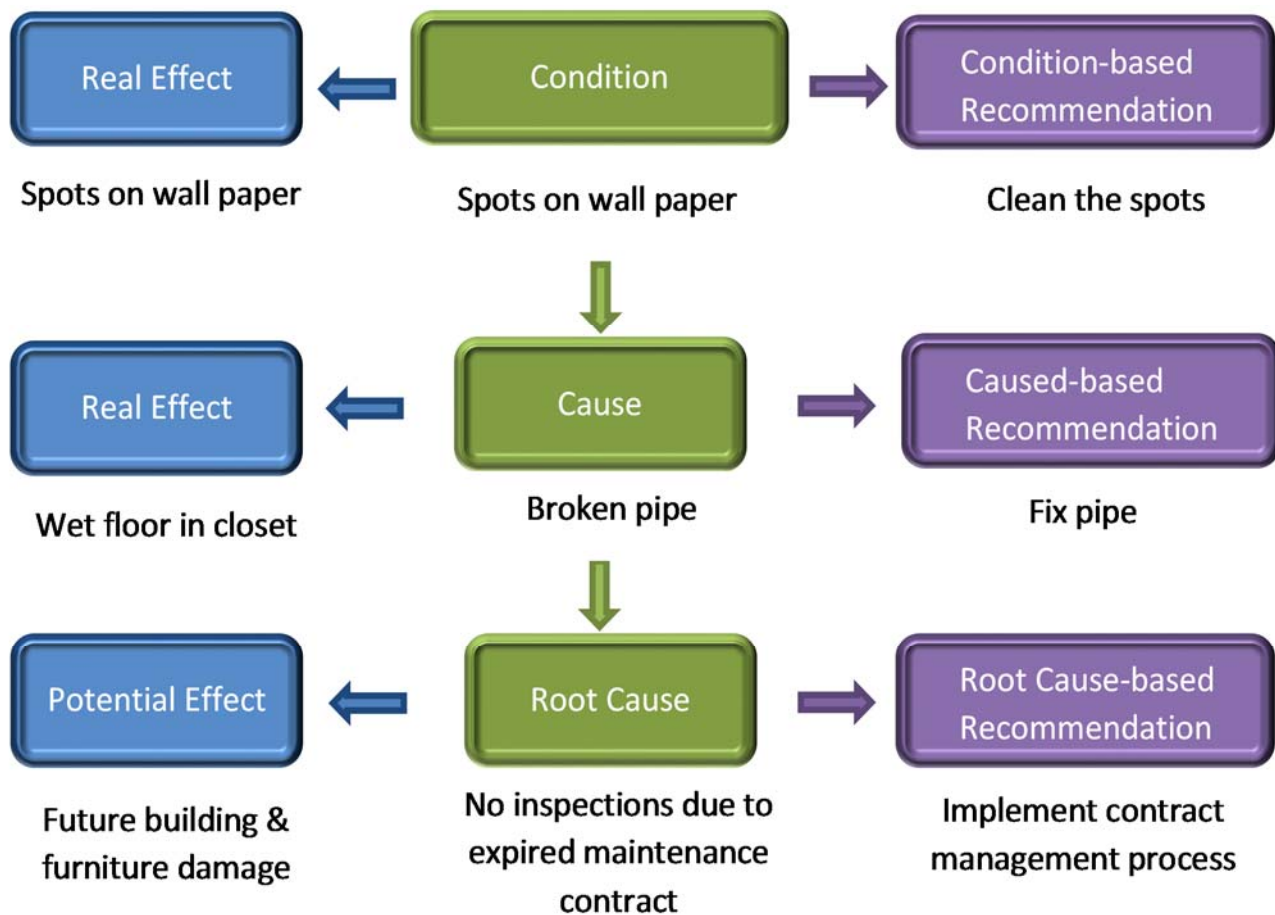


Figure 3: Examples of condition, effect, cause, root cause, and recommendation.

Observations include the condition, criteria, cause, effect, and rating. Observations should be written in such a way that the appropriate party understands and accepts internal audit's assessment of the risk, as well as its impact on organizational objectives. Observations should be supported with evidence, brief and organized, and explain in simple language how the condition compared to a set of criteria. Recommendations, explained in the next section, should provide a practical, feasible solution to mitigate the risks identified in the observations, thereby eliciting a positive response from the engagement client.

Observations include the following elements:

- **Condition:** Factual evidence identified during the course of the engagement (what does exist). Condition is the key issue the internal auditor considers, and it can be measurable or observable.
- **Criteria:** Standards, measures, or expectations used in making an evaluation and/or verification of an observation (what should exist). Criteria are used to compare and evaluate the existing condition(s) and can be written policies, procedures, laws, regulations, and/or guidelines. Criteria can also be established organizational practices, expectations based on the design of the control, and even common sense procedures that may not be formally documented and may require internal auditors' professional judgment for their evaluation.

Internal auditors must define the suitable criteria, or the benchmark against which the audited activity will be assessed (refer to Standard 2210.A3 for additional guidance). Choosing the appropriate criteria enables the internal auditor to reach suitable conclusions and consequently provide meaningful assurance to senior management and the board. Examples of appropriate criteria may include:

- Internal (e.g., policies and procedures).
- External (e.g., laws and regulatory requirements).
- Leading practices (e.g., industry best practices, professional guidance, key performance measures).

To define criteria suitable for the internal audit, it is important to take into consideration the engagement objectives, which are established by internal audit, based on a risk assessment of the activity under review (refer to Standard 2210 – Engagement Objectives).

- **Cause:** Underlying reason for the difference between the criteria and condition (why the difference exists). It answers the questions “what allows the condition to exist?” and “why did the condition occur?” It is essential that internal audit work with management to identify the root cause of the gap.

Merely fixing the issue does not address what caused the issue to exist and does not improve the overall governance, risk, and control environment. Finding and appropriately addressing the root cause will reduce (and optimally eliminate) the future recurrence of the condition.

- **Effect:** Risk or exposure encountered because the condition is not consistent with the criteria (the consequence of the difference). In determining the degree of risk or exposure, internal auditors consider the effect that the engagement observations may have on the organization’s operations and/or financial reporting process. Effects can be existing or potential.
 - Existing (real) effects are factual and seen as a result of the condition.
 - Potential effects are exposures where no real effect has yet occurred or been found.

In addition to the internal auditors’ observations and recommendations, the identified risks should be documented in the audit report, along with the impact, to provide clarity of the issue to the engagement client and stakeholders.

- **Rating:** Component of the conclusion. It can be an effective communication tool for delivering the significance of each observation and could assist management with prioritizing their action plans, and internal auditors with prioritizing follow-up. Consideration of the individual observation ratings within the report generally impacts the overall engagement conclusion (as mentioned above in the section entitled “Internal Audit Engagement Conclusions”). When ratings are used, rating criteria should be clearly defined and consistently applied across all internal audit reports for assurance engagements.

For an example of communicating observations, see Exhibit B, on page 19.

Exhibit B: Example of Observations

1: Revenue Under-reported

Rating: Low

Observation

The 2015 annual report of revenue generated at the Sportsplex did not include concession revenue and revenue from a partnership, RUSH Soccer, totaling \$242,890. Per the management agreements with the contractor, the contractor is required to submit an itemized report setting forth the amount of all gross revenue received by the contractor (Manager) for the previous calendar year and to be certified by the chief financial officer or chief executive officer of the contractor as to the accuracy thereof. The itemized report is to include concessions and any other revenue received by the contractor. As revenues were far from the revenue sharing threshold levels (\$850,000 for the Sportsplex), the revenue reporting process was rather informal and sense of accuracy was not high. Therefore, the annual report of revenue was incomplete and under-reported for the calendar year.

The management agreement requires concessions to be reported using the largest of 25% of actual concession revenue or the projected concession revenue.

Recommendations

Recommendations are internal auditors' suggestions for correcting conditions, and identifying the cause to prevent recurrence (or the creation of new conditions). Recommendations provide an efficient and effective way to address the gaps identified between condition and criteria. Recommendations are divided into two categories — a combination of condition and root-cause based recommendations may be appropriate, depending upon the particular observation.

- **Condition-based recommendations:** Provide an interim solution for correcting the current condition (e.g., removing inappropriate access).
- **Cause-based recommendations:** Actions needed to prevent the condition/observation from occurring again. Root cause-based recommendations are typically longer-term

solutions and may involve more time (e.g., creating and implementing an access review policy).

While many internal audit activities include recommendations in the draft report, recommendations may be changed to agreed action if aligned with management's action plans. For an example of communicating recommendations, see Exhibit C, below.

Exhibit C: Example of Recommendations

Recommendation

Parks and Recreation management should:

- 1.1 Develop a template for the contractor to use for submitting the annual itemized revenue report that would include all revenue, especially concessions and sponsorships.
- 1.2 Review the annual itemized revenue report submitted by the contractor to ensure completeness and reasonableness of amounts reported. Any discrepancies should be immediately resolved with the contractor.

Management Action Plans

In accordance with Standard 2410.A1, recommendations and/or action plans must be included in the final communication of engagement results. Actions that were initiated by management during the internal audit engagement, but before the issuance of the written report, can be acknowledged in the final engagement communication.

Action plans arising from internal auditors' recommendations have the potential to transform business processes and help the organization meet its goals. Action plans are effective when designed and executed in a way that addresses the root cause. Validation with the engagement client of the action plan(s) is important to assure issues are effectively and efficiently addressed, while maintaining alignment with the organization's objectives. Although internal auditors may be experts in governance, risk management, and internal controls, they

cannot assume managerial responsibility for the action plans, or claim to understand the business better than the engagement client.

A good practice is to create a preliminary draft report (also referred to as an audit memorandum, observation worksheet, or audit comment referral) as a tool for communicating with senior and line management to enhance the engagement process. It could include a draft of the condition, criteria, cause, effect, and recommendations. Such a report can assist in starting a constructive discussion for finding reasonable solutions (agreed actions), even at early stages of the internal audit engagement. If the conditions are critical, management may be able to address the conditions before other areas of the organization are impacted.

Working collaboratively with the internal auditors, management provides action plans based on internal audit's observations and recommendations, including:

- **Agreed action:** The actions that will be taken by management to correct the current condition and causes, thereby preventing future reoccurrence. Generally, management's action plans correlate with internal audit's recommendations. If management disagrees with the observation or facts identified by internal audit, further details can be provided to reach agreement or a sound explanation should be provided by management for discussion and resolution.
- **Responsible personnel:** Identifies the person or group responsible for the action. This may be the activity/process owner, manager, or senior management.
- **Due date for action plan:** Target date for completing the action plan. The CAE should ensure the proposed timeline is appropriate based on the level of risk.

If the CAE encounters concerns with management when establishing corrective actions and deadlines and is unable to resolve the concerns after escalation to senior management, it is appropriate to discuss the concerns and resolution with the board. These concerns might pertain to the sufficiency of management's action plan, the deadline for action, or the classification or description of the observation. An example of communicating management's action plans is shown in Exhibit D, on page 22.

Exhibit D: Example of Management's Action Plans

Action Plan

- 1.1 A template has been developed and communicated to the contractor requiring its use to submit revenue reports including all revenue.
- 1.2 The Director of Parks and Recreation will review annually all revenue reports submitted by the contractor.

Responsible Personnel

Director of Parks and Recreation

Due Date

April 15, 2016

Report Review Process

As noted in Standard 2440 – Disseminating Results, the CAE is responsible for reviewing and approving the final engagement communication before issuance. This is an important step to assure work was performed properly and recommendations align with the organization's business objectives.

The CAE reviews and approves the final engagement communication before issuance and decides to whom and how it will be disseminated so results are given due consideration. Although the review process will vary depending on the size of the internal audit activity, the CAE (or designee) should establish a review process for validating report observations. Depending on the size of the internal audit staff, the review process may include the following steps:

- Review engagement records to ensure:
 - The work performed is consistent with the audit scope, engagement objectives, and *Standards* (when claiming conformance).
 - Observations and recommendations are clearly stated and supported by sufficient, reliable, relevant, and useful evidence.
- Draft the internal audit report with cooperation from the internal audit team.
- Validate the draft report and forward to the CAE (or designee) for review.
- The CAE (or designee) reviews the draft report and returns the report to the internal audit team if there are issues requiring clarification.
- The CAE (or designee) authorizes communication of observations to management for feedback before issuance of the final written internal audit report.
- Upon review and agreement with management's action plans and target completion dates, the CAE (or designee) authorizes issuance of the final written internal audit report.
- The CAE retains overall responsibility for the final engagement communication, even when delegating review responsibilities.

Communicating Results

An integral and important part of the internal audit engagement is the presentation of the work performed and the derived results. Consequently, careful preparation is required as the final audit engagement communication exhibits the work of internal auditors to senior management, the board, and other stakeholders, and can also be used as a reference for future assurance and/or consulting engagements. As noted in Standard 2440.A1, “The chief audit executive is responsible for communicating the final results to parties who can ensure the results are given due consideration.”

Presenting Engagement Results – Types of Communication

There are *Standards* requirements regarding communicating results (refer to: Standard 2410 – Criteria for Communicating, and Standard 2420 – Quality of Communications). However, there is no definitive model required for the presentation of internal audit engagement results and/or

written audit reports. Organizations use many varying formats; but, general guidelines are applicable for most presentations and reports. Such presentations and/or reports should:

- Ensure the engagement's objectives, scope, and results are included.
- Be clear, concise, and easy to read and/or understand.
- Contain accurate and complete information that is presented objectively, constructively, and timely.
- Ensure conclusions and engagement results are supported by sufficient, reliable, relevant, and useful information based on appropriate analyses and evaluations.
- Link the objective of the work performed with the organization's strategic objectives.
- Identify and analyze the root cause of the issues to support the recommendations and actions plans that enhance the business (when applicable).

The means by which final internal audit engagement results and reports are distributed can also vary; however, they are generally sent through secure email transmission. Oral presentations in particular during discussion of the observations and recommendations with the engagement client's management, are generally presented with the use of hard copy or printouts.

An audit report template is provided in Appendix C and simplified audit report examples are provided in Appendix D.

Follow-up Actions Planned by Internal Audit

According to Standard 2500 – Monitoring Progress, “The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.” If agreed-upon action plans are not acted on by management, there is little value of the internal audit engagement's results to the organization. In accordance with Standard 2500.A1, the chief audit executive must have a monitoring process in place to validate action plans are

implemented effectively or confirm that senior management has accepted the risk of not taking action.

The follow-up on the action plan is performed by the internal audit activity. A best practice is to create a tracking spreadsheet or system, including the audit observation, action plan, responsible personnel, and target completion dates. As corrective actions are completed, the audit observation is closed; an aging analysis is generated for all opened and past due observations; and communication takes place with management as needed. The tracking and aging analysis is also a good tool to share with senior management and the board.

Follow-up activities can be performed at specific time intervals, or on an ongoing basis. When performed at specific time intervals, the CAE may schedule specific assignments in the annual internal audit plan to perform a follow-up for incomplete or expired action plans from the previous year(s). When follow-up activities are performed on an ongoing basis, the follow-up process is usually performed monthly or quarterly and consists of three elements: collecting information; verifying the completion of the action plan; and reporting results to the engagement client, senior management, and periodically to the board (under certain circumstances, reporting to regulators may be required as well).

- **Collecting information:** Internal auditors charged with the follow-up process must collect information from management regarding the status of action plans (i.e., those action plans that are completed, those that are in process, and those that are not yet implemented — partially or in total — and those that are overdue).
- **Verifying completion of action plans:** For action plans reported by management as implemented, internal auditors should verify that the observations and associated risks originally raised are appropriately mitigated. Verification may be performed for all completed action plans or on a selective basis, depending on the risk significance.
 - In cases where management determines certain action plans are no longer necessary, the CAE must discuss the matter with senior management. The CAE must communicate to the board if the matter is not resolved (refer to Standard 2600 – Communicating the Acceptance of Risks).

There are several tools in the market that facilitate the follow-up process, allowing internal audit to utilize workflow from risk assessment, to report delivery, to action plan follow-up. As an example, workflow could allow the sending of automatic emails when an action plan is nearing its target completion date. Internal auditors should not lose focus that the main objective of the follow-up process is to validate that the agreed-upon actions have been implemented and are working effectively.

Appendix A: Key IIA Standards

The International Professional Practices Framework (IPPF) outlines the following *International Standards for the Professional Practice of Internal Auditing* pertaining to communicating audit results.

IIA Standard 2210: Engagement Objectives

Objectives must be established for each engagement.

2210.A3: Adequate criteria are needed to evaluate governance, risk management, and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must identify appropriate evaluation criteria through discussion with management and/or the board.

Interpretation

Types of criteria may include:

- *Internal (e.g., policies and procedures of the organization).*
- *External (e.g., laws and regulations imposed by statutory bodies).*
- *Leading practices (e.g., industry and professional guidance).*

IIA Standard 2400: Communicating Results

Internal auditors must communicate the results of engagements.

IIA Standard 2410: Criteria for Communicating

Communications must include the engagement's objectives, scope, and results.

2410.A1: Final communication of engagement results must include applicable conclusions, as well as applicable recommendations and/or action plans. Where appropriate, the internal auditors' opinion should be provided. An opinion must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

Interpretation

Opinions at the engagement level may be ratings, conclusions, or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk, or business unit. The formulation of such opinions requires collaboration of the engagement results and their significance.

2410.A2: Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

IIA Standard 2420: Quality of Communications

Communications must be accurate, objective, clear, concise, constructive, complete, and timely.

Interpretation

Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. Constructive communications are helpful to the engagement client and the organization and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

IIA Standard 2430: Use of “Conducted in Conformance with the *International Standards for the Professional Practice of Internal Auditing*”

Indicating that engagements are “conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*” is appropriate only if supported by the results of the quality assurance and improvement program.

IIA Standard 2440: Disseminating Results

The chief audit executive must communicate results to the appropriate parties.

Interpretation

The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and for deciding to whom and how it will be disseminated. When the chief audit executive delegates these duties, he or she retains overall responsibility.

2440.A1: The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

2440.A2: If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization, the chief audit executive must:

- Assess the potential risk to the organization.
- Consult with senior management and/or legal counsel as appropriate.
- Control dissemination by restricting the use of the results.

IIA Standard 2500: Monitoring Progress

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

2500.A1: The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

IIA Standard 2600: Communicating the Acceptance of Risks

When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

Interpretation

The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.

Appendix B: Glossary⁴

Assurance services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

Board

The highest level of governing body (e.g. a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organization's activities and hold senior management accountable. Although governance arrangements vary among jurisdictions and sectors, typically the board includes members who are not part of management. If a board does not exist, the word "board" in the *Standards* refers to a group or person charged with governance of the organization. Furthermore, "board" in the *Standards* may refer to a committee or another body to which the governing body has delegated certain functions (e.g., an audit committee).

Chief Audit Executive (CAE)

Chief audit executive describes the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. The CAE or others reporting to the CAE will have appropriate professional certifications and qualifications. The specific job title and/or responsibilities of the CAE may vary across organizations.

Consulting services

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve the organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

⁴ <https://global.theiia.org/certification/Public Documents/Glossary.pdf>

Engagement

A specific internal audit assignment, task, or review activity, such as internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

Engagement objectives

Broad statements developed by internal auditors that define intended engagement accomplishments.

Engagement opinion

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.

Internal audit activity

A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Appendix C: Audit Report Template

Executive Summary

Objectives:

Specific objectives of the internal audit engagement which relate to the engagement client's objectives.

Scope:

Scope of the engagement in relation to the objectives as mentioned above. Scope and objectives should be in line with the relevant standards.

Background:

Background information pertinent to the activity under review.

Conclusion:

A summary of outcomes of the engagement as well as a conclusion on the audit objectives.

Internal Audit Opinion:

An audit opinion on the risk and control environment of the process under review.

Management Response:

A detailed action plan will be developed by management to address the engagement observations.

Details of the Review

1. OBSERVATION NAME (Risk Impact)

Description	Description of observation, i.e., current situation within the process being reviewed and explanation of the standards against which the observation is measured (Condition, Criteria)
Cause	State the underlying reason for the difference between the criteria and condition
Effect/Risk	Identify the risks or exposure due to the condition not being consistent with the criteria
Recommendation / Agreed Action	Corrective action required to address the gap between the criteria and condition
Responsible Person	Person responsible for the action
Due Date	Target date for completing the action

2. OBSERVATION NAME (Risk Impact)

Description	Description of observation, i.e., current situation within the process being reviewed and explanation of the standards against which the observation is measured (Condition, Criteria)
Cause	State the underlying reason for the difference between the criteria and condition
Effect/Risk	Identify the risks or exposure due to the condition not being consistent with the criteria
Recommendation / Agreed Action	Corrective action required to address the gap between the criteria and condition
Responsible Person	Person responsible for the action
Due Date	Target date for completing the action

Appendix D: Audit Report Examples

On the following pages are two simplified audit report examples that show how audit report components could be included in a written internal audit report:

- The first example is of an audit report for City Parks and Recreation Department.
- The second example is an audit report for ABC Unlimited.

Purpose

The purpose of this audit was to ensure compliance of the contractor with the Sportsplex contract terms with a focus on payments due from the Contractor to the City. This audit was requested by department management through the annual risk assessment process performed by the City Auditor's Office.

Objectives and Scope

The objective of our audit was to ensure adequate procedures and processes are in place to properly account for Sportsplex revenue and that all required reports were submitted by the contractor to the Parks and Recreation management.

This audit included the Sportsplex owned by the City and managed via contractor through management agreements with the City.

The scope did not include transactions and activities in other departments or centers under the Parks and Recreation management (scope limitation).

The audit covered revenue from Calendar Year 2015. Our fieldwork concluded on February 15, 2016.

Acknowledgements

We would like to thank the management and staff of the Parks and Recreation Department and the management of Hometown Sports Management for their courteous and prompt assistance during our audit.

Conclusion

Overall, based on the results of our audit, the contractor, Hometown Sports Management, has complied with the terms of the Management Agreement with the City over the Sportsplex. We do note the revenue reporting process can be enhanced to improve accountability by implementing our recommendations related to the reporting all revenue and the submission of required management reports to the City.

Background

In April 2009, the City executed two contracts (Management Agreements) with Hometown Sports Management (HSM), LLC for a 16-year lease term to 2025. HSM is responsible for the supervision, management, and routine maintenance and repairs of the facilities and parking lots. HSM is also responsible to conduct at least 35 events per calendar year at each facility. Parks and Recreation provides the agreement administration and management. Among the terms of the contracts is the requirement that HSM will share 5% of annual gross revenue above \$850,000 for the Sportsplex with the City.

Observations and Recommendations

1: Revenue Under-reported

Rating: Low

Observation

The 2015 annual report of revenue generated at the Sportsplex did not include concession revenue and revenue from a partnership, RUSH Soccer, totaling \$242,890. Per the management agreements with the contractor, the contractor is required to submit an itemized report setting forth the amount of all gross revenue received by the contractor (Manager) for the previous calendar year and to be certified by the chief financial officer or chief executive officer of the contractor as to the accuracy thereof. The itemized report is to include concessions and any other revenue received by the contractor. As revenues were far from the revenue sharing threshold levels (\$850,000 for the Sportsplex), the revenue reporting process was rather informal and sense of accuracy was not high. Therefore, the annual report of revenue was incomplete and under-reported for the calendar year.

The management agreement requires concessions to be reported using the largest of 25% of actual concession revenue or the projected concession revenue.

Recommendation

Parks and Recreation management should:

- 1.1 Develop a template for the contractor to use for submitting the annual itemized revenue report that would include all revenue, especially concessions and sponsorships.
- 1.2 Review the annual itemized revenue report submitted by the contractor to ensure completeness and reasonableness of amounts reported. Any discrepancies should be immediately resolved with the contractor.

Action Plan

- 1.3 A template has been developed and communicated to the contractor requiring its use to submit revenue reports including all revenue.
- 1.4 The Director of Parks and Recreation will review annually all revenue reports submitted by the contractor.

Responsible Personnel

Director of Parks and Recreation

Due Date

April 15, 2016

2: Reported Revenue does not meet Projected Revenue

Rating: Low

Observation

The revenue during the 2015 calendar year did not meet the projected revenue stated in the management agreements with the contractor. The contractor stated that the combination of the downturn in the economy and the departure of the City's baseball team were some key factors impacting revenues. As a result, revenue realized fell short of the revenue sharing threshold.

Recommendation

Parks and Recreation management should:

- 2.1 Continue to work with the contractor to ensure the Sportsplex facility realizes maximum revenue potential.

Action Plan

- 2.1 A process is being developed to provide insight to how the contractor is being managed. A report will be created to submit to the Director of Parks and Recreation for quarterly review.

Responsible Personnel

Director of Parks and Recreation

Due Date

April 15, 2016

ABC Unlimited Internal Audit
Internal Audit report
29 April 2016
Treasury Function Audit

Objectives and Scope

The audit covered the treasury function of ABC Unlimited. The scope included evaluating the following processes: electronic bank account access administration, bank account reconciliation, bank and general ledger accounts monitoring and reporting, daily borrowing requirements, and credit line availability.

Process / assessment

Treasury Function – Red

Background

The treasury function experienced an unusually high turn-over rate in FY2015. Treasury management was not fully staffed which created a lack of segregation of duties.

Opinion

The audit was rated Red due to significant issues identified with the contract management process.

Additional opportunities for improvement were noted in management of bank account access and the monthly bank reconciliation process.

We would like to thank management for its positive attitude and the support we received during our work.

Summary of observations

Ref	Title	Criticality
A.1	Insufficient Contract Management Process	Critical
A.2	Bank Account Access Controls Lacking	Significant
A.3	Inadequate Bank Reconciliation Process	Significant

Response

*Francis Financial and Miguel Money should provide an update by **30 May 2016**. The “Latest update” of the response section should be completed for this purpose.*

ABC Unlimited Internal Audit
Internal Audit report
29 April 2016
Treasury Function Audit

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSE

Reference	(A.1) Insufficient Contract Management Process
Criticality	Critical
<p>Observation</p> <p>Formal documentation regarding the contract expiration tracking and renewal process, as well as ABC Unlimited's responsibilities with regard to this process, could not be provided at the time of this audit.</p> <p>While the credit line contract appears to have been renewed at the expiration of the previous term, should those currently involved in the renewal process be unavailable for future renewals, access to the company's credit line through the bank could be at risk.</p>	
<p>Recommendation</p> <p>Management should formally document the process for tracking the credit line contract expiration and renewal process through use of Standard Operating Procedure (SOP) documents.</p> <p>Appropriate personnel should be tasked with tracking contract expiration, coordinating internal contract renewal processes, and maintaining and archiving documentation as necessary. Additionally, it is recommended that SOPs be reviewed and updated at least annually.</p>	
<p>Planned action</p> <p>In CY2017, the Company will be updating its Strategic Plan, which will be the catalyst and framework for developing our strategic financial plan, which will define, among other things, target capital structure, sources of capital, funding requirements over the next three years, and the like. On this basis we will then engage the bank in advance (typically one year ahead) of the expiration of our current facility, to begin planning for the marketing and execution of our new facility.</p>	
Responsible	Francis Financial, CFO
Target date	01 December 2016
Latest update	

ABC Unlimited Internal Audit
Internal Audit report
29 April 2016
Treasury Function Audit

Reference	(A.2) Bank Account Access Controls Lacking
Criticality	Significant
<p>Observation</p> <p>Control deficiencies were identified related to bank account access as follows:</p> <p>Terminations of employment and position transfers for users with bank account access are not communicated to bank account security administrators as 20.9% (9 out of 43) of users with bank account access were terminated or transferred without adjustments being made to their account access privileges. A user was also given access to generate reports for a bank account the user had no business reason to access.</p> <p>Additionally, it is not currently the practice of ABC Unlimited to recover the bank access account tokens upon termination of employment or transfer to a new position. This combination of factors could result in unauthorized access to company accounts as terminated associates or associates transferring to new positions retain both the system login credentials and bank access token required to access company accounts.</p> <p>While the accounts where terminated or transferred associates retained access were not accounts where company funds could be directly funneled outside the organization, those with access could process unauthorized fund pulls from customer accounts. This could result in losing customer accounts and reduced customer confidence in the organization.</p>	
<p>Recommendation</p> <p>Management should establish a process where Treasury is notified immediately when associates with bank account access are terminated or transferred to new positions within the organization. This will help reduce the risk of unauthorized account access and will aid Treasury in maintaining bank access entitlements.</p> <p>A review of the bank access entitlements of all users should be performed annually.</p>	
<p>Planned action</p> <p>Management agrees there needs to be greater communication between Treasury, Credit and Human Resources to ensure that all employees with banking access are current employees with roles in the AR/Credit area. Treasury will establish a one over one (preparer and approver) control process to review current users on a quarterly basis and will establish a practice of turning over their token ID to their supervisor at their respective location.</p>	
Responsible	Miguel Money, Controller
Target date	30 June 2016
Latest update	

ABC Unlimited Internal Audit
Internal Audit report
29 April 2016
Treasury Function Audit

Reference	(A.3) Inadequate Bank Reconciliation Process
Criticality	Significant
<p>Observation</p> <p>Monthly reconciliations were not being completed regularly and completely.</p> <p>Upon review of the bank account reconciliations, the following issues were noted:</p> <ul style="list-style-type: none"> • 75% (12 of the 16) reconciliations did not contain the date the reconciliation was completed. • 19% (3 of the 16) reconciliations contained only a screen print of account balances but were not reconciled against bank data. • 81% (13 of the 16) reconciliations were not reconciled one or more months within the current fiscal year. • 31% (5 of the 16) reconciliations contained unreconciled balances aged greater than 30 days. <p>By not completing monthly reconciliations regularly, inaccuracies, errors, fraud, or other issues may go undetected.</p> <p>It was also noted that the Manager Treasury Operations performs many of the organization's bank account reconciliations. Proper segregation includes separation of custody, recording, and reconciliation responsibilities. As the Manager Treasury Operations is the administrator for the organization's bank accounts with direct access to company funds, duties are not adequately segregated within the Treasury function (both custody and reconciliation responsibilities).</p>	
<p>Recommendation</p> <p>Management should ensure reconciliations are performed each month and that reconciling items are resolved within 30 days of being identified. This will help ensure that bank and account accuracy is properly maintained.</p> <p>The responsibilities of custody and reconciliation of company funds must be segregated. This can be achieved by giving the bank account reconciliation responsibilities to an associate without bank account access. Segregating these responsibilities will help ensure that fraud risk is better controlled within the organization.</p>	
<p>Planned action</p> <p>Management agrees that monthly bank reconciliations as well as the resolution of any outstanding issues are important in fraud prevention. A project is currently in process for the</p>	

ABC Unlimited Internal Audit**Internal Audit report****29 April 2016****Treasury Function Audit**

cash deposit accounts to better establish procedures and processes to ensure that the daily cash applications result in a more timely and seamless reconciliation.

Management realizes the importance of segregation of duties in regard to the Manager of Treasury reconciling accounts as well as having administrative rights over accounts. However, given the number of people in the department with three of the four employees being cash application employees, it is difficult to have true segregation of duties but more of a preparer/reviewer process. Management recommends documenting the reconciliation process and will train employees to perform reconciliations on the deposit accounts only. All reconciliations will have a final review process performed and signed off and dated by the Director of Financial Shared Services , as well as having all reconciling items and disputes resolved within 30 - 45 business days after the end of the month.

Responsible	Miguel Money, Controller
Target date	15 July 2016
Latest update	

Staffing and timing

ABC Unlimited Audit Team:

Closing presentation: The closing presentation was held on 15 April 2016.

Distribution

Board members:

External auditors:

Francis Financial, CFO

Miguel Money, Controller

Susie Smarty, CAE

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