

## CHAPTER V

## REPORTING THE RESULTS OF THE AUDIT ENGAGEMENT

***IIA Standard 2400 - Communicating Results***

*Internal auditors must communicate the engagement results.*

***IIA Standard 2410 - Criteria for Communicating***

*Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.*

***IIA Standard 2410.A1*** *Final communication of engagement results must, where appropriate, contain the internal auditors' opinion and/or conclusions. When issued, an opinion or conclusion must take account of 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 consideration of the engagement results and their significance.*

***IIA Standard 2410.A2*** *- Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.*

***IIA Standard 2410.A3*** *- When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.*

***IIA Standard 2420 - Quality of Communications***

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

***IIA Standard 2421 - Errors and Omissions***

*If a final communication contains a significant error or omission, the Chief Internal Audit must communicate corrected information to all parties who received the original communication.*

***IIA Standard 2430*** *- Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing"*

*Internal auditors may report that their engagements are "conducted in conformance with the International Standards for the Professional Practice of Internal Auditing" only if the results of the quality assurance and improvement program support the statement*

***IIA Standard 2431 - Engagement Disclosure of Nonconformance***

*When nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the Standards impacts a specific engagement, communication of the results must disclose the:*

- *Principle or rule of conduct of the Code of Ethics or Standard(s) with which full conformance was not achieved;*
- *Reason(s) for nonconformance; and*
- *Impact of nonconformance on the engagement and the communicated engagement results.*

**IIA Standard 2440 – Disseminating Results**

*The Chief Internal Audit must communicate results to the appropriate parties.*

**IIA Standard 2440.A1 – The Chief Internal Audit is responsible for communicating the final results to parties who can ensure that the results are given due consideration**

## 1. Introduction

1.1 The purpose of the Internal Audit Report is to communicate to the Chief Executive and senior managers the results of the audit engagement. In order to achieve its purpose, the report must be:

- (i) **Accurate** - free from errors and distortions and based on underlying facts.
- (ii) **Objective** - fair, impartial and in an unbiased tone based on a balanced assessment of all relevant facts and circumstances, noting where management has taken actions to correct deficiencies and pointing out exemplary performance.
- (iii) **Clear and logical** - providing all significant and relevant information and avoiding unnecessary technical language to support conclusions and recommendations.
- (iv) **Concise** - to the point and avoid unnecessary elaboration, superfluous detail, redundancy and wordiness. Only significant matters are brought to the report. Other issues should be dealt with through Management Letters and other communications.
- (v) **Constructive** - helpful to the Auditee and the organization and lead to improvements where needed.
- (vi) **Timely** – opportune and expedient and allows appropriate corrective action to be taken early.

1.2 In order to convince Management to accept the audit findings and recommendations care should be taken to present the evidence in a persuasive manner without compromising the attributes outlined in the earlier paragraph. Internal Auditors should, in addition to the Internal Auditing Standards, also review IIA's Practice Advisory 2410-1: Communication Criteria, which provides guidance on reporting.

## 2. Form of Internal Audit Report in the IAS

2.1 In order to be in conformity with the auditing standards and also ensure that there is a fair degree of uniformity within the IAS, the audit report should include the following elements:

Report Section	Contents
<b>1. Executive Summary</b>	<p>An Executive Summary (ES) will not be required if the report is less than 5 pages.</p> <p>ES should be kept to no more than two pages, and include the following:</p> <ul style="list-style-type: none"> <li>(i) A brief description of the audit objectives, and scope.</li> <li>(ii) The reason why the audit was performed – e.g. prioritization based on risk assessment or special request etc.</li> <li>(iii) Reference to audit standards.</li> <li>(iv) Audit approach and criteria used.</li> <li>(v) Main findings may be presented in bullet form with reference to paragraphs in main report. Should include findings with respect to key risks and controls, governance, opportunities to improve efficiency and effectiveness, proper use of resources and fraud prevention.</li> <li>(vi) Refer to the number of recommendations made and number accepted by Management. In cases where recommendations are not accepted, brief mention of contents and why it is still relevant.</li> <li>(vii) List the audit recommendations and the management response. If there are many recommendations, then consider having them listed in an Annex to the ES. Where a recommendation is not accepted, then state why it is still relevant to the organization.</li> <li>(viii) A brief conclusion – on the significance of findings and impact on the organization. Refer to IIA Standard 2401-A1.</li> </ul>

MAIN REPORT	
<b>Contents and index page (only if report is more than 20 pages)</b>	Show all major sections of report for easy reference. Include all annexure to the report.
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<b>1. Introduction</b>  <b>1.1 Purpose of Audit.</b>	<p>Mention the audit objectives in general without having to repeat verbatim the audit objectives. Mention that detail objectives are mentioned in Section 4.</p> <p>Explain the reasons for the audit - how the audit came to be selected. A brief description of the main objectives of the audit.</p>
<b>1.2 Scope of Audit</b>	<p>A description of:</p> <ul style="list-style-type: none"> <li>(i) The program, activity, issue, organization, or system examined and its place within the Ministry.</li> <li>(ii) Any exclusion, if necessary, so as to make it clear what area was covered by the audit.</li> <li>(iii) The period covered by the evidence examined</li> </ul>

<p><b>1.3 Methodology or Approach</b></p>	<p>Describe briefly how the audit was conducted, such as:</p> <ul style="list-style-type: none"> <li>(i) Interviewing responsible staff to identify risks and controls.</li> <li>(ii) Collecting evidence through tests and review of files and documents.</li> <li>(iii) Evaluating evidence to determine risks.</li> <li>(iv) Timing of the Audit – when it was done.</li> <li>(v) Extent of consultation with Management staff on findings and recommendations.</li> </ul>
<p><b>2. Background</b></p>	<p>Provide a brief description of the important aspects of the program, activity, issue, organization, or system examined – This should include its main objectives, budget and staff resources, prior significant history, recent organizational changes, parliamentary and External Auditors concerns if any.</p>
<p><b>3. Prior Audits</b></p>	<p>Mention when both the Internal and External Auditors last audited the area and whether all the recommendations have been implemented.</p>
<p><b>4. Observations and Recommendations</b></p>	<p><i>Each audit objective should be dealt with separately in one sub- paragraph as indicated below. All the objectives in the Engagement Plan and Audit Programme should be covered.</i></p>
<p><b>4.1 Objective 1</b></p>	<ul style="list-style-type: none"> <li>(i) <b>Condition</b> – brief description of each of the significant observation and how these were found – by interview, observation, tests (random or judgmental samples) etc.</li> <li>(ii) <b>Criteria</b> – the expected standard used to measure the condition.</li> <li>(iii) <b>Cause</b> - of the condition, lack of adequate control, supervision, inadequate or unclear regulations, rules and procedures etc.</li> <li>(iv) <b>Effect</b> – What will be the risk or the impact on the organization if the condition - the root cause, is not eliminated. If possible the impact should be quantified based on the tests conducted and the basis for quantification stated.</li> <li>(v) <b>Recommendation</b> - what should management do to remove root cause. Each recommendation must be numbered for follow up purposes.</li> <li>(vi) <b>Management response to recommendation</b> - agreed or not agreed and if not agreed, why. When the recommendation is agreed to then state if the action plan to address the root causes are adequate. Reservations and concerns with respect to both should be highlighted in the report.</li> </ul>
<p><b>4.2 Objective 2</b></p>	<p>Same as above for 4.1</p> <p>Where feasible, two objectives could be combined into one if the evidence used is mostly the same and it enables better understanding. Also if there are common recommendations for a number of objectives, then they should not be repeated, but reference should be made the recommendation.</p>

<b>5. Conclusion.</b>	<p>There should be a summary statement with respect to:</p> <ul style="list-style-type: none"> <li>(i) The adequacy or inadequacy of management of risk and internal controls.</li> <li>(ii) Compliance with laws and regulations.</li> <li>(iii) Efficiency and effectiveness.</li> <li>(iv) Safeguard of assets.</li> <li>(v) Accuracy of reporting.</li> <li>(vi) Other higher results relative to engagement objectives.</li> </ul> <p>The CIA should evaluate and grade the overall condition as being good, satisfactory or unsatisfactory.</p>
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2.2 CIAs and Internal Auditors should apply their professional judgment in adopting the reporting format to the local requirements within the overall framework of the format outlined above and for valid reasons.

### 3. Reporting Process

#### 3.1 General

- 3.1.1 The reporting process outlined below is designed to provide the Auditee sufficient opportunity to review the audit report and provide comments and suggestions so as to avoid or minimize any controversy with respect to the accuracy of the facts and the reasonableness of findings and recommendations. While sometimes disagreements may be unavoidable, transparency in the process lends credibility to the report and offers better possibilities of recommendations being implemented.
- 3.1.2 It should be noted that in the guidelines on the conduct of the audit engagement, provided in Section 4.3.6 and the following Sections in Chapter IV, it was suggested that as the audit engagement progresses, the Objective Worksheet be progressively completed in consultation with the Auditee and/or senior management staff. Adherence with the suggested process would greatly facilitate the preparation of the report and all subsequent processes.
- 3.1.3 CIAs should aim to issue the final audit report within thirty days after the completion of the fieldwork of the engagement, unless there are compelling reasons for any further delays. The CIA and the Internal Auditors should therefore organize their work along this objective and also take into account the need to provide sufficient time for the Auditee to review and provide comments on the report and develop action plans to implement recommendations.
- 3.1.4 CIAs should implement this reporting process to the extent possible, while adapting to local conditions.

### 3.2 First Draft Report

- 3.2.1 If the processes mentioned in Section 3.2 are followed, then the Auditee would have basically agreed with most of the findings, conclusions and recommendations when fieldwork is completed and the exit meeting is held. CIA's should use the momentum of the exit meeting to issue the first draft of the report not later than ten days after the exit meeting. When forwarding the draft report, the CIA should request the Auditee to confirm the accuracy of the facts contained in the report.
- 3.2.2 The CIA could present the first draft formally with a memorandum or informally to the Auditee, depending on the local circumstances. However, the process should be properly documented in the working papers and it would be preferable to obtain a written response of agreement or disagreement from the Auditee to prevent any subsequent controversy.
- 3.2.3 The CIA should evaluate all comments and suggestions received from the Auditee on the first draft and where these are reasonable; make such changes as are necessary to the draft report.
- 3.2.4 It is possible that the Auditee may disagree with certain reported findings and conclusions and this disagreement may still persist even after further discussions and sharing of evidence and other relevant information. In order to ensure that senior management and others would agree with the audit conclusions and recommendations, the CIA should once again review all evidence supporting the findings and recommendations. In some instances, it may be necessary to conduct more tests to obtain additional evidence to buttress the findings. If such review and additional actions, if any, confirms the validity of the draft report, then the CIA should discuss with the next level of Management to resolve the differences. If this process does not result in the resolution of the differences, the CIA should proceed to the next step in the reporting process, but clearly note in the draft report the points of disagreement.

### 3.3 Second Draft

- 3.3.1 Upon completion of the changes, the second draft should be formally provided to the Auditee, The main purpose of this second and final draft is to request the Auditee to provide a formal plan of action for implementing the audit recommendations. This plan of action should normally be attached to the final report. The CIA should provide to the Auditee a form as in Annex V-1 to facilitate the preparation of the action plan. The plan should clearly indicate in respect of each recommendation the persons responsible for the implementation and the date by which the implementation will be completed. In some cases, the implementation may be subject to availability of additional resources or other conditionality such as reorganization and such cases should be noted in the plan..
- 3.3.2 In some cases, the recommendations may be addressed to higher-level management, including possibly the Chief Executive Officer. In such cases, the second draft report should also be addressed to these parties, requesting them to review the recommendation in the light of the audit observations and provide comments on the recommendation and an action plan on the recommendations.
- 3.3.3 The CIA should review the proposed plan of action to determine if the proposed actions would in fact remove all or most of the root causes relating to the unsatisfactory condition. The CIA should also evaluate the capacity and competence of the Auditee to implement the proposed action plan. The CIA should:

- (i) If the action plan is considered inadequate, draw the attention of the Auditee or senior managers concerned on the inadequacies and also provide possible solutions. If the Auditee or the persons concerned do not amend the action plan to address the inadequacies, then the CIA should reflect this concern in the Audit Report.
- (ii) If it is considered that there is a risk of not fully implementing the action plan due to lack of authority, incapacity or lack of adequate resources, particularly in terms of staff competence or for other reasons, then the CIA should note such reservations in the final report and draw the attention of the Chief Executive Officer to the inadequacies. Similarly, comments can also be made if the time frame for correcting the condition is considered to be unreasonable and is likely to leave the organization unduly exposed to risks for too long.

### 3.4 Final Report

- 3.4.1 The CIA should ensure that all comments received on the second draft report are properly taken into account of in the final report. Once completed, the Final Report should be issued to the Chief Executive Officer.
- 3.4.2 In presenting the Report, the attention of the Chief Executive Officer should be drawn to the areas of disagreement with senior managers, including both the substance of the report, the recommendations and the related action plan. The Chief Executive Officer should be requested to resolve these differences. This could be done using a separate memorandum attached to the report.
- 3.4.3 The Chief Executive Officer should also be requested to issue the report to all relevant senior managers, and unless there is disagreement, issue a directive that the recommendations be implemented in accordance with the action plans. In the directive, the senior managers should also be asked to report to the Chief Executive Officer the action taken to complete the audit recommendations within a specified time frame. A copy of such reports should be provided to the CIA for follow-up action.

## 4. Presentation styles

- 4.1 Presentation could vary from individual to individual. While it is not intended to curb individual initiatives, in the interest of ensuring clarity of the Audit Reports, Internal Auditors should ensure precision and simplicity in presentation styles. The following are some indicators for better presentation.

<b>Terminology with Clarity</b>	<p>Audit reports should use consistent terminology to convey the messages with precision.</p> <p>When reviewing reports, look for inconsistencies such as the following examples of interchangeable terms: personnel administration, human resources management and personnel management; objective, purpose and goal; staffing and resourcing; personnel disciplines, functions, activities, areas, aspects and practices.</p>
<b>Factual and Objective</b>	<p>The report must be scrupulously factual and every categorical statement, figures and references must be based on hard evidence. Statements of fact must carry the assurance that auditors personally observed or validated the fact. If auditors rely on the representations made by management, the report should state the source.</p>

<b>Background Information</b>	Set the stage when reporting on observations by giving proper background information. The background is sometimes essential to the understanding of a process or a condition. Background information is usually placed in the introduction.
<b>Sentence Length</b>	Long sentences can blur the precision and clarity of text. Auditors should try to limit length of sentences in business writing. In editing reports, one should look closely at sentences with more than 20 words
<b>Active Voice</b>	Auditors should as far as possible use active rather than passive sentences that directly address the key points. Active voice helps reduce the length of the reports as well. Sentences should be short, to the point, and clear.
<b>Intensifiers</b>	These are words like: clearly, special, key, well, reasonable, significant and very. Their use should be limited because they frequently lack precision, reflect personal values and fill space for no real purpose. Intensifiers raise questions such as “significant compared to what?” and “clearly according to whose criteria?”
<b>Bullets</b>	Report writers can use bullets to break up dense text and shorten sentences, focus attention, save words and improve logic and flow. The use of bullets is highly recommended when observations are lists of standards, samples, activities, facts and results.

## 5. Audit Closure

- 5.1 The CIA should close the audit engagement when the final report is issued. The CIA should ensure that the Working Papers are completed and properly filed. As part of the closing process, the CIA:
- (i) Should conduct a performance review together with the Internal Auditors involved in the engagement to identify what worked well and what did not and determine how future work processes can be improved.
  - (ii) Update the profile of the entity.
  - (iii) Identify and take note of issues that should be input into the next cycle of annual planning.

## AUDITEE RESPONSE AND ACTION PLAN ON RECOMMENDATIONS.

Audit Recommendation	Auditee Comments and Action Plan	
<b>Recommendation 1:</b>  <b>Text of recommendation</b>	Agreed / Not agreed with Recommendation.  Not Agreed with recommendation because:  (i) Reason 1.  (ii) Reason 2. Etc.	
	<b>Plan of action:</b>  (If the action is dependent on any conditionality such as approval of higher authority or need for additional resources, state details under each step)	
	Action Steps	Complete by date:
	Step 1	
	Step 2	
<b>Recommendation 2:</b>		
<b>Completed by :</b>  <b>Date:</b>		
<b>Signature:</b>		