



# Audit Reports

Communicating Assurance  
Engagement Results

# Agenda

During this presentation:

- Understand the Performance Standards
- Communicate observations effectively
- Understand risks in communication process
- Communicating final results (Audit Reports)
- Monitoring management action plans

# Understanding the Performance Standards

# Performance Standards

- 2000 – Managing the Internal Audit Activity
- 2100 – Nature of Work
- 2200 – Engagement Planning
- 2300 – Performing the Engagement
- 2400 – Communicating the Results
- 2500 – Monitoring Progress
- 2600 – Communicating the Acceptance of Risks

# 2400 - Communicating the Results

- 2400 – Communicating the Results
- 2410 – Criteria for Communicating
- 2420 – Quality of Communications
- 2430 – Use of “Conducted in Conformance with the International Standard for the Professional Practice of Internal Auditing”
- 2431 – Engagement Disclosures of Nonconformance
- 2440 – Disseminating Results
- 2450 – Overall Opinions

# Implementation Guidance

<https://global.theiia.org/standards-guidance/recommended-guidance/Pages/Practice-Advisories.aspx>

The screenshot shows the website for The Institute of Internal Auditors (IIA) Global. The header includes the IIA logo and the word "Global". Navigation tabs include "Standards & Guidance", "Knowledge & Research", "Certifications & Qualifications", "Education & Events", and "About the Profession". The current page is "Implementation Guidance" under "Recommended Guidance".

**Standards & Guidance**

- Standards & Guidance - IPPF  
IPPF Oversight Council
- Mission of Internal Audit
- Mandatory Guidance
- Recommended Guidance
  - Implementation Guidance
  - Supplemental Guidance
- Global Guidance Contributor
- Topics and Resources
  - Position Papers
  - Global Public Sector Insights
  - Sarbanes-Oxley
  - UK Financial Services
  - Responses to Regulators
  - Reprint and Translate

**Implementation Guidance**  
*Recommended Guidance*

Implementation Guides assist internal auditors in applying the *Standards*. They collectively address internal auditing's approach, methodologies, and consideration, but do not detail processes or procedures.

Download **all the new Implementation Guides** with a click of the button or review the table to download them individually. Implementation Guides are free to IIA members.

Implementation Guides are free to IIA members. **Members Only**

**Quick Links**

- New Guidance
- Standards
- Code of Ethics
- Become a Global Guidance Contributor

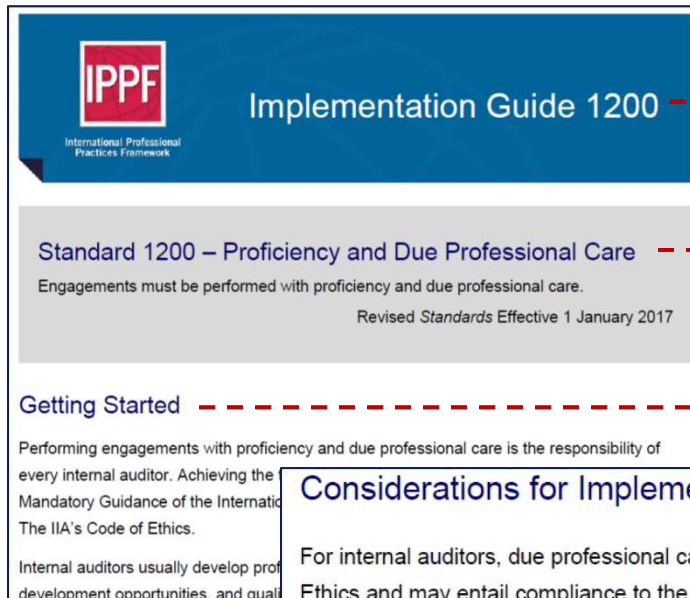
**Downloads and Links**

Ref #	Implementation Guide	Date
IG1000	<b>UPDATED!</b> Purpose, Authority, and Responsibility	December 2016
IG1010	<b>UPDATED!</b> Recognizing Mandatory Guidance in the Internal Audit Charter	December 2016
IG1100	<b>UPDATED!</b> Independence and Objectivity	November 2016
IG1110	<b>UPDATED!</b> Organizational Independence	November 2016
IG1111	<b>UPDATED!</b> Direct Interaction with the Board	November 2016

**INTERNATIONAL PROFESSIONAL PRACTICES FRAMEWORK (IPPF)<sup>®</sup>**  
3RD EDITION

An updated edition of the Red Book will be released 1st Quarter 2017. Visit the IIA Bookstore for more information.

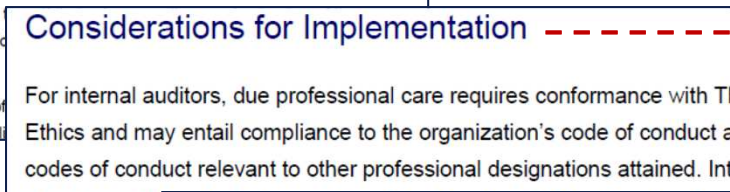
# Sections of an Implementation Guide



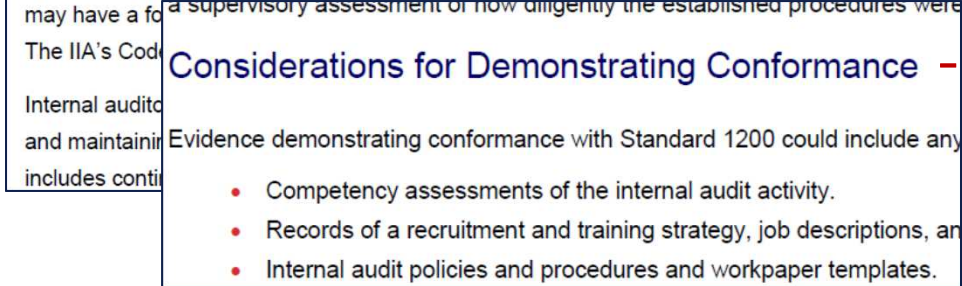
• One IG per standard.

• Standard text in full.

• Section 1: Getting Started.



• Section 2: Considerations for Implementation.



• Section 3: Considerations for Demonstrating Conformance.

# Recommended Guidance

In addition to Implementation Guidance, Recommended Guidance includes Supplemental Guidance:

- Practice Guides.
- Global Technology Audit Guides (GTAGs).
- Guides to the Assessment of IT Risks (GAITs).

Supplemental Guidance is being updated to be consistent with 2017 IPPF.



# Supplemental Guidance

## Recently released: Practice Guide

### **NEW!** Practice Guide: Audit Reports: Communicating Assurance Engagement Results *Recommended Guidance*

#### **Maximizing Impact**

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. Stakeholders need clear and concise reports that prioritize engagement observations based on urgency and overall impact. This new guidance was created to support practitioners in writing reports that resonate with stakeholders and effectively communicate key messages in a timely manner.



#### *Audit Reports: Communicating Assurance Engagement*

*Results* offers guidance to audit practitioners on how to effectively communicate the results of internal audit engagements to stakeholders. The guide addresses key considerations such as tailoring the report to multiple audiences, structuring the report to maximize impact, and accounting for follow up and corrective action.

Communicate  
observations  
effectively

# Relevant Standards

## **Standard 2400 – Communicating Results**

Internal auditors must communicate the results of engagements.

## **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:**

- *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).*

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

# Relevant Standards

## **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.*

# Relevant Standards

- Accurate: free from errors and distortions and faithful to underlying facts.
- Objective: fair-minded and balanced assessment of all relevant facts.
- Clear: easily understood, logical, and avoid unnecessary technical language.
- Concise: avoid unnecessary elaboration, redundancy, and wordiness.
- Constructive: lead to improvements.
- Complete: include all significant and relevant information and observation to support recommendations and conclusions.
- Timely: opportune and expedient, allowing management to take appropriate corrective action.

# Considerations Communications

- Engagement results are not always communicated in writing.
- Results may be communicated through formal presentation or exit interview.
- Method may depend on organizational structure, type of engagement, and recommendations.
- Guidelines established by CAE, board, and senior management.

# Communication - Benefits

Timely and proficient communication of internal audit results can:

- Provide opportunities for timely corrective actions and process improvements.
- Affect positive changes that increase the effectiveness of governance, risk management, and controls processes.
- Affirm processes that are currently operating effectively and efficiently.
- Affirm the internal audit activity's willingness to partner with and advise management.

# Communication - Risks

Poorly written or inaccurate reports can discredit the importance of internal audit work.

Avoid the following pitfalls:

- Significant errors and omissions.
- Overly technical or jargon-laden language.
- Poorly formulated observations and recommendations.
- Failure to acknowledge satisfactory performance.
- Failure to explain or disclose scope limitations.
- Issuing reports late or to inappropriate parties.

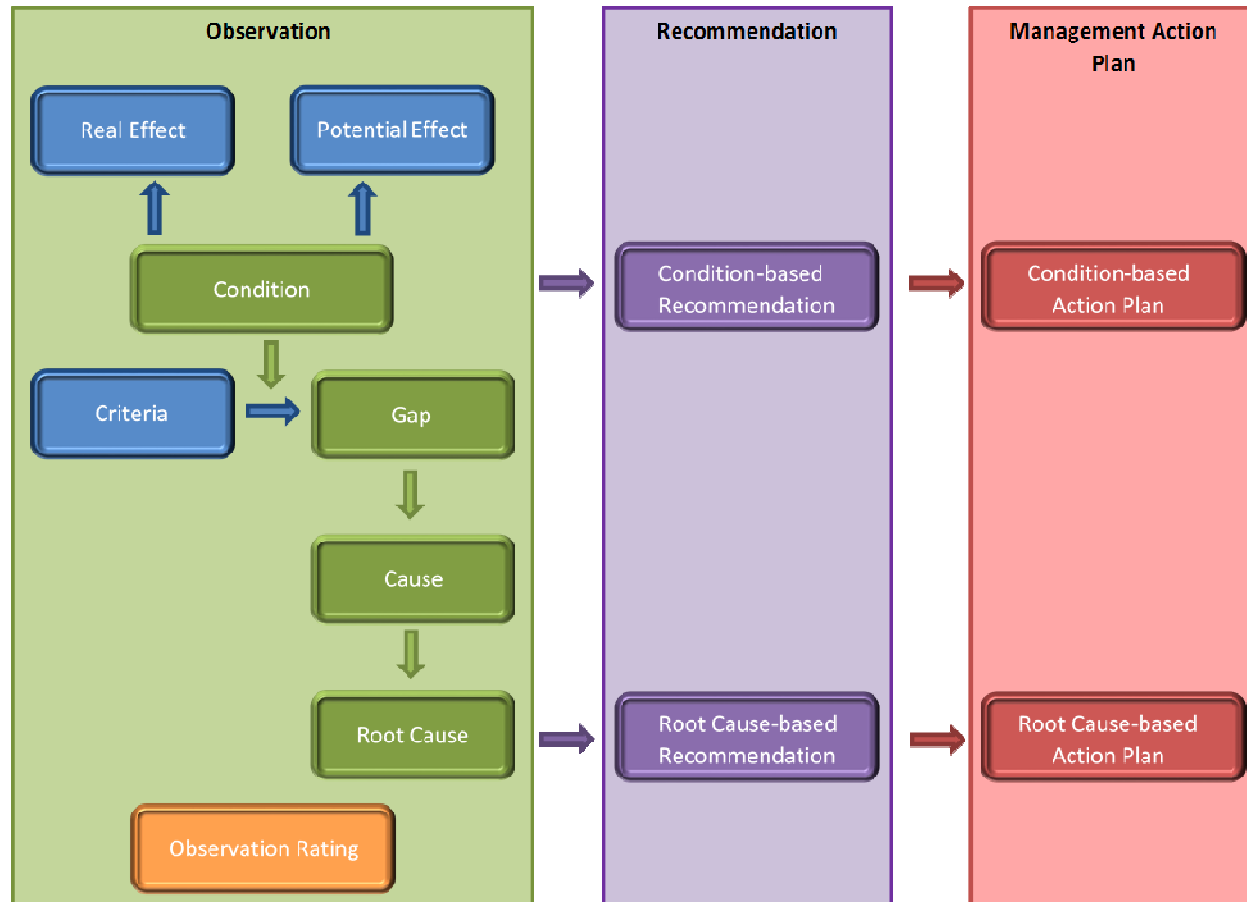


# Recommendations

- Internal auditors' suggestions for correcting conditions.
- Efficient and effective way to address gaps between condition and criteria.
- Two types, but combination may be used:
  - **Condition-based recommendations:** Interim solution for immediate condition.
  - **Cause- (root cause-) based recommendations:** Typically longer-term solutions to prevent recurrence of condition.

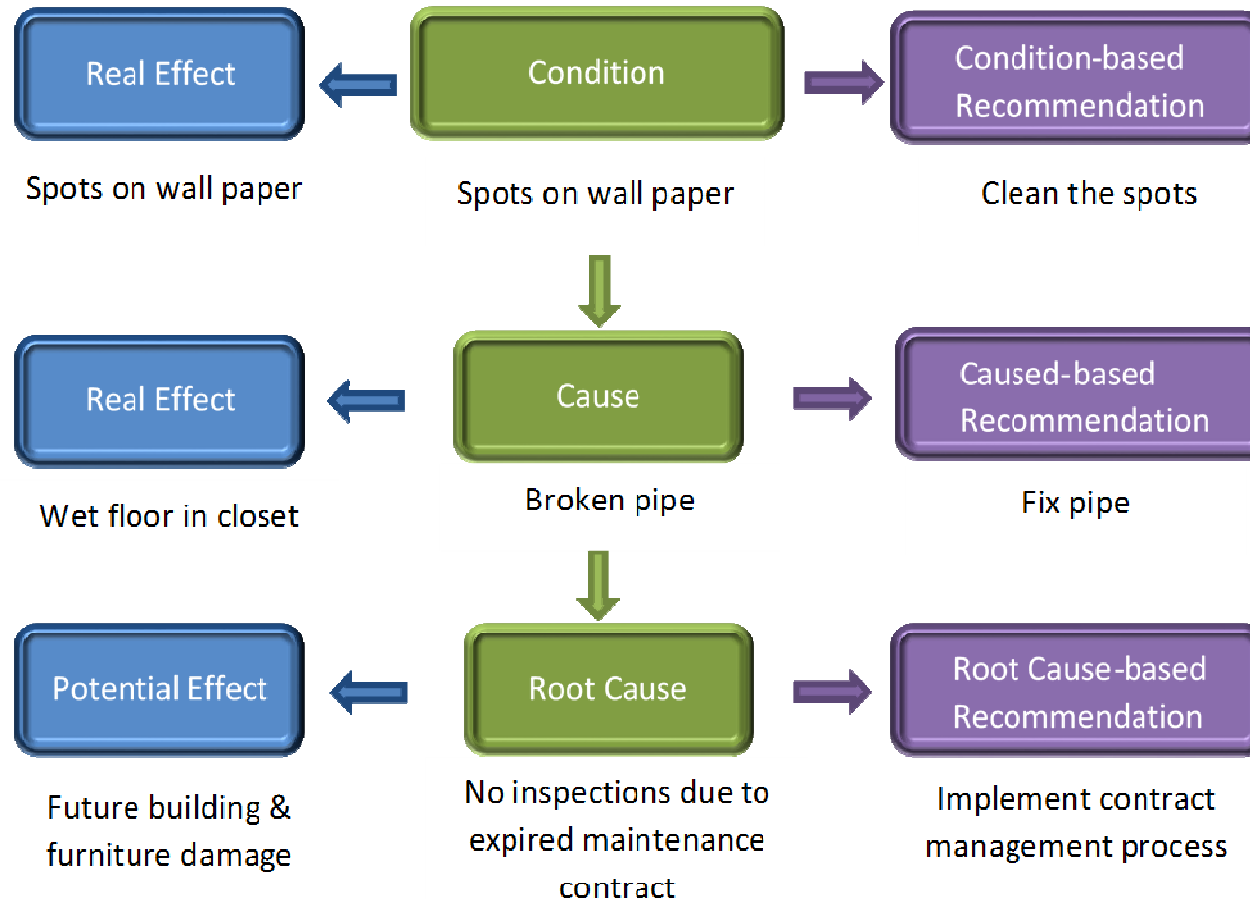
# Overview:

## Process from Observation to Recommendation, to Action Plan



# Audit Report Example (continued)

Process of Developing an Observation  
from Condition to Root Cause to Recommendation



# Disseminating Results

# Relevant Standards

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## **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.

# Relevant Standards

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## **2431 – Engagement Disclosure of Nonconformance**

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

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

# Relevant Standards

## **2450 – Overall Opinions**

When an overall opinion is issued, it must take into account the strategies, objectives, and risks of the organization; and the expectations of senior management, the board, and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant, and useful information.

### **Interpretation:**

*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.*
- *The overall opinion, judgment, or conclusion reached.*
- *The reasons for an unfavorable overall opinion must be stated.*

# Relevant Standards

## **Standard 2420 – Quality of Communications**

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.



# Understanding Report Stakeholders and Users

- Process owners and management.
- Senior management.
- Board.
- External auditors and others.
- Managers with direct responsibility for the audited activity.
- Individuals with authority to take action on internal audit's recommendations.

# Report Template Detail – Observations

Description

Description of observation, i.e., current situation.

Cause

The underlying reason for the difference between the condition and the criteria.

Effect/Risk

Risks or exposure due to the condition not being consistent with criteria.

Recommendation/Agreed Action

Corrective action required to address the gap between condition and criteria.

Responsible Person

Person responsible for the action.

Due Date

Target date when action should be completed.

# Audit Report Example (continued)

Observation 1: Expired maintenance contract went unnoticed and maintenance standards were not met.

Criticality Rating: High

## Description (Condition)

- Water spots and mildew were found on the wallpaper of several buildings. Water was also found to have pooled on the ground, causing wood rot on some trim and warping some floors. The water was traced back to leaking pipes.

## Criteria

- Per building maintenance contracts, all plumbing fixtures and elements are checked regularly so that leaks and potential leaks (aging pipes) are caught and repaired promptly.

## Cause

- Prime Plumbing's contract had expired and was not followed-up for renewal. Also, management had no record of inspecting Prime Plumbing's maintenance schedule, visits, or quality.

## Effect/Risk

- Leaking pipes have the potential to cause hundreds of thousands of dollars worth of damage, including cosmetic damage, mildew mitigation, flooding, and tenant lawsuit settlements related to these issues.

## Recommendation

- Develop contract management process and add controls to ensure scheduled inspections and contract reviews occur and all contracts are renewed timely.

## Agreed Management Action

- Property management department will develop a process for contract management. Contracts will be revised and updated to include schedule for inspections and annual contract review and renewal that takes into account inspection and performance results. Schedule will be shared with senior management and the board.

## Person Responsible

- Contracts manager and operations manager.

Due Date: June 1, 2017

# Overview – Report Components

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Audit report title

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Objective Purpose of engagement

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Scope Audited activities, nature and extent of work, scope limitations

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Background Brief synopsis of the activity being audited or explanation of the process

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Recognition Positive aspects of area or activity audited or appreciation of cooperation

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Engagement rating For example, satisfactory, marginal, unsatisfactory, pass, fail.

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Conclusions Summary opinion/assessment, often highlighting critical observations

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Observations Findings; individually listed in order of significance and often include (1) title and (2) reference; (3) criticality rating; (4) statement of facts; (5) recommendations; and (6) management's action plans.

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Distribution list

# Report Template – Executive Summary

## **Introduction/Background:**

Background and other basic information about the area or process under review.

## **Objectives:**

Statements that define intended engagement accomplishments.

## **Scope:**

Scope may indicate period covered, type of engagement, specific risks, relevant systems and/or functions assessed.

## **Engagement Results (Findings):**

A summary of outcomes of the engagement. “Sufficient, reliable, relevant, and useful information” that support the internal auditors’ conclusions/opinion.

## **Conclusions/Opinion:**

Conclusions/opinion, in accordance with Standard 2410.A1.

**Significant Observations:** Key messages and concerns. Dashboard of findings. Acknowledge satisfactory performance.

## **Management Response:**

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

# Elements of Executive Summary: Management Action Plan

Based on internal auditors' observations and recommendations, management develops action plan, including:

- **Agreed action:** Actions that will be taken by management to correct the current condition and causes, thereby preventing future reoccurrence.
- **Responsible personnel:** Activity/process owner, manager, senior management, or other person/group responsible to complete action plan.
- **Due date for action plan:** Target date for completing the action plan.

# Disseminating Results

The CAE is responsible for

- Reviewing and approving the final engagement communication before it is issued.
- Communicating results to the appropriate parties (those that can ensure the results are given due consideration).

Thus, the CAE decides to whom and how the results will be disseminated.

- (See Standard 2440 – Disseminating Results and Standards 2240.A1 and 2240.A2)

## General Guidelines for Disseminating Results

- Ensure the engagement objectives, scope, and results are included.
- Be clear, concise, and easy to read and/or understand.
- Present accurate and complete information 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.

Communicate  
observations  
effectively



# Relevant Standards

## **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.

## **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.

Questions?