## AUDIT ENGAGEMENT REPORTING

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<tr>
<th>Policy and Practice Requirements</th>
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<td><strong>Policy:</strong> Auditors should keep auditee staff and managers progressively informed of the results of the audit work during the course of the engagement, including at the end of field visits and/or field work phases of the audit.</td>
<td>Standard 2400 – Communicating Results - Internal auditors should communicate the engagement results promptly.</td>
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<td><strong>Discussion:</strong></td>
<td>Practice Advisory 2410-1 para 14 - Interim reports may be written or oral and may be transmitted formally or informally.....The use of interim reports does not diminish or eliminate the need for a final report.</td>
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<td>• Progress reporting during the audit may most often be done orally, but may also occur in the form of progress presentations, summary notes made available to auditees, or interim reports in the case of long engagements. In such case copies should be retained in the engagement working papers.</td>
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<td>• Progress reporting helps check the validity of audit results and conclusions before they become formally reported, alerts auditees to matters they might need to address immediately or to changes in audit scope, offers an opportunity to auditees to clarify or provide more information on points raised by the auditor in a timely fashion, and helps build a relationship with the auditee that facilitates the gathering of information helpful to the audit. Open and timely communication during the audit will help reduce the tension auditees will naturally feel when their work is subject to external scrutiny.</td>
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<td>• Notwithstanding the above, internal auditors should use judgement as to the amount of detail or certain areas of audit they might disclose to auditees during the course of the audit engagement. There may be cases, such as investigations of potential fraud or significant non-compliance, or where communication with auditees may need to be limited or managed so that confidentiality is maintained and audit evidence preserved, and the integrity of an investigation process is maintained.</td>
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<td><strong>Practice Requirement:</strong> A wrap up meeting (or exit interview) should be held at a suitable time on or near the conclusion of the audit field work.</td>
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<td><strong>Practice requirement:</strong> The discussions at a wrap up meeting for the audit should be documented in the audit engagement working papers</td>
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**Discussion:**
- Documentation may take the form of auditor’s notes, a copy of any summary or listing provided to participants in the wrap up meeting (annotated for comments at the meeting), electronic presentations and any additional material furnished by auditees at the meeting.

**Policy:** Reports should be prepared for each audit engagement to the Director General, with copies to concerned managers.

**Discussion:**
CGIAR FG3 (paragraph 3.31) covers engagement reporting in detail. It provides that:
- Internal auditors should communicate and disseminate the engagement results to the individuals agreed with their clients during the engagement planning phase. This is to be done according to the reporting arrangements indicated in the terms of reference of the audit engagement.
- The purpose of communicating the results is to inform, persuade, and effect positive change.
- The results should include the engagement’s objectives and scope as well as applicable conclusions, recommendations, and action plans. Specifically, each audit engagement report should:
  a) Be clear, concise and complete.
  b) Explain clearly, where applicable, the objectives and scope of the audit engagement.
  c) Present findings, conclusions and recommendations in an objective and dispassionate manner.
  d) Include only factual information and findings and conclusions adequately supported by evidence. Detail supporting data could be included to allow for a convincing presentation.
  e) Reflect the balance between critical comments and recognition of management-initiated improvements.
  f) Recognize client comments in the final engagement report.
- Communications should be accurate, objective, clear, concise, constructive, and timely.
- Results could be communicated in a presentational-type format.

Standard 2400 – Communicating Results – Internal auditors should communicate the engagement results promptly.
**Practice requirement:** Audit reports should normally always contain the following components -

- Cover page with table of contents
- Transmittal Letter to the Director General
- Introduction and overall conclusions, or an Executive Summary
- Detailed report, which should begin with a summary of the positive findings followed by more detailed discussion of identified opportunities for further improvement (or “problem areas/risk exposures”, depending on the way the subject matter is most appropriately portrayed) and recommendations
- Action Plan, showing recommendations, management comments on proposed action, manager responsible, and target date for implementation (always Annex I)
- Audit Terms of Reference (Annex)

The report should normally follow the format set out in the template at Appendix X of this Manual for reference.

**Discussion:**

- The use of a standard format helps ensure consistency of reporting and establishes a “house style” to which auditees can become accustomed. The standard format will readily identify the document as an Internal Audit report.
- Exceptions to the standard format may be appropriate for short audit reports, where abridged documents or electronic presentations may suffice to communicate the results.
- Other Annexes can be added to the report to provide detailed information on findings, exhibit certain information refer to in the report, reproduce detailed guidance or benchmarks used in the audit, or provide suggested formats for implementing recommendations
- Normally, due to the wide geographic dispersion of auditees, audit reports are to be distributed to recipients by electronic mail. In lieu of signing the report, the report should be issued from the electronic mail box of the Internal Auditor. The use of digital signatures on the electronic copies of the reports is being investigated.

**Standard 2410 – Criteria for Communicating –** Communications should include the engagement’s objectives and scope as well as applicable conclusions, recommendations, and action plans.

**Standard 2410.A1** - The final communication of results should, where appropriate, contain the internal auditor’s overall opinion.

**Standard 2410.A2** – Engagement communications should acknowledge satisfactory performance.

**Practice Advisory 2410-1 para 8** - Engagement conclusions, if included in the engagement report, should be clearly identified as such.

**Practice Advisory 2410-1 para 10** – Engagement client accomplishments, in terms of improvements since the last engagement or the establishment of a well-controlled operation, may be included in the engagement final communications.

**Practice Advisory 2420-1 – Quality of Communications**
• While draft reports may be issued in editable format, to allow auditees to annotate the report and make suggestions for changes in edit mode, the final report should be issued in pdf format to provide an unalterable copy.

• Practice Advisory 2420-1 – Quality of Communications – provides a useful checklist to guide the drafting of reports

**Practice requirement:** Observations in the report which identify a significant need or opportunity to improve control or value for money should be made in narrative form and identify (i) the policy, standard or good practice used as a benchmark; (ii) that the audit review indicated this is not yet complied with or met; (iii) any reasons for this difference noted in the audit or explained by the auditee; and (iv) the risk or exposure if the matter is not addressed.

**Discussion:**

• Practice Advisory 2410-1 paragraph 7 discusses this in detail: “Observations and recommendations should be based on the following attributes:

  - Criteria: The standards, measures, or expectations used in making an evaluation and/or verification (what should exist).
  - Condition: The factual evidence that the internal auditor found in the course of the examination (what does exist).
  - Cause: The reason for the difference between the expected and actual conditions (why the difference exists).
  - Effect: The risk or exposure the organization and/or others encounter because the condition is not consistent with the criteria (the impact of the difference). In determining the degree of risk or exposure, internal auditors should consider the effect their engagement observations and recommendations may have on the organization’s operations and financial statements.

• A tabular analysis of criteria, condition, cause and effect may be contained in the audit working papers, but generally not included in reports which should summarize the analysis in succinct narrative form.

Practice Advisory 2410-1 para 7
**Practice requirement:** Normally all audit reports which identify areas where organizational governance, risk management, internal control, or value for money can be improved should also include recommendations to address these findings. Recommendations may be general or specific, depending on the nature of the findings.

**Discussion:**

- IIA Practice Advisory 2410-1 paragraph 9 covers this aspect in detail – “Engagement communications should include recommendations for potential improvements, acknowledgements of satisfactory performance, and corrective actions. Recommendations are based on the internal auditor’s observations and conclusions. They call for action to correct existing conditions or improve operations. Recommendations may suggest approaches to correcting or enhancing performance as a guide for management in achieving desired results. Recommendations may be general or specific. For example, under some circumstances, it may be desirable to recommend a general course of action and specific suggestions for implementation. In other circumstances, it may be appropriate only to suggest further investigation or study.”

- Feedback from Center auditees is that specific recommendations are more helpful to them. The Internal Auditor will need to make a judgement how specific these can be without crossing over the line of actually designing in detail the internal controls.

- Recommendations should identify which manager or unit is responsible for taking action, be indented from the preceding paragraph describing the issue (so that they can be readily seen in the report text), and be in the form:

  “**Recommendation:** Manager X/Unit Y should…….”

- Annex I – Action Plan – should reproduce all recommendations in the report consistently, with the description of the action required and the responsible manager/unit separated in the relevant columns of the Annex.

**Practice requirement:** Every effort should be made to produce a report that reflects agreement on the findings and the recommendations. However, disagreements on significant findings or recommendations should be recorded in the audit report.

**Practice Advisory 2410-1 para 9**
### Discussion:

- The IIA’s Practice Advisory 2410-1 paragraph 12 deals in some detail with this: “As part of the internal auditor’s discussions with the engagement client, the internal auditor should try to obtain agreement on the results of the engagement and on a plan of action to improve operations, as needed. If the internal auditor and engagement client disagree about the engagement results, the engagement communications may state both positions and the reasons for the disagreement. The engagement client’s written comments may be included as an appendix to the engagement report. Alternatively, the engagement client’s views may be presented in the body of the report or in a cover letter.

- Recommendations in a report that reflects agreement are more likely to be implemented.

| Practice requirement: | Audit results indicating potential fraud or other illegal acts or matters which may lead to disciplinary proceedings against auditee staff should only be reported to appropriate levels of senior management |

### Practice Advisory 2400-1

### Discussion:

- Generally indications of fraud or illegal acts will be discussed orally, at the time they are identified, with appropriate levels of senior management and legal counsel, and appropriate arrangements for reporting agreed at this time. Indications of other significant noncompliance which may lead to staff disciplinary proceedings will also usually be discussed at the time they are identified with senior management and with appropriate human resources professionals, and reporting arrangements agreed.

- In view of the sensitivity of such matters, the Internal Auditor should if possible consult first with the Director on the appropriate means of communicating such results.

| Practice requirement: | Audit reports should be issued in final form to the Director General of the Center. Draft versions of the report should be issued for comment to auditee management below the level of Director General who are responsible for ensuring agreed recommendations are implemented. |

### Standard 2440 – Disseminating Results

The chief audit executive should disseminate results to the appropriate individuals.

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

### Discussion:

- Depending on the topic of the audit, an initial draft report may first be circulated for informal comment by the immediate concerned managers (and staff nominated by them). Draft reports should be issued to the relevant senior managers below Director...
to the relevant senior managers below Director General for comment before the report is finalized. In some cases, it may be appropriate to send a draft version of a report to the Director General before it is put in final form.

- Draft reports should be clearly marked as such on the cover page, and in the footer of each subsequent page of the report and its annexes

- Recipients of draft reports should be agreed during the planning of the engagement and reflected in the audit terms of reference. Additional report recipients may be identified during the audit, and depending on the recipient and the findings of the report the additions should be discussed with auditee management. In general, Internal Audit should be able to independently decide the report recipients.

- If findings of illegal acts or significant non-compliance by top management are to be reported, an alternative reporting procedure will apply – confidential reporting should be made to the chairman of the Board of Trustees Audit Committee, and/or the Chairman of the Board. Internal Auditors should consult immediately with the Director if such an event occurs.

**Practice requirement:** Audit reports for each Center should be given a consecutive number within each fiscal year’s audit program.

**Discussion:**

- Report numbering aids identification of the report. The standard format of numbering is FY**.**

- The order of the report numbering should be according to when the final report is issued

- A register of report numbers should be maintained to avoid omission or duplication of numbers, and to serve as a reference for the number of reports issued. This can be part of a report database.

- For report numbering purposes, the annual updated Medium Term Internal Audit Plan, and consolidated reports to the Director General of the status of audit recommendations from past audits, should be given report numbers.

- Administrative reports to the Director General on the status of the Internal Audit function, and progress reports and general presentations to the Board of Trustees Audit Committee, are usually not numbered.

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**Standard 2440.C1** - The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

**Practice Advisory 2410-1 para 13**
**Practice requirement:** An archive of audit reports should be maintained for each Center by Internal Audit.

**Discussion:**
- One paper copy of each final report issued should be on file in Internal Audit.
- An electronic copy of each final report issued should be maintained. This may be done via an electronic database maintained by Internal Audit.
- Paper and electronic copies of audit reports should be secured and subject to access control in the same way as working papers (see Manual section on working papers for details on this).

**Practice requirement:** Audit reports whose circulation should be strictly limited due to the nature of the findings should indicate this clearly and be transmitted in ways that preserve this level of confidentiality.

**Discussion:**
- The transmittal memo should indicate the limitations on circulation.
- Internal Auditors should consider whether highly sensitive reports should be prepared outside of Center networks, not stored on Center networks, and not be transmitted by electronic mail, to ensure complete electronic confidentiality. Internal Auditors should also avoid using commercial electronic mail services (in lieu of CGNET) for transmitting any sensitive reports.
- Certain information that may not be appropriate for disclosure to all report recipients because it is privileged, proprietary, or related to improper or illegal acts may be disclosed in a separate report.

**Practice requirement:** Draft reports prepared by Internal Auditors should, where possible, be reviewed before circulation by another Internal Audit colleague as an internal quality assurance procedure.

**Discussion:**
- This requirement may be satisfied by the Director reviewing the report. However, for certain technical topics such as information technology, the Director may request an external expert or another Internal Auditor to undertake a review of the report.
- Peer review by other Internal Audit colleagues,
especially those who have experience auditing the topic being audited or who have previous professional experience in the area, will help ensure all relevant aspects of the audit are covered and that some consistency of approach is adopted to conclusions and recommendations. It will also help the planning of similar audits in other Centers by the reviewing Internal Auditors.

**Practice requirement:** External distribution of internal audit reports will follow the same requirements as for release of working papers

**Discussion:**
- External auditors should have access and be able to make copies as necessary of internal audit reports
- Release of internal audit reports, or extracts or summaries of the reports, to other external parties should only be made with the approval of the Center’s Director General.

**Practice requirement:** If a final communication contains a significant error or omission, the Internal Auditor should communicate corrected information to all individuals who received the original communication.

**Practice requirement:** Audit reports should identify any limitations on the original agreed scope and the reasons for this, and any limitations on the audit due to noncompliance with the IIA Standards.

**Discussion:**
- Limitations on scope may be agreed during the audit for a variety of reasons or may occur because information is not readily available.
- Reports may be issued in situations where noncompliance with the IIA standards occur but there is a compelling need to report findings rather than cancel the audit. Noncompliance may take the form of significant defects in the execution of the audit, the independence of the auditor or other reasons. Such cases are expected to rarely if ever occur.

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