

# Audit Report Writing Toolkit

## IIA Audit Tool

Category: Professional

Purpose: How To

### Writing an Audit Report



## General Guidelines

This tool references a number of standards from the *International Standards for the Professional Practice of Internal Auditing*. In addition, internal auditors may wish to consult IIA Practice Guide, *Audit Reports: Communicating Assurance Engagement Results*, from which most of this paper was sourced and which contains more information.

## 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 CEO, 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 may be considered 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. For example, it may be sufficient to provide board members with an executive summary rather than an 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, reflecting the organization’s culture, and/or incorporate suggestions from senior management and the board.



# Audit Report Writing Toolkit

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. It may be deemed appropriate to use 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?

A typical report may include these components:

- Audit report title.
- Objective (purpose of engagement).
- Scope (audited activities, nature and extent of work, scope limitations).
- Background (brief synopsis of the activity being audited or an explanation of the process).
- Recognition (positive aspects of area or activity audited or appreciation of cooperation).
- Engagement rating (ranking, outcome [i.e., satisfactory, marginal, unsatisfactory, pass, fail]).
- Conclusions (summary opinion/assessment of the engagement, often highlighting critical observations).
- Observations (also referred to as findings) – each observation should be listed in order of significance (grouped by activity if applicable) and might include:
  - A title and reference.
  - Criticality rating (measure of risk significance [i.e., high, medium, low, critical, significant]).
  - Statement of facts (condition, criteria, cause, effect/risk), which can be substantiated with relevant examples, data, analytics, tables, or charts.
  - Audit recommendations (corrective action to mitigate the risk identified in the observation).
  - Management’s action plans (corrective action, activity owner, and target date for completion).
- Distribution list.

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

## 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.



## Audit Report Writing Toolkit

- 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*, *Sawyer's Internal Auditing: Enhancing and Protecting Organizational Value*, and *Clarity, Impact, Speed: Delivering Audit Reports That Matter*. These books are available from the [Internal Audit Foundation Bookstore](#).



# Audit Report Writing Toolkit

## The Executive Summary

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

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.

## 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 internal control weaknesses and irregularities can be used to convey the significance of the observations. Guidance on internal audit opinions is provided in 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 (focusing on enhancement) or a negative manner (focusing on 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.

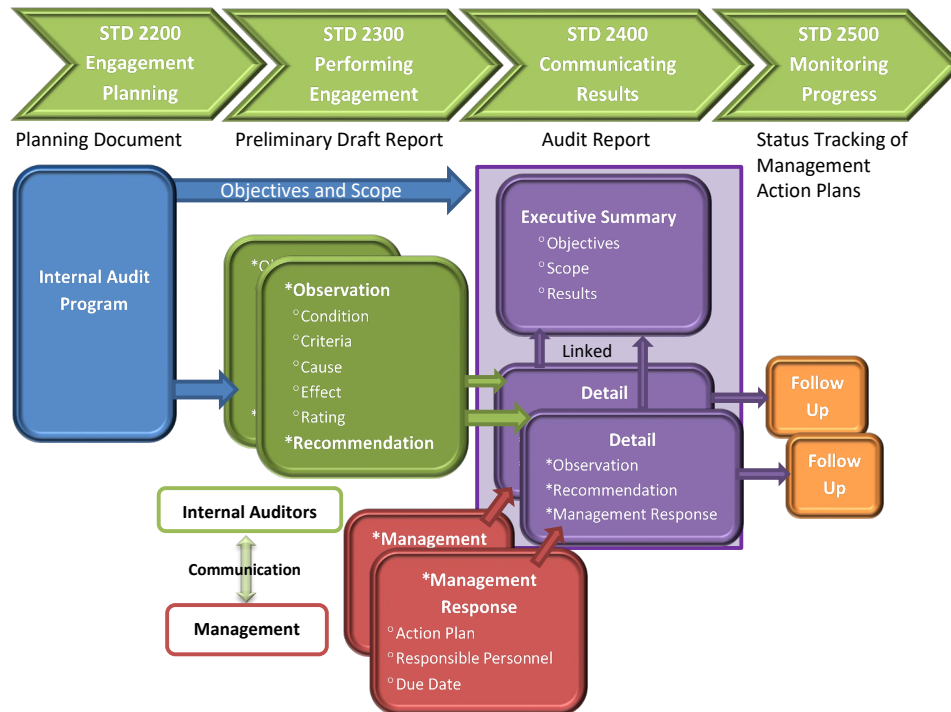


# Audit Report Writing Toolkit

## 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. 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 20XX. Our fieldwork concluded on February 15, 20XX.

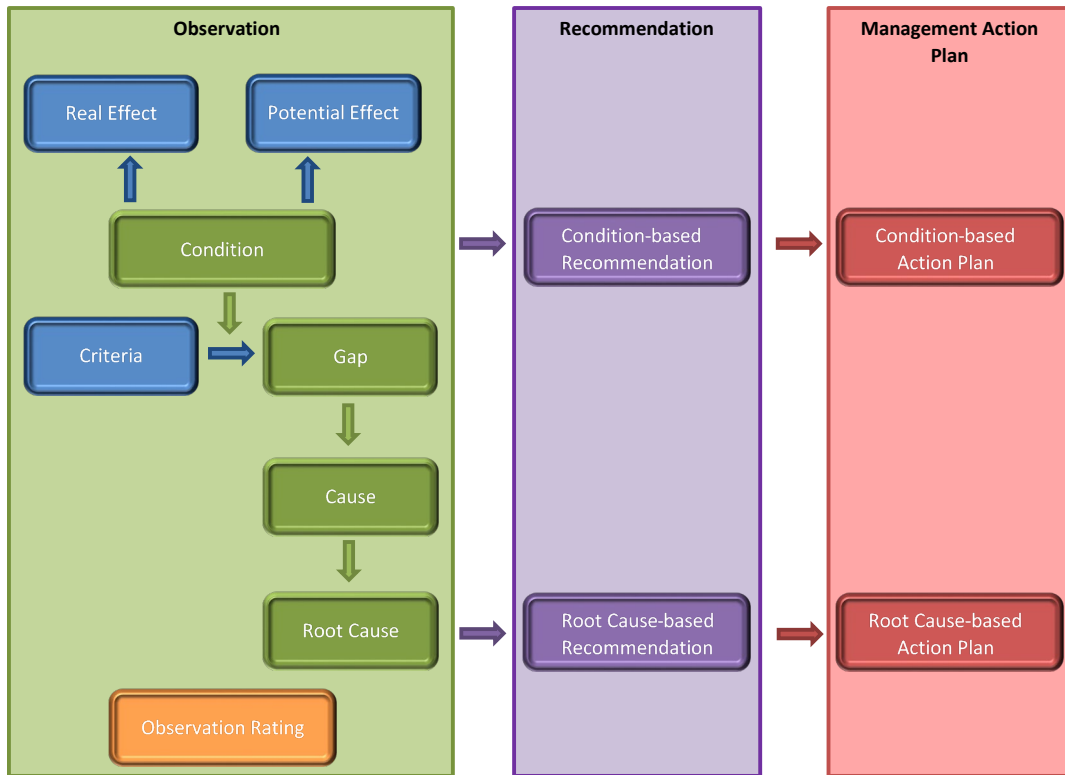


# Audit Report Writing Toolkit

## Observations

Observations (also referred to as findings), recommendations, and management’s action plans (responses) make up the core of a written report. These components enhance communication between internal audit and stakeholders, and are linked together as illustrated in Figure 2. 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

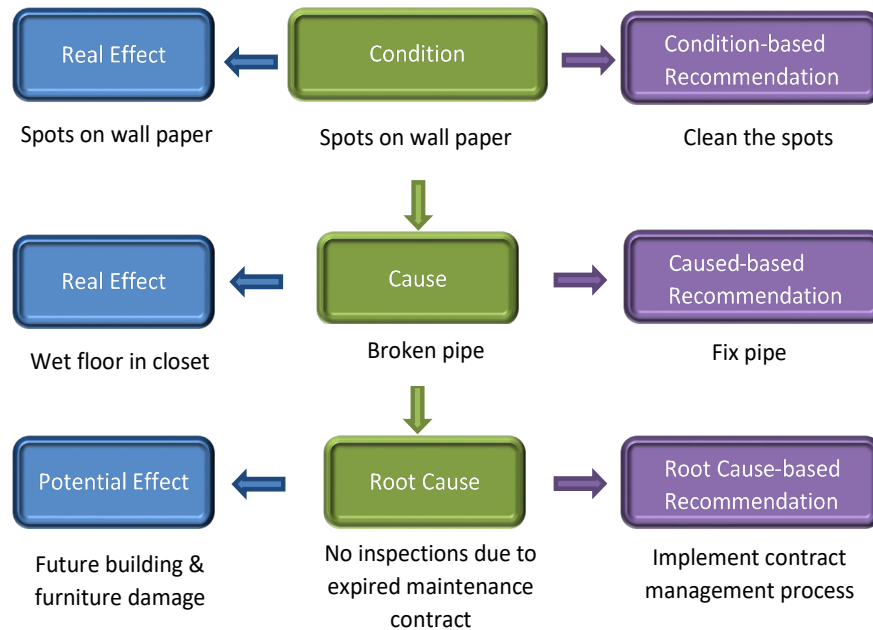


Root cause-based action plans are ideal, as they mitigate the underlying cause of the condition that triggered the observation. Internal auditors must understand the meaning of condition, cause, and root cause, as well as related effects and recommendations to develop root cause-based recommendations.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

Figure 3. Examples of Condition, Effect, Cause, Root Cause, and Recommendation



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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 to elicit a positive response from the engagement client.

Observations include these 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 internal audit 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).

# Audit Report Writing Toolkit

- **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. When ratings are used, rating criteria should be clearly defined and consistently applied across all internal audit reports for assurance engagements.

## Exhibit B. Example of an Observation

# 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





# Audit Report Writing Toolkit

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.

## EXHIBIT C. Example of Recommendation

Parks and Recreation management should:

- 1.1 Develop a template for contractors 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 engagement results final communication. Actions 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. Internal audit cannot assume managerial responsibility for 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 internal audit, 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 to prevent reoccurrence. Generally, management's action plans correlate with internal audit's recommendations. If



## Audit Report Writing Toolkit

management disagrees with an 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.

## 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 these 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."



# Audit Report Writing Toolkit

## 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. The goal is to communicate the information, as in telling a story. This could be a written report, a memorandum, a slide presentation, or even a video. While there are many format options, 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.



# Audit Report Writing Toolkit

## IIA Audit Tool

Category: Professional

Purpose: How To

### Keys to Report Writing



Standard 2400 – Communicating Results states “Internal auditors must communicate the results of engagements” and written audit reports are the most common vehicle to conform with the standard. The ability to clearly, accurately, and concisely communicate the results of an audit engagement is the objective. A well-written report not only validates the role of internal audit and the value it brings to the organization, but it is also one of the most compelling options in prompting stakeholders to initiate change.

Written audit reports must satisfy Standard 2420 – Quality of Communications, which states, “Communications must be accurate, objective, clear, concise, constructive, complete, and timely.” This tool offers suggestions for clean, succinct report writing that can better reflect the quality of an audit function’s work and its value in providing assurance to the organization.

### Preparation

Before starting to write a report, consider the true function of an audit report: to inform stakeholders of the results of the audit engagement and encourage action when necessary.

The writer should carefully consider which elements of the engagement deserve the most attention. Only information that materially contributes to the goal of the report should be included. The longer it takes a reader to uncover relevant insights, the more likely it is to be overlooked or ignored. A report should be focused, its purpose instantly recognizable.

### The Writing Process

Audit reports need to capture stakeholder attention, so writers must consider how the material is best served and how the intended audience prefers to digest the material. These objectives may conflict, so the writer must strive for balance between detail and presentation.

In pursuit of this balance, here are some tips to consider during the writing process:

- Use clear, concise language to outline the findings most relevant to the report’s audience. If a detail has little to no bearing in supporting the engagement’s conclusions, omit it.
- Selecting the correct word for a specific purpose can be challenging, so prioritize precision in word selection at all times. Use a thesaurus to find the word with the appropriate nuances desired.
- Strive to understand how the audience prefers to consume information. Are they more visual or textual? How long is their attention span? Does their schedule allow for extensive detail? This is vital information for writers because it can influence the form of the report and likely, its ability to achieve the desired outcome.
- Where applicable, consider using visuals to express findings as opposed to words alone. Remember “a picture is worth a thousand words.” A well-designed visual can convey the link between the audit’s observations, conclusions, and corrective action plans without requiring stakeholders to perform their own analysis or draw their own conclusions. If the creation of such visuals falls outside of the writer’s skills, ask audit team members for assistance or leverage relationships with other departments within the organization.



## Audit Report Writing Toolkit

- Make each section and finding count. Craft succinct titles and headlines that identify the main message.
- Keep definitions and terminology consistent among and within audit reports. Aim for text that is universally accepted and understood by stakeholders; if necessary, include a glossary as a reference at the end of a report.
- Give credit where credit is due and differentiate between observations made by executive management and observations made by the internal audit team. This highlights to stakeholders where executive management and internal audit are aligned, and can help maintain lines of communication moving forward.

### Audit Reports in Context

The findings of an audit report offer prescriptive or corrective actions to be taken, but reports without proper context may mislead stakeholders as to where risk truly lies. Audit reports and findings should be rated on an enterprisewide scale, with consistently applied risk exposure ratings. In this way, internal audit can help stakeholders “connect the dots” as to which risks and actions should be prioritized.

Here are a few strategies for placing findings in context:

- Adopt a color-coding system that grades findings based on priority or the level of concern. This strategy is useful for data visualization and helps the reader glean meaning from often complex charts and graphs. Once the criteria for the system is settled on, keep it consistent for subsequent audit reports.
- Where applicable, provide explicit root causes for complex situations. If a highlighted risk is a symptom of a greater concern that must be noted, address it in both the report’s conclusion and executive summary. Consider using bullet points or text boxes to call attention to key details so they aren’t overlooked.
- Structure the report by grouping related findings and observations under a related theme. This establishes context for the findings of a single report, and could highlight commonality among multiple findings that may on the surface appear unrelated.

### Delivering Value

Internal auditors should view reports as tools deserving the same level of attention and diligence as any other element of their role. A successful audit report is measured by its ability to inform and initiate necessary change. To deliver value, reports should be direct, precise, and concise, and put the needs of the reader and the organization first.

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# Audit Report Writing Toolkit

## IIA Audit Tool

Category: Professional

Purpose: Template

### Audit Report Template



## Typical Contents of an Audit Report

Most written audit reports will contain variations of these elements:

- **Executive summary:** Usually a one-page report that succinctly describes the audit from engagement plan to outcomes.
- **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 relevant International Professional Practices Framework *Standards*.
- **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 action plan:** A detailed action plan will be developed by management to address the engagement observations. This example, "Details of the Review," can be repeated as often required in a report.

### Details of the Review

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.

## Audit Report Samples

Two highly simplified reports are provided that show how audit report components could be included in a written internal audit report. The first is a report for a fictitious city parks and recreation department, and the second is an example of a fictitious company.



# Audit Report Writing Toolkit

## Sample #1: City Parks and Recreation Department

**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 20XX. Our fieldwork concluded on February 15, 20XX.

**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 20XX, the City executed two contracts (Management Agreements) with Hometown Sports Management (HSM), LLC for a 16-year lease term to 20XX. 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 20XX 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:



## Audit Report Writing Toolkit

- 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:

- 1.1 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, 20XX

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## 2. Reported Revenue Does Not Meet Projected Revenue

Rating: Low

Observation: The revenue during the 20XX 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, 20XX

**Distribution:** Parks and Recreation Management, Civic Review Committee, Audit Committee





# Audit Report Writing Toolkit

## Sample #2: ABC Unlimited Co. Internal 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 FY20XX. 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, specifically insufficient documentation of the expiration tracking and renewal process, and controls lacking around bank account access.

Additional opportunities for improvement were noted in 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

**Response:** Francis Financial and Miguel Money should provide an update by May 30, 20XX. The “Latest update” of the response section should be completed for this purpose.

### Observations, Recommendations, and Management Action Plan:

**Reference:** (A.1) Insufficient contract management process

**Criticality:** Critical

**Observation:** 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.

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.

**Recommendation:** Management should formally document the process for tracking the credit line contract expiration and renewal process through use of standard operating procedure (SOP) documents.

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.

**Planned Action:** In CY20XX, 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.



# Audit Report Writing Toolkit

**Responsible:** Francis Financial, CFO

**Target Date:** Dec. 1, 20XX

**Latest Update:**

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**Reference:** (A.2) Bank account access controls lacking

**Criticality:** Significant

**Observation:** Control deficiencies were identified related to bank account access as follows:

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.

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.

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.

**Recommendation:** 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.

A review of the bank access entitlements of all users should be performed annually.

**Planned Action:** 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.

**Responsible:** Miguel Money, Controller

**Target Date:** June 30, 20XX

**Latest Update:**

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**Staffing and Timing:** ABC Unlimited Audit Team



# Audit Report Writing Toolkit

**Closing Presentation:** The closing presentation was held April 15, 20XX.

**Distribution:**

Board Members: (names)  
External Auditors: (names)  
Francis Financial, CFO  
Miguel Money, Controller

**Signed:** Anne Auditor, CAE

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