

Dear Q&A

Would it be a reasonable approach for an internal audit function to issue written observations one-by-one during internal audit fieldwork and not issue an internal audit report at conclusion of the audit?**Answer**

Internal Audit Standard 2400 'Communicating Results' requires internal auditors to communicate the results of their work. The Standard does not specify how this should be done. The Standards do, however, assume the existence of a 'final' communication for assurance engagements. Standard 2410.A1 says:

Final communication of engagement results must include applicable conclusions, as well as applicable recommendations and / or action plans.

While the Standards allow that consulting engagements may be reported in any manner that suits the needs of the client, there is suggestion that assurance engagements should provide an overall conclusion. As the interpretation to Standard 2410.A1 says:

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.

While it might be a good idea to keep management informed of matters as they arise, such an approach would not appear sufficient by itself to meet the Standards. Internal auditors are expected to produce a report that provides:

- › Objectives and scope (Standard 2410).
- › Conclusions, recommendations and / or action plans (Standard 2410.A1).
- › Acknowledgement of satisfactory performance, if applicable (Standard 2410.A2).

The role of the internal auditor is to provide assurance to the organisation (Standard 1000.A1). To support this, internal auditors should report to the audit committee (Standard 1110 'Organisational Independence' and Standard 1111 'Direct Interaction with the Board (audit committee)'). It does not seem likely an audit committee would find piecemeal reporting or no conclusion on an internal audit engagement helpful. The suggested method would not provide an audit outcome, rather it would be a series of exceptions without 'telling the audit story'.

There may be value in issuing written observations one-by-one so that management may address them promptly and possibly having a resolution by the time the internal audit engagement is completed. This is not sufficient for the organisation as a whole as the audit committee is entitled to the internal auditor's assessment of the activity.