



## Sell Your Work: How to Deliver Best Practice Audit Reports

By Danny Goldberg, CPA, CIA, CISA, CGEIT, CCSA

### Executive Summary

Encapsulated in your audit report is the work you did and what you found by doing it. Don't sell your efforts short. More times than I can remember I have seen good work and important findings negated by the way the auditor chose to present his/her efforts. Too many times auditors view the audit steps as the important part of the work. They lose sight of the obvious—that the audit report is the report of the audit overall. If you do not get the report right, what you learned from your labors might be pretty much wasted.

Sound guidance can be found in the International Professional Practices Framework (IPPF) set forth by The Institute of Internal Auditors. All auditors need to be versed in the IPPF because it translates their work into a salable product. Additionally, you need to read between the guidelines to create an efficient and effective audit report.

### Introduction

Writing an audit report can be more about art than the technical ins and outs of the function reviewed. Writing up your work is an acquired skill that takes time to develop. It does not happen overnight or automatically. To be successful in this profession, you have to sell your work. Fortunately, you do not need to sell your soul to sell your work. Report writing can be easier because the International Professional Practices Framework (IPPF) allows us 'to stand on the shoulders of giants.' By following professional guidance, effective language, and industry best practice, audit reports can direct decisive action and improve internal control deficiencies at your organization.

### Audit Reports Should Grab Attention

No one wants to be in the position of negating good audit planning and execution because the report is neither adequate nor effective. Audit reporting styles are guided by both the needs of the audit committee and the desire of company management. Some audit committees request detailed reports with the trappings outlined by The Institute of Internal Auditors (IIA). Other committees

prefer only the highlights and those issues that might significantly affect their responsibilities. Management, on the other hand, generally expects to see actionable reports that are quick to read and easy to dissect.

So how can you optimize the efficiency and effectiveness of your audit reports? The best practices route is to follow the IIA's IPPF, which outlines general guidance on audit reports. Section 2400 is highlighted below:

- 2400: Communicating Results
  - Internal auditors must communicate the engagement results.
- 2410: Criteria for Communicating
  - Communications must include the engagement's objectives and scope, as well as applicable conclusions, recommendations, and action plans.
  - 2410. A1—Final communication of engagement results must, where appropriate, contain the internal auditor's overall opinion and/or conclusions.
  - 2410. A2—Internal auditors are encouraged to acknowledge

satisfactory performance in engagement communications.

- 2410. A3—When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.
- 2410. C1—Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.
- 2420 Quality of Communications
  - Communications must be accurate, objective, clear, concise, constructive, complete and timely.

### What IPPF §2420 Guidance Really Says

The IPPF guidance is generic, with quite a bit of leeway allowed to create your audit report style. A report, as a result, can vary greatly by organization. However, there is little doubt about what The IIA expects of an audit professional when he/she is reporting on the audit. The IIA's guidance is basically what an audit committee member or a hospital manager would want to learn from an auditor.

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Let's look more deeply at the guidance to understand better what the elements in §2420 mean:

- *Accurate*—As an auditor you must make sure accuracy and transparency remain critical. Be sure you are straight forward with the facts and they are evident to all readers.
- *Objective*—Inherent in the role of an auditor, impartiality and independence, both the components of objectivity, are necessities to being effective as an auditor. Lack of objectivity, or the appearance thereof, can occur by being insensitive in the use of terminology or phraseology. Avoid opinionated, judgmental and negative action words (e.g., failure; not very good; you must, etc.).

**A**udit reports need to be logical, easy to understand, and not subject to multiple interpretations.

- *Clear*—Audit reports need to be logical, easy to understand, and not subject to multiple interpretations. Audit reports must stand alone and be understandable by a myriad of professionals who may have various backgrounds.
- *Concise*—Audit reports should be to the point, but with enough detail for the reader to comprehend the issue(s) at hand.
- *Constructive*—Reports should be helpful and guide report recipients with respect to actions and improvements that can be useful or needed.
- *Complete*—Reports should include all significant and relevant information to appropriately represent the issues and recommendations of the audit.
- *Timely*—Reports must be issued in a timely manner in order to assure relevance.

### How to Construct an Optimized Audit Report

What does it take to create valuable reports that incorporate these components?

Loosely interpreting IPPF standards and industry best practices, the Standards give general guidance on the content of the audit report. However, major decisions need to be made when establishing the department's audit report structure. Some of the main determinants to create an optimized audit report format are:

- Opinion (2410. A1)
- Report ratings
- Length of report

Report ratings are not outlined in IPPF, however many audit departments employ report ratings. Additionally, 2420 mentions "concise" but how does that equate to the length of the report? All of these issues will be discussed in the coming paragraphs.

The three factors above should be addressed to be in line with applicable guidance and industry best practices. These factors are important to make sure the reports are optimized, effective as possible, and in line with Audit Committee expectations.

### Divide Your Report into Logical Sections

Audit reports are typically divided into sections that are easy to understand and that allow the readers to follow the message being delivered. Reports will typically have three main sections with sub-sections added to meet Audit Committee and senior management requirements. The three sections you should always expect to see are:

- An Executive Summary (includes Opinion)
- Findings and Recommendations
- An Appendix and Additional Information

### What Makes a Good Executive Summary?

An executive summary is a one-page summation of the audit results written for upper management and included as the initial page of your report. The executive summary is defined by the title: a summary of the audit designed for executive management consumption. The summary allows them to understand the audit results without needing to read the specific details. The executive summary outlines the basics of the report, providing the reader with who, what, where, why, and how plus, the audit outcome.

An initial summary page makes the report versatile. You can give the one-page summary to executive management to read, and the whole report to the auditee. Those in upper management will appreciate a short, concise readable account.

To be most effective, the executive summary should contain the following sections:

- Audit Objective(s)
- Audit Scope
- Audit Opinion
- Overall Report Ratings (if used, see discussion below)

### Executive Summary Sections Defined

*Audit Objectives:* Inform readers why the audit was performed and what the goals of the audit were.

*Audit Scope:* Include the scope to give readers the audit parameters and the period reviewed.

*Audit Opinion:* IPPF §2410. A1 and IPPF Practice Advisory §2410, provide guidance concerning the audit opinion:

- IPPF §2410.A1
  - Final communication of engagement results must, where appropriate, contain the internal auditor's overall opinion and/or conclusions.
- Practice Advisory for §2410
  - Conclusions and opinions are the internal auditor's evaluations of the effects of the observations and recommendations on the activities reviewed. They usually put the observations and recommendations in perspective based upon their overall implications.

Clearly identify any engagement conclusions in the engagement report. Conclusions may encompass the entire scope of engagement or specific aspects. They may cover, but are not limited to, determining whether operating or program objectives and goals are being met, and whether the activity under review is functioning as intended. An opinion may include an overall assessment of controls or may be limited to specific controls, or aspects of the engagement.

Audit opinions are most effective when the following conditions are met:

- The opinion must be objective and refrain from negative language (e.g. failure).
- The opinion must be succinct, clear and not subject to alternate interpretation.
- A well-written opinion usually will make a report rating unnecessary.

For example, the following is a short, well-written audit opinion:

Opinion: The SOX control library contains 45 recommended controls, some of which are material and others that may be deemed immaterial. Each of these controls was included in our audit testing.

In our opinion, Company X did not pass the SOX Information Technology Audit as of November 30, 2010. The cause of this is the one identified material weakness discussed in the report. In addition to the material weakness, our testing also identified four other controls that did not pass. These four, however, are considered immaterial when viewed individually or when taken as whole, and as such did not factor into our opinion.

A value-added opinion does not include emotional words, is not subject to varying interpretations, and negates the need for a report rating which is discussed below.

Due to space constraints I will not discuss findings and recommendations, per se, as most auditors are quite familiar with this area. Obviously, as stated in §2420 above, all your facts must be accurate and complete and your recommendations have to be objective, constructive, and clear. In addition, you should strive to be as concise as possible and be sure your process for producing the audit report is as streamlined as possible, so your findings and recommendations are timely.

To help everyone who reads the report of your work, you may want to consider including an appendix or other supporting detail. An appendix is text that is added to the end of your report containing information that is important, but is not the main topic of the report. By adding this, you allow the reader the option of deciding to read it or not. If they want more background they most likely will take the time, but if they are generally knowledgeable they can skip it. This helps

give the perception that the report is to the point and not cluttered.

### To Rate or Not To Rate? That Is the Question

No perfect rating schema exists. Auditees and others will find the weaknesses in whichever rating methodology you use. My preference is not to use audit ratings. Too much effort can be used trying to find or to develop, implement, explain, and defend the reasons for your selection. Instead, put your efforts into writing the best audit opinion that you can.

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## *A value-added opinion does not include emotional words.*

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However, you may prefer to include ratings, or your management and audit committee may require that you include a rating in your audit reports. These ratings can be valuable to the reader, making it easy for them to grasp the significance of the audit results. A word of caution if you do use audit ratings: be clear with the reader whether the rating is for the overall function that was audited, a part of that function, or a control(s) tested.

Before deciding on adopting a rating methodology it is important to

understand that using a report rating schema can and often does present several concerns. For instance:

- *The overall report tends to not get fully read and much important information is missed.* If you selected a novel to read and the book began with the final chapter, how inclined would you be to read the rest of the book? Audit reports that include an overall rating tend to focus very busy upper management on the rating and not the content.
- *An over-focus on the rating and how it was calculated.* Even though the rating gives the reader a feel for the overall results, when readers review an audit report, their natural tendency is to focus on the rating. (“Why did you give it a four? I think it should be a five. How did you come up with this score?”). Ratings can be a very effective means for upper management and others to glean quickly the overall results of the audit. However, a word of advice: get upper management involved in the development of your rating schema. If they understand how the rating works and have signed-off on its use, less focus on the score will occur and the substance of the report will receive attention. In addition, it will help with the following item.
- *Non-productive time consumed haggling with auditee over the rating to be included in the final report.* With all rating schemas a certain amount of subjectivity needs to be exercised. Implementing a methodology that rates audits will most certainly evolve into extended discussions of what score best represents the conditions audited. Remember the auditee’s ego and perceived performance is tied to the overall score and no one wants to look bad. You will see this especially when the auditee knows the rating will be seen by superiors one, two, or three levels above them. In addition, the auditee may also be unsure about how their audit rating looks compared to the audit ratings of their peers. No one wants to be the low guy on the totem pole, so you may incur unproductive time at the end of each audit discussing scores rather than control deficiency mitigation. Bad feelings may also arise between the auditor and auditee.



## Does size matter when it comes to audit reports?

Some auditors believe a report needs to be of a certain length or they have not fulfilled their audit duty. Other auditors fall into the trap of dumping into the report everything they did and found. When they do that it is often an indicator of one of two things: 1) auditor inexperience, or 2) the auditor is unable to discern the important from the unimportant.

Upper managers are busy and this means they often have more reading than they can squeeze into a typical day. Frequently, in order to meet their responsibilities, these executives learn to skim all written correspondence looking for the highlights.

Smart auditors provide the highlights for readers in the reports they write. Using this approach, key facts and points are presented in a clear, concise, and succinct fashion. Whether the report is short or long really misses the point. Once these auditors have stated the important aspects of the audit the report is done.

Auditors who construct reports in a fashion to differentiate their work from other business correspondence will find the audit receives the attention needed. Whether the report communicates what needs to be said is the key issue. Make your report a document people want to read.

### Summary

Audit reports are integral to the audit process in many ways. They give a summary of the results of the audit undertaken and prompt corrective forward-thinking actions. Additionally, they present a view of audit department capabilities to the auditee and executive management. A well-written report can greatly affect its readers. Key determinates when establishing the report format for the department include:

- *Opinion*—Must be seen as objective, not be subject to differing interpretations, and stay away from judgmental and negative language.
- *Report rating*—A well-written opinion should make a report

rating unnecessary and eliminate unproductive audit time.

- *Length*—Design your report format to minimize report length without sacrificing clarity and objectivity. Developing an effective executive summary will assist in managing report breadth and depth.

By optimizing your report writing and format, a Chief Audit Executive can create for executive management a communication that will come across as objective, prompt action(s), and be easy to read and follow. **NP**

*Danny M. Goldberg, CPA, CIA, CISA, CGEIT, CCSA is a Partner at Healthcare 180 LLC, an advisory services firm specializing in the healthcare and insurance industries. He is also the founder of SOFT GRC, a professional development firm. Danny has over 13 years of audit experience, including Director/Chief Auditor roles in companies in the Dallas area. He has been published in numerous trade magazines and is a renowned speaker on the subjects of governance, risk and compliance. If you have comments or questions regarding this article, Danny can be reached at [danny.goldberg@healthcare180llc.com](mailto:danny.goldberg@healthcare180llc.com) or (972) 715-2023.*

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