

Factsheet: Internal Audit Report Control Ratings

Background

Standard 2400 'Communicating Results' contained in the 'International Standards for the Professional Practice of Internal Auditing' states that "Internal auditors must communicate the results of engagements."

This is supplemented by "Communications must include the engagement's objectives, scope, and results." (Standard 2410), and "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." (Standard 2410.A1). Also, "Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications." (Standard 2410.A2)

What generally happens

When writing internal audit reports, internal auditors generally apply a 'negative by exception' approach. This means the internal auditor generally focuses on what is wrong and builds the report outcome around what needs to be fixed. This is an inherently poor approach that can lack balance and focus on negativity

Further, internal audit reports often do not provide a view on all of the objectives or scope items the audit examined.

What should happen

To provide an informative and balanced internal audit report, it is suggested reports contain a rating against all objectives or scope items. And to provide even more information for a reader of the report, this can be differentiated to give a view of two things:

- › Control design – Is the control well-designed to achieve what it is intended to do?
- › Control effectiveness – Even if a control is well-designed, is it in fact operating effectively? It is possible (and it happens frequently) for a well-designed control to be operating ineffectively.

Differentiation of these two components allows an internal audit report to provide a clearer picture of what is occurring, and provides a more valuable audit outcome.

Example internal audit report control ratings

Shown on page 2 is an example for portraying control ratings in an internal audit report.

Helpful reference

IIA–Global 'International Professional Practices Framework'

Acknowledgement

This Fact Sheet has been prepared with input from the Internal Audit Department at National Aquaculture Group (NAQUA) in Al Lith, Saudi Arabia.

Assessment

The following table demonstrates in summary the control objectives covered by the audit of Human Resources, our assessment of risk based on the adequacy of controls in place, effectiveness of the control tested, and any resulting recommendations.

	HR Business Activities	Control Design	Control Operation	Recommendations
1	HR organisation structure			
2	Workforce planning			1
3	Policies and procedures			2
4	Career structure, grading scale and job descriptions			3
5	Records / HR information system, including employee self-service			
6	Recruitment			4
7	On-boarding and induction			
8	Attendance and leave			
9	Pay and overtime			
10	Allowances and benefits			5
11	Business travel			6
12	Training and development			
13	Succession planning			7
14	Employee performance			8
15	Employee welfare			
16	Separation and termination			
17	Employee turnover			
18	Code of conduct			9
19	Grievances			10
20	Management reporting			

Control Assessment

We have four categories by which we classify internal audit assessment of efficiency and effectiveness over internal control systems audited – Satisfactory, Reasonable, Limited or None. These are defined in the table below:

Level	Symbol	Efficiency Assessment (Design)	Effectiveness Assessment (Operation)
Satisfactory		There is a sound system of internal control designed to achieve system objectives.	Controls are being consistently applied.
Reasonable		There is generally a sound system of internal control design, which may place some system objectives at risk.	There is evidence the level of non-compliance with some of controls may put some system objectives at risk.
Limited		Weaknesses in the system of internal control design are such as to put system objectives at risk.	The level of non-compliance puts system objectives at risk.
None		Control is generally weak, leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.