

## Dear Q&A

I am an internal auditor with an internal audit plan that contains audits I conduct throughout the year. The end result of each audit is an internal audit report. In recent times, management has started to question why internal audit reports aren't 'balanced' by containing positive commentary, in addition to what needs to be fixed that was discovered by the audit. I have always written internal audit reports based on what needs to be fixed, which I believe is called 'negative by exception'. If I was to provide positive commentary in internal audit reports, wouldn't I need to do a lot of extra audit work to provide assurance over the positive commentary?

### Answer

Standard 2410.A2 contained in the 'International Standards for the Professional Practice of Internal Auditing' states "Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications."

While not mandatory, acknowledging satisfactory management performance or leading practices identified during an audit can contribute to a partnership between internal audit and management. People don't go to work to do a bad job, but internal audit reports can often give this impression. Balanced reporting and positive commentary can change the management perceptions of internal audit being the police and 'beating people up'.

Most internal audit engagements have the objective of providing assurance over some form of operation. This is normally a wider objective than looking for the faults and reporting on them, therefore design of the internal audit should already incorporate examination of areas which ultimately lead to no identified deficiencies.

As always, internal audit opinions and conclusions must be based on "sufficient, reliable, relevant, and useful information" (Standard 2310), and you are right to be concerned about drawing conclusions beyond the evidence available. Under these circumstances, however, the internal audit should already have generated sufficient evidence to make a positive statement about an area in which no deficiencies are identified.

Internal auditors should always draw a conclusion that relates directly to the audit objectives. Do not leave it to the reader to assess what the audit found. If a conclusion cannot be drawn, then the internal audit has not been satisfactorily completed.

Even the way in which observations are framed can make a difference. When the root causes of deficiencies are identified, they often prove to be related to the tools or information provided to the people doing the job. In this case, recognising that the individuals are doing as well as can be expected, given the deficiencies in process, helps to balance the reporting.

Along the way, the internal auditor may note improvements in operation since a prior audit, or the satisfactory implementation of past recommendations. This provides the opportunity to make a positive statement.

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Finally, there may be the opportunity to step back from an area and examine its key performance measures. Ask yourself whether the area is, on the whole, achieving its objectives. If you have no reason to doubt the overall performance of the area, this can be recognised without compromising our standards.

So, there are some simple ways of providing 'balanced' commentary:

- › Put the internal audit observations into context by discussing the overall performance of the area under review.
- › Provide a conclusion in relation to the audit objectives.
- › Make a statement in relation to areas examined where no deficiencies were identified.
- › Recognise improvements when they have occurred.