

Factsheet: Internal Audit Report Disclaimers

What is a disclaimer?

A disclaimer is a statement attached to a report intended to specify or delimit the scope of rights and obligations that may be exercised and enforced by parties in a legal relationship.

The format of disclaimers may vary, but they are ultimately a statement designed to deny something which is usually responsibility. A disclaimer may also be called a statement of limitation.

Disclaimers are driven by legal processes seeking to minimise potential liability from work performed for a client organisation, so they generally originate with the company providing the service.

With regard to internal audit work, disclaimers are usually added to internal audit reports for engagements provided by service provider companies. In some cases, in-house internal audit functions include disclaimers in their internal audit reports.

Internal audit service providers are procured by organisations to provide internal audit services. This occurs across all sectors – government, corporate and not-for-profit. The arrangement may be:

- › Co-sourced – The service provider may perform one or more internal audit engagements to supplement in-house internal audit resources or as part of a panel of multiple service providers.
- › Outsourced – The service provider performs all internal audit engagements.
- › Full scope outsourced – The service provider performs all internal audit services including annual planning, engagements and monitoring and following-up audit action implementation by management.

Service providers may be professional service firms (Big 4, 2nd tier, boutique firms) or independent contractors.

Should disclaimers be allowed?

Use of disclaimers is widespread in business. Rather than discussing whether disclaimers should be allowed or not, it is incumbent on individual organisations to decide what is appropriate and reasonable disclaimer content, if any, and to clearly express that to the internal audit service provider.

Some considerations:

- › It should not be necessary for in-house produced internal audit reports to contain a disclaimer.
- › It should generally not be necessary for internal audit reports using an organisation's standard internal audit report template format to contain a disclaimer when produced by a service provider.
- › Use of disclaimers may be reasonable but should be in a format approved by the procuring organisation.

Further things to consider:

- › There is little evidence of litigation resulting from internal audit reports.
- › An in-house produced internal audit report should not need a disclaimer – it is unlikely a business area would sue the internal audit function of the same organisation.
- › If the procuring organisation edits or changes a service provider produced internal audit report, then potential litigation is unlikely to be an issue and a disclaimer not generally warranted.
- › Where an internal audit report is provided to a regulator, a disclaimer may be warranted.
- › If the procuring organisation accepts a service provider report in total and makes no changes to it, a disclaimer may be warranted.

What are some disclaimer traps?

Service provider engagement letters

The reason an organisation has a contract or agreement with a supplier is to protect its interests. For example, a government department procuring goods or services such as internal audit services will almost always require the supplier (service provider) to sign a government contract. For this reason alone, to protect your interests, an organisation procuring internal audit services should insist on a service provider signing the procuring organisation's contract rather than a procuring organisation signing a service provider engagement letter. Where a service provider will not sign it, or comes back with a list of required changes, the best option would be to find another service provider who will sign the procuring organisation's contract.

Copyright

Service providers should not include ‘copyright’ or ‘all rights reserved’ in a report that is paid for by the procuring organisation. Copyright is a type of intellectual property giving its owner exclusive right to make copies of a creative work usually for a limited time. Internal audit reports are paid for by, and are about, the procuring organisation so copyright should vest in the procuring organisation.

Document classification

Classifications are generally applied to documents to show the level of security to be afforded to a specific document for example ‘confidential’ or ‘commercial-in-confidence’.

The only document classification to be applied to a service provider authored document should be that of the procuring organisation.

Third party reliance

Some service provider reports include words saying the report is not to be distributed to any other party without the service provider’s prior written consent. The procuring organisation has paid for the internal audit report produced by the service provider, and once handed over the service provider has no rights to the report, its content, or to whom it can be distributed.

AUASB standards

Many disclaimers mention external audit standards produced by the Auditing and Assurance Standards Board (AUASB) and try to retrofit these to internal audit engagements. Often mentioned is AUASB standard ASAE 3000 ‘Assurance Engagements Other than Audits or Reviews of Historical Financial Information’.

ASAE 3000 is an external audit standard and would be relevant to few, if any, internal audit engagements.

In correspondence to the IIA-Australia dated 31 October 2014, the AUASB stated:

“Several years back, the AUASB was asked to consider endorsing the International Standards for the Professional Practice of Internal Auditing (Standards) and after lengthy consideration by the AUASB it was decided on balance that it would be inappropriate for the AUASB to endorse the standards of other professional bodies. Our reasons for coming to this conclusion, which we still maintain, are largely based on the fact that internal auditors are not independent of the entity, as per the principles referred to in APES 110 Code of Ethics for Professional Accountants. Furthermore it is our understanding that many internal audit engagements are consulting type arrangements. This position was endorsed by the board after discussion at its meeting on 21 October 2014.”

The AUASB supports the IIA-Australia in its promotion of its set of internal auditing standards but unfortunately, does not consider the endorsement, reissuance or development of such a set of standards to be within the remit of the AUASB. Furthermore, any such initiative would also be contrary to the Australian Government’s deregulation agenda.”

What might a reasonable internal audit report disclaimer look like?

Examples could be:

Statement of Assurance

This audit has been conducted in accordance with the International Standards for the Professional Practice of Internal Auditing contained in the International Professional Practices Framework issued by the Institute of Internal Auditors.

In our professional judgement, sufficient and appropriate audit procedures were completed and appropriate evidence gathered to support the accuracy of the conclusions reached and contained in this report.

<Name of internal auditor>

<Date>

Disclaimer

Our internal audit work was limited to that described in this report. It was performed in accordance with the International Standards for the Professional Practice of Internal Auditing contained in the International Professional Practices Framework issued by the Institute of Internal Auditors. It did not constitute an audit or review in accordance with standards issued by the Auditing and Assurance Standards Board and accordingly no such assurance under those standards is provided in this report.

What do disclaimers do for internal audit reports?

Use of disclaimers in internal audit reports results in a loss of credibility of the report content.

Top management and audit committees are less comfortable relying on internal audit reports containing ‘heavy’ disclaimers.