

Dear Q&A

Can audit observations that sit outside the agreed scope of work be included in the internal audit report? I have just completed an audit with a number of observations that I came across during fieldwork that sit outside the agreed scope of work. I have not performed detailed testing for them to be considered evidence-based observations but am certain all are valid and significant issues based on my understanding of the current state. I am raising a high-rated audit item for management to ‘review these observations and determine next steps’. In preparation for socialisation with senior stakeholders, it would be beneficial to understand whether the Internal Audit Standards provide internal auditors any guidance or obligation to include out of scope observations in the final internal audit report.

Answer

The Standards are quite clear that “internal auditors must base conclusions and engagement results on appropriate analyses and evaluations” (Internal Audit Standard 2320). So, if these matters are not supported by sufficient evidence, they probably should not be raised as observations in the internal audit report.

Some organisations elect to include out of scope observations in final reports, but there is a danger that they distract from the purpose of the original engagement or get lost in the context of the engagement. The Internal Audit Standards provide no guidance here. However, the Internal Audit Standards are clear that all audit results must be supported by evidence.

This does not mean out of scope matters with limited evidence should be ignored.

- › The most direct way for an internal auditor to deal with such matters is to raise them informally with the management of the area concerned. Before doing this, it would be best to discuss them with your internal audit supervisor to test your understanding. Such matters are best raised as informal questions and, most often, responsible management are happy to respond and even correct matters you have raised. The matters identified, the fact the internal auditor has discussed them with management, and the action to be taken should be recorded.
- › Whether or not these matters are raised with management, they should be advised to the chief audit executive who may elect to use the information in planning future audits.
- › If the matter is serious, the chief audit executive may raise the matter with senior management. Internal Audit Standard 2600 ‘Communicating the acceptance of risks’ is also clear on the matter: *“When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organisation, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board (governing body)”*. The chief audit executive should make a judgement about the risk to the organisation and act immediately in a formal and structured way if they believe the organisation is facing an unacceptable risk.