

Dear Q&A

Should internal audit prepare an annual report at the end of each year in addition to the internal audit report for each audit committee meeting?

Answer

Informative internal audit reporting to the audit committee and senior management is paramount to internal audit demonstrating its value to the organisation. However, we need to remember that internal audit is a non-core function that some see as expensive, so an internal audit function needs to demonstrate its value and importance to their organisation clearly.

An internal audit annual report should be prepared whether an internal audit function is in-house, co-sourced or fully outsourced.

The IIA-Australia publication 'Internal Audit in Australia' recommends an internal audit annual report as a good practice feature of internal audit practice.

The primary audience includes the audit committee, chief executive officer and senior management. The annual report consolidates insights from all internal audit activities, not just reports on internal audit engagements and audit recommendation tracking.

There is a trend for chief audit executives to produce an internal audit annual report. It is becoming an increasingly common internal audit deliverable and might include such things as:

- › Summary demonstrating internal audit value delivered for the year.
- › High-level information and insights gleaned from internal audit work.
- › Summary of internal audit work and achievements for the year.
- › Chief audit executive statement of assurance on the effectiveness of the overall control environment.
- › Information on themes, patterns, multi-year trends, significant and systemic matters, and emerging issues identified from internal audit work.
- › Internal audit achievement against its objectives
- › Internal audit balanced scorecard.
- › Internal audit performance measures (KPIs) and results.
- › Commentary on audit recommendation implementation progress.
- › Stakeholder feedback results.
- › Quality assurance and improvement program results.
- › Internal Audit maturity assessment and improvement on the prior year.
- › Resourcing summary.
- › Risks and challenges.
- › Internal audit improvement plan for the coming year containing initiatives going forward – this is in addition to the annual internal audit plan of engagements.
- › Attestation statement of conformance with professional standards, etc.

The primary benefit of an internal audit annual report is that it draws the 'whole story' together for stakeholders, and in doing so helps to enhance the internal audit value-add. A well-developed report

is potentially a powerful marketing instrument for internal audit. An internal audit annual report should include content, and be structured in a way, that helps the audit committee populate its annual report. The internal audit annual report could be structured into three primary chapters:

Contributions

- › Highlights
- › Activities
- › Future Focus Areas

Outcomes

- › Themes
- › Systemic Issues
- › Trends and Analysis

Capability

- › Overall performance
- › Overall Staff Profile
- › Internal Audit Leadership
- › Internal Audit Team

More information can be found in the IIA–Australia Whiter Paper ‘Annual Report on Internal Audit’.
https://iia.org.au/sf_docs/default-source/technical-resources/2018-whitepapers/iia-whitepaper_annual-report-on-internal-audit.pdf?Status=Temp&sfvrsn=4