

UNIVERSITY OF TOLEDO INTERNAL AUDIT REPORTING STANDARDS

UPDATED DECEMBER 15, 2019

Executive Summary

Internal auditors must communicate the results of engagements. The University of Toledo's approach to reporting must include the following key components:

- Providing a scope section separate from observations to focus content.
- Including a risk-ranking framework to structure and prioritize observations.
- Explicitly stating key, high-risk observations within executive summaries.
- Leveraging the use of tables, graphics, and other visuals to illustrate key content.

Communication Criteria

Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.

Although the format and content of the final engagement communications varies by type of engagement, they are to contain, at a minimum, the purpose, scope, and results of the engagement.

Final engagement communications may include background information and summaries.

Background information may identify the organizational units and activities reviewed and provide explanatory information. It may also include the status of observations, conclusions, and recommendations from prior reports and an indication of whether the report covers a scheduled engagement or is responding to a request. Summaries are balanced representations of the communication's content.

Purpose statements describe the engagement objectives and will inform the reader why the engagement was conducted and what it was expected to achieve.

Scope statements identify the audited activities and may include supportive information such as time period reviewed, and related activities not reviewed to delineate the boundaries of the engagement. They will describe the nature and extent of engagement work performed.

Results include observations, conclusions, opinions, recommendations, and action plans.

Observations are pertinent statements of fact. The internal auditor communicates those observations necessary to support or prevent misunderstanding of the internal auditor's conclusions and recommendations. The internal auditor may communicate less significant observations or recommendations informally.

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Engagement observations and recommendations emerge by a process of comparing criteria (the correct state) with condition (the current state). Whether or not there is a difference, the internal auditor has a foundation on which to build the report. When conditions meet the criteria, communication of satisfactory performance may be appropriate. Observations and recommendations are based on the following attributes:

- **Criteria:** The standards, measures, or expectations used in making an evaluation and/or verification (the correct state).
- **Condition:** The factual evidence that the internal auditor found in the course of the examination (the current state).
- **Cause:** The reason for the difference between expected and actual conditions.
- **Effect:** The risk or exposure the University and/or others encounter because the condition is not consistent with the criteria (the impact of the difference). In determining the degree of risk or exposure, internal auditors consider the effect their engagement observations and recommendations may have on the University's operations and financial statements.

Observations and recommendations can include engagement client accomplishments, related issues, and supportive information.

Conclusions and opinions are the internal auditor's evaluations of the effects of the observations and recommendations on the activities reviewed. They usually put the observations and recommendations in perspective based upon their overall implications.

Clearly identify any engagement conclusions in the engagement report. Conclusions will encompass the entire scope of an engagement or specific aspects. They may cover, but are not limited to, whether operating or program objectives and goals conform to those of the University, whether the University's objectives and goals are being met, and whether the activity under review is functioning as intended. An opinion may include an overall assessment of controls or may be limited to specific controls or aspects of the engagement.

The internal auditor will communicate recommendations for improvements, acknowledgments of satisfactory performance, and corrective actions.

Recommendations are based on the internal auditor's observations and conclusions.

They call for action to correct existing conditions or improve operations and may suggest approaches to correcting or enhancing performance as a guide for management in achieving desired results.

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Recommendations can be general or specific. For example, under some circumstances, the internal auditor may recommend a general course of action and specific suggestions for implementation. In other circumstances, the internal auditor may suggest further investigation or study.

The internal auditor may communicate engagement client accomplishments, in terms of improvements since the last engagement or the establishment of a well-controlled operation.

The internal auditor will communicate the engagement client's views about the internal auditor's conclusions, opinions, or recommendations.

As part of the internal auditor's discussions with the engagement client, the internal auditor obtains agreement on the results of the engagement and on any necessary plan of action to improve operations. If the internal auditor and engagement client disagree about the engagement results, the engagement communications state both positions and the reasons for the disagreement. The engagement client's written comments may be included as an appendix to the engagement report, in the body of the report, or in a cover letter.

Certain information is not appropriate for disclosure to all report recipients because it is privileged, proprietary, or related to improper or illegal acts. Disclose such information in a separate report. Distribute the report to the Finance and Audit Committee if the conditions being reported involve senior management.

Interim reports are written or oral and may be transmitted formally or informally. Use interim reports to communicate information that requires immediate attention, to communicate a change in engagement scope for the activity under review, or to keep management informed of engagement progress when engagements extend over a long period. The use of interim reports does not diminish or eliminate the need for a final report.

A signed report is issued after the engagement's completion. Summary reports highlighting engagement results are appropriate for levels of management above the engagement client and can be issued separately from or in conjunction with the final report. The term "signed" means the authorized internal auditor's name is manually or electronically signed in the report or on a cover letter. The Director of Internal Audit will determine which internal auditor is authorized to sign the report. When engagement reports are distributed by electronic means, a signed version of the report is kept on file by the Internal Audit Department.

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Quality of Communications

Communications will be accurate, objective, clear, concise, constructive, complete, and timely.

Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. Constructive communications are helpful to the engagement client and the University and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

Gather, evaluate, and summarize data and evidence with care and precision.

Derive and express observations, conclusions, and recommendations without prejudice, partisanship, personal interests, and the undue influence of others.

Improve clarity by avoiding unnecessary technical language and providing all significant and relevant information in context.

Develop communications with the objective of making each element meaningful but succinct.

Adopt a useful, positive, and well-meaning content and tone that focuses on the University's objectives.

Ensure communication is consistent with the University's style and culture.

Plan the timing of the presentation of engagement results to avoid undue delay.

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Disseminating Results

The Executive Director of Internal Audit will communicate results to the appropriate parties.

The Executive Director of Internal Audit or designee reviews and approves the final engagement communication before issuance and decides to whom and how it will be disseminated.

The internal auditors will discuss conclusions and recommendations with appropriate levels of management before the Executive Director of Internal Audit issues the final engagement communications. This is usually accomplished during the engagement and/or at post-engagement meetings (i.e., exit meetings).

Another technique is for the management of the audited activity to review draft engagement issues, observations, and recommendations. These discussions and reviews help avoid misunderstandings or misinterpretations of fact by providing the opportunity for the engagement client to clarify specific items and express views about the observations, conclusions, and recommendations.

The level of participants in the discussions and reviews vary by nature of the report; they generally include those individuals who are knowledgeable of detailed operations and those who can authorize the implementation of corrective action.

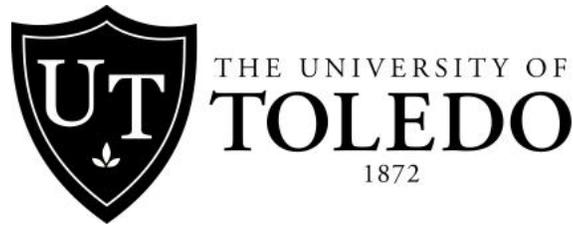
The Executive Director of Internal Audit distributes the final engagement communication to the management of the audited activity and to those members of the University who can ensure engagement results are given due consideration and take corrective action or ensure that corrective action is taken.

Where appropriate, the Executive Director of Internal Audit may send a summary communication to higher-level members in the University. Where required by the Internal Audit Charter or University policy, the Executive Director of Internal Audit also communicates to other interested or affected parties such as external auditors and the Finance and Audit Committee.

Internal Audit Report Template

See attached.

Length: 2 pages preferred, 3 pages max.



**THE UNIVERSITY OF TOLEDO
INTERNAL AUDIT AND COMPLIANCE DEPARTMENT
MEMORANDUM**

TO: *(Executive In charge of area audited – typically vice president or dean-level – name, title, unit)*

CC: *Name, President, University of Toledo (first on cc list)*
Name, Executive Vice President, Finance and Administration
All Direct and Indirect Supervisors of Primary Addressees (in alphabetical order)

FROM: *Name, Chief Compliance Officer and Executive Director, Internal Audit*
(include auditors who worked on project – leave room for electronic signatures)

DATE:

SUBJECT:

We have completed a review of the *(Name of Audit)* as of *(Date Completed)*. The review focused on the adequacy and effectiveness of internal controls associated with..... *(Alternative scope language may apply to second sentence)*.

Background *(Business Objectives, Major Process Activities and Significant Business Risks)*
(Two paragraphs max, typically— use tables, graphics, and other visuals to illustrate key content in this section)

The primary business risks associated with this process are *(state three or four significant business risks)*.

Conclusion *(Select appropriate conclusion based upon Assessment -- Explicitly state key, high-risk observations)*
Internal controls are effective in mitigating the risks specific to the achievement of business objectives. We have reviewed the results with *(identify the person you reviewed, or area management Identify person)*.

OR

Internal controls are effective in mitigating the risks specific to the achievement of business objectives with a few minor exceptions. However, opportunities for control enhancement were identified, as previously noted. We have reviewed the results with *(identify the person you reviewed or area management)* and a management action plan has been developed to address the issue identified during the review.

OR

Internal controls are effective in mitigating the risks specific to the achievement of business objectives except for the methods used for performing follow-up on compliance issues. We have reviewed the results with *(identify the person you reviewed or area management)* and a management action plan has been developed to address the issue identified during the review.

OR

Internal controls associated with the methods used for performing follow-up on compliance issues need improvement in order to bring the control environment to an effective level in mitigating the risks specific to the achievement of business objectives. We have reviewed the results with *(identify the person you reviewed or area management)* and a management action plan has been developed to address the issue identified during the review.

OR

Internal controls are ineffective in mitigating the risks specific to the achievement of business objectives as previously noted. We have reviewed the results with *(identify the person you reviewed or area management)* and a management action plan has been developed to address the issue identified during the review.

Summary of Business Objectives, Scope and Results

- **Business Objective** *(repeat based on the number of business objectives in the audit scope):*

Scope:

Results:

Risk Ranking: <<High, Medium, or Low Risk>>

Recommendations:

Management Response *(if any recommendations are made for this business objective – else, leave off):*

We appreciate the cooperation and assistance that your staff provided to the audit team during this review. Should you have any questions or require additional information, please do not hesitate to contact *(name & phone number of audit director)* or *(auditor names)* at *(phone numbers)*.