

## SECTION C-4

### COMMUNICATING RESULTS

IIA Standard 2400, Communicating Results, requires that Internal Auditors must communicate the engagement results.

#### **Criteria for Communicating**

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

#### **Quality of Communications**

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

- Accurate communications – free from errors and distortions and are faithful to the underlying facts.
- Objective communications – fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances.
- Clear communications – easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information.
- Concise communications - to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness.
- Constructive communications – helpful to the engagement client and the organization 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 – opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective actions.

#### **Disseminating Results**

The chief audit executive (CAE) must communicate results to the appropriate parties. Confidential and sensitive information is excluded from publicly available reports in accordance with *Government Auditing Standard* 7.41. Information related to security or infrastructure issues for computers is provided to appropriate parties within the University and the State Auditor, in accordance with their delegation of audit authority (co-sourced engagements), as designated in Texas Government Code § 552.139. The CAE briefs members of the Audit and Compliance Committee and key members of management of these matters in executive session at the Audit and Compliance Committee meetings.

### **Basic Communication Considerations**

Effective communication skills are required in every phase of an audit. The most effective communication method, in-person, phone, email, fax, etc..., will depend on individual circumstances. In general, some basic principles for effective communication are:

- Clarify ideas before communicating.
- Determine the true purpose of the communication – identify the most important goal and adapt the communication to meet that objective.
- Present information both factually and objectively, and avoid jargon.
- Consider the overall setting when communicating, including the timing, circumstances, confidentiality, and past practices.
- Pay attention to the overtones and the basic content of the message, including tone of voice, expression, and language choice.
- Look at the information from the recipient's point of view and identify things that are of benefit or value to them.
- Follow up on communication.
- Listen.

### **Criteria for Communicating**

During the course of an engagement, engagement observations and recommendations are communicated to auditees. Engagement observations and recommendations can be communicated either verbally or in writing during an engagement. Regardless of the type of communication used, the engagement observations and recommendations must be supported by work performed during the engagement and included in the working papers.

Engagement observations and recommendations are derived when comparing criteria (what should be) with the condition (what actually is occurring). Engagement 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 organization and/or other encounter because the condition is not consistent with the criteria (the impact of the difference).

Recommendations can be for improvements, acknowledgements of satisfactory performance, and corrective actions. Recommendations are based on the internal auditor's observations and conclusions. Recommendations call for action to correct existing conditions or improved operations and may suggest approaches to correcting or enhancing performance as a guide for management in achieving desired results. Recommendations can be either general or specific.

### Final Report

The format and content of final engagement communications varies by the type of engagement performed. Audit reports, at a minimum, contain the objectives, scope, and results of the engagement. Audit reports also generally contain, background information, conclusions/opinions, recommendations for improvement, and financial summary information.

To provide consistency and maintain quality in the audit reports, the format of the audit report typically consists of the following:

- Title Page
- Transmittal Letter/Executive Summary
- Audit Report
  - Heading
  - Background
  - Objectives
  - Scope of Work
  - Significant Finding(s)
  - Conclusion
  - Chief Audit Executive Signature Block
  - Date (end of fieldwork)
  - Opportunities for Improvement
  - Observations
  - Financial Analysis
- Management's Action Plan

### Quality of Communications

Communications must be accurate, objective, clear, concise, constructive, complete, and timely. To help ensure quality of the communications, the audit report has several layers of review until the final audit report is issued. Prior to the report being issued to management as a draft audit report, the report is critically reviewed by the Executive Director and approved for distribution of the Chief Audit Executive. The Executive Director will provide feedback to internal auditors preparing draft audit reports to help ensure the audit report is accurate, objective, clear, concise, constructive, complete, and timely, as noted below.

- Accurate communications – free from errors and distortions and are faithful to the underlying facts.
- Objective communications – fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances.
- Clear communications – easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information.
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### **Disseminating Results**

The Chief Audit Executive ensures that the results of an engagement are communicated to the appropriate parties. The Chief Audit Executive communicates the results of an engagement both orally and verbally to internal and external parties, as appropriate. Results are formally communicated orally through an exit conference with the management responsible for the activity audited, meeting with the Chancellor and the Chair of the Audit and Compliance Committee prior to the BOR meeting, and by discussing the results during the BOR meeting. Results are formally communicated in writing to internal and external parties through the various distributions of the audit report and in the BOR Briefing Booklet.

### **Distribution Matrix/Schedule**

To help facilitate the reporting process, the Internal Auditing Department developed a standard report distribution process to allow management the opportunity to provide us with their comments, questions, suggested wording changes, responses, and planned actions. Depending on the nature of the engagement, audit reports are distributed as follows:

- Distribution 1: Distribute the draft of Executive Summary, Audit Report, Revenue/Expenditure Summary, and Distribution Matrix. Request for management's comments.
- Distribution 2: Distribute the draft revision of Executive Summary, Audit Report, and Revenue/Expenditure Summary, and Action Plan.
- Distribution 3: Distribute final draft of Executive Summary, Audit Report, Revenue/Expenditure Summary, and Action Plan.
- Distribution 4: Distribute the final draft report to the Chair of the Audit and Compliance Committee and the Chancellor/President. Begin assembling the Briefing Booklets.
- Distribution 5: Forward Briefing Booklets to the BOR Office for the BOR Meeting – <date of BOR Meeting>.
- Distribution 6: Distribute the final copy of the audit report to management, not receiving the Briefing Booklet, and to the Governor's Office of Budget and Planning, the State

Auditor's Office, the Legislative Budget Board, and the Sunset Advisory Committee as required by Texas Government Code, Section 2102.0091. Depending on the nature of the engagement, other external entities may receive a copy of the final audit report. For example, the Texas Higher Education Coordinating Board receives copies of audit reports relating to audits of ARP/ATP grants.

#### Audit Report Preparation Process

Preparation and transmittal of the audit report requires the joint efforts of various members of the internal audit staff. The Auditor-in-Charge has primary responsibility for preparing the initial draft audit report. The Auditor-in-Charge is required to perform a self-review of the draft audit report to help ensure that (1) the information is accurate and complete, (2) the findings and conclusions are accurate and well-supported, and (3) that the recommendations are likely to produce the desired results. The draft audit report is submitted to the Executive Director for review and approval. The Executive Director performs a critical review of the draft audit report and provides feedback/edits to the Auditor-in-Charge. The Auditor-in-Charge edits the draft audit reporting, accordingly, and resubmits it to the Executive Director for review and approval. The Executive Director will then submit the draft audit report to the Chief Audit Executive for review and approval. The Chief Audit Executive may require additional editing of the draft audit report. After the Chief Audit Executive's approval is obtained the Auditor-in-Charge distributes the draft audit report via email. The draft audit report is distributed 2 more times to management allowing them to provide Internal Auditing Department with their comments, suggested changes, questions, and management responses. All changes to draft audit reports are tracked/marked in distributions 2 and 3. In addition, all changes are reviewed and approved by the Executive Director and the Chief Audit Executive.

#### Outline of the Audit Report Preparation Process

Noted below are the steps in the audit report preparation process.

- Engagement Observations are drafted.
- Engagement Observations are review/approved by Internal Auditing Management.
- Engagement Observations are distributed to auditees.
- Draft report is prepared and submitted to Executive Director.
- Draft report is revised, as appropriate, and resubmitted to Executive Director.
- Draft report is submitted to the Chief Audit Executive for review and approval, changes are made as appropriate.
- 1<sup>st</sup> distribution of the draft audit report is sent to auditees.
- 2<sup>nd</sup> distribution of the draft audit report is sent auditees and management, if appropriate.
- 3<sup>rd</sup> distribution of the draft audit report (final draft) is sent to auditees and management.
- 4<sup>th</sup> distribution of the draft audit report is sent to the Chair of the Audit and Compliance Committee and the Chancellor.
- 5<sup>th</sup> distribution of the draft audit report is included in the BOR Briefing Booklet, which is distributed to the BOR members and UHS management.

- 6<sup>th</sup> distribution of the audit report (final) is sent to the auditees who did not receive a Briefing Booklet; and external agencies, as required by the Texas Internal Audit Act or as required by other entities.
- Final audit reports are uploaded to the Internal Auditing Department's website.

#### Reporting Confidential and Sensitive Information

*Government Auditing Standard 7.41* allows for the exclusion of information related to privacy or security concerns from publicly available or widely distributed reports. This may include information related to computer security for a particular program because of the potential damage that could be caused by the misuse of this information.

Texas Government Code § 552.139 states that computer network vulnerability reports and any other assessment of the extent to which data processing operations, a computer, a computer program, network, system, or system interface, or software of a governmental body or of a contractor of a governmental body is vulnerable to unauthorized access or harm, including an assessment of the extent to which the governmental body's or contractor's electronically stored information containing sensitive or critical information is vulnerable to alteration, damage, erasure, or inappropriate use, is confidential.

#### Exit Conferences

Exit conferences are conducted with management of an activity reviewed to formally communicate the results of an engagement. Based on the discretion of the CAE, certain engagement, such as surprise cash counts and engagements with no or minor engagement observations or opportunities for improvement, may not warrant having an exit conference. Noted below are standard agenda items that are discussed at exit conferences.

- Audit Report (including Executive Summary)
- Action Plan
- Distribution Matrix
- Auditee Survey (to be distributed at a later date)
- Follow-Up Procedures