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AUDIT/ENGAGEMENT REPORTING & OTHER DELIVERABLES

DEFINITION –

An Audit/Engagement Deliverable is a formal communication conveying the results of the audit/engagement as it relates to the audit/engagement procedures performed in meeting the audit/engagement objectives. The deliverable is written or transmitted as electronic media, prepared by the Lead Auditor, with input from the project team, reviewed by AD management, approved and issued by the CC, and directed to the appropriate and responsible parties/management.

PURPOSE –

- Clearly communicate audit/engagement results (as supported by sufficient and appropriate evidence) to those charged with governance, appropriate responsible officials of the reviewed/audited entity, and the appropriate oversight officials;
- Make the results available to the public, where applicable; and
- Facilitate follow-up to determine whether appropriate corrective actions have been taken and/or provide guidance for best practices.

BACKGROUND –

An audit/engagement's scope, extent of procedures, and significance of results will determine the type of deliverable that is prepared and distributed. The majority of engagements will require the formal reporting process, while an engagement of less significance may be reported through a memorandum with limited distribution, typically for use only by a Department Director and/or other levels of management. Other types of deliverables may be the result of value added service type activities.

The goals are to: (1) deliver audit/engagement communications to management of the audited activity and to those persons who can ensure results are given due consideration, (2) address results to persons who can ensure corrective action is taken, and (3) provide/issue audit/engagement deliverables in a form adequate for the intended use.

Certain information may not be appropriate for disclosure to all parties due to it being privileged, proprietary, or related to improper or illegal acts. The omission of such information should be explained in audit/engagement deliverables and, if appropriate, reported separately to the appropriate parties authorized to receive the information. These are commonly referred to as Limited Use or Confidential Reports.



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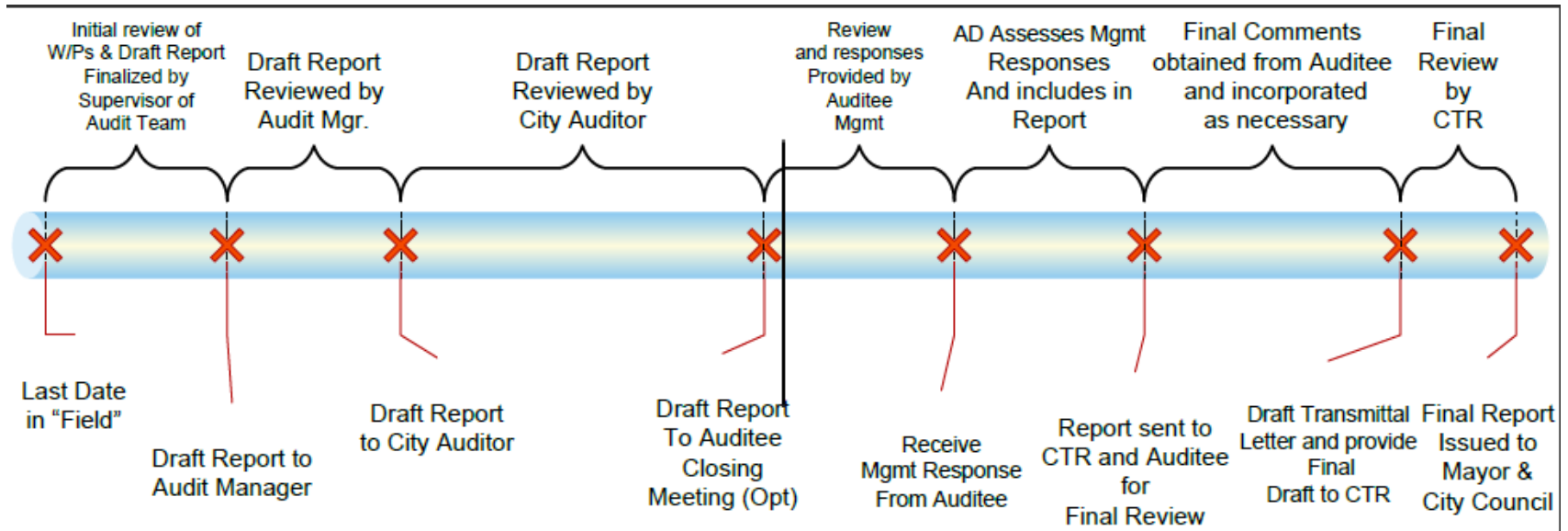
Approach and Methodology –

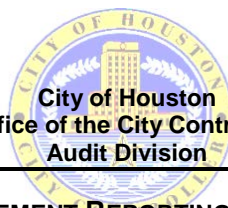
Audit/Engagement Deliverable (Report) Issuance Process

Scope, Purpose and Introduction/Background section of the Audit/Engagement Report are generally written during the Planning and Preliminary Survey phase of the engagement process.

Findings are entered into our electronic workpapers throughout fieldwork and confirmed for accuracy with responsible parties (usually Staff and Division/Functional Managers). Findings provide a source for the body of the report items and support for the overall assessment and conclusion reached by the AD. The following AD process depicts the development of the deliverable as work flows from the last day out in the field through the report issuance.

NOTE: At a minimum, the first review of all relevant workpapers should be completed to support the Draft Audit/Engagement Deliverable.





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FINAL AUDIT/ENGAGEMENT REPORT (DELIVERABLE) –¹

The final audit/engagement deliverable typically includes the following:

- **COVER SHEET:** Includes Controller’s Seal, Primary department or business process owner responsible for the area audited
- **LETTER OF TRANSMITTAL SIGNED BY THE CC:** Serves as the notification of issuance and points of interest/notable findings and is addressed to the Mayor.
- **TABLE OF CONTENTS;**
- **EXECUTIVE SUMMARY:** Intended to provide a high level short form presentation of the audit/engagement results. The Executive Summary should consist of paragraphs describing the summarized results of the engagement.
- **DETAILED REPORT INCLUDES** the following:
 - Introduction/Background
 - Scope
 - Objectives
 - Procedures Performed
 - Methodology – This should include specific language for compliance with both GAGAS and IIA
 - Summary Conclusion(s) (With Management Responses and the related AD Assessments if applicable)
 - Acknowledgement/Signatures
 - Acknowledgement Statement
- **ALL FINDINGS DEEMED REPORTABLE (BASED ON IMPACT AND MAGNITUDE)** These include all elements of a finding as follows:
 - Criteria
 - Condition
 - Cause
 - Effect
 - Recommendation(s)
 - Management Response and
 - Assessment of Management Response

NOTE: A referenced copy of the final engagement deliverable should be maintained in engagement documentation (workpapers) with links to the evidence that supports the relevant information communicated.

FINDINGS/OBSERVATIONS/CONCERNS –

Findings will be prepared throughout the audit/engagement process and serve two important purposes. They communicate issues to clients/auditee in a timely manner and are the basis of the ‘Findings and Recommendations’ section of the draft report/deliverable.

Audit/Engagement reports that include findings will present sufficient and appropriate evidence to support findings and conclusions in relation to the engagement objectives. Any limitations or uncertainties with the reliability or validity of evidence should be explained in the report. The following elements (as outlined in the related GAGAS, IIA PA and explained in more detail at [Procedure 240.00](#)) will be incorporated into each finding:

¹ For results and reporting as it relates to Follow-Up Audit Procedures, see Procedure 265.00

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- **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 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 audit/engagement observations and **RECOMMENDATIONS** may have on the organization's operations and financial statements; and
- **RECOMMENDATION(S):** Suggested plan of action to specifically address the **CAUSE** and remediate the **CONDITION** to meet the **CRITERIA**
- **MANAGEMENT RESPONSE:** a specific commitment from responsible management that outlines corrective action and includes details, milestones/metrics, timelines, or expresses disagreement with the issue(s) identified and the basis for their position.
- **ASSESSMENT OF MANAGEMENT RESPONSE:** The internal auditor's review and evaluation of the adequacy of the **MANAGEMENT RESPONSE**.

DRAFT AUDIT/ENGAGEMENT REPORT PREPARATION –

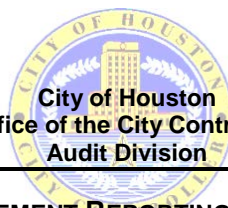
Audit/Engagement Lead Auditors are responsible for the preparation of draft reports. The Lead has the authority to (and may choose to) assign some of the writing responsibilities to members of the engagement team who conducted the work that resulted in findings. However, the Lead is solely responsible for the quality and content of draft reports submitted to the Audit Manager for review.

The Lead makes an initial determination regarding the extent to which the audit/engagement was conducted in accordance with GAGAS and IIA professional standards and includes a corresponding statement in the report when warranted. Any deviation from GAGAS will be explained in the draft and final audit/engagement reports. When in compliance with GAGAS, the statement should read as follows:

“We conducted this performance audit in accordance with generally accepted government auditing standards and in conformance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.”

When auditors do not comply with all applicable GAGAS or IPPF requirements, the GAGAS or IPPF compliance statement should indicate the standards that were not followed and the reason(s) thereof for not following the standards.

While preparing draft reports or reviewing/revising the writing of other team members, the Lead will consider the following elements related to the quality of the communication (as defined by IIA Standard 2420) to ensure the draft report is:



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- Accurate;
- Objective;
- Clear;
- Concise;
- Constructive;
- Complete;
- Fair;
- Balanced; and
- Timely.

In order to ensure the process contains the above attributes, consideration should be given to the following:

- Sufficiency and appropriateness of audit/engagement evidence (support) maintained in audit/engagement workpapers;
- Report on audit evidence taken as a whole;
- Factual/neutral language used in the deliverable;
- Fair-minded and balanced assessment of all relevant facts and circumstances (report systemic – not isolated conditions);
- Logic and understandability of communications;
- Avoidance of unnecessary technical language, elaboration and wordiness;
- Helpfulness to the client of information presented;
- Inclusion of all significant and relevant information to support recommendations and conclusions; and
- Expediency (depending on the significance of the issue) of communications.

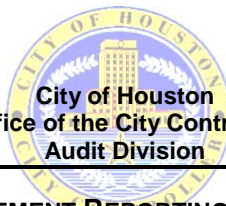
The Lead will assure that the draft report includes a description of the audit/engagement objectives, scope and methodology, including any significant limitations to those three elements. Audit/engagement reports will communicate objectives in a clear, neutral, and unbiased manner that includes relevant assumptions and a statement will be included to explain why the AD conducted the audit/engagement. It may be necessary, in some cases, to specifically identify the areas that fall outside a limited scope to avoid any potential misunderstandings of the underlying purpose of the audit/engagement.

The auditors should report on the audit evidence taken as a whole and if the evidence is sufficient and appropriate for addressing the audit objectives and supporting audit opinions reached (See Procedure 240.00).

REVIEW PROCESS –

Once the draft report has been prepared, it is submitted to the Audit Manager for review. The result of that review typically requires the Lead to make revisions to the report. The review by the Audit Manager is a process that may require several revisions before the draft report is ready to be submitted to the CA for review. The goal is to submit a draft report to the CA that conforms to the quality elements identified in professional auditing standards.

Following the review by the CA and the completion of any necessary revisions, the draft report is submitted to the Client/Auditee Management and client contact person(s) to assure that the information contained in the draft report is factual and to solicit Management Responses to each item. The Client/Auditee is also required to complete the “Acknowledgement Statement” to evidence that management agrees that the responses contained in the report are those of the client/auditee management. The Acknowledgement Statement is provided to the client/auditee



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once the AD has received Management Responses. The completed Acknowledgement Statement is to be provided within 15 business days. If the AD has not received it within 15 business days a notice will be sent to the client/auditee to provide the statement within 3 business days. On the 4th business day following the 3 day notice the audit report will be released (with the appropriate notice that finalized responses could not be obtained) unless a mutual agreement is reached between the Controller's Office and the client/auditee to allow additional time.

A conference will be offered/scheduled to discuss the final draft report, if required by the client. If a conference is not required and the client has submitted their final response, the AD reviews the response for adequacy. If deficiencies exist in management's response or no response is provided, the AD will seek additional clarification. Additional comments will be made in the report, addressing any residual deficiencies, after which time the report will go through a final review by the CA and the CC. The report is then considered "Final" and is ready for distribution to the appropriate parties (See [GAGAS 7.33 – 7.38](#)).

NOTE: The Audit/Engagement Deliverable/Report is a formal document issued by the CC and, as such, may be reviewed at any point from the draft stage up to and including the final version.

DISTRIBUTION –

In order to ensure that engagement results are given due consideration and that corrective action is taken, the final audit/engagement deliverable is addressed to the Mayor and, at minimum, distributed to:

- City Council
- The Mayor's Chief Administrative Officer and Chief of Staff
- Applicable Department Director(s) and responsible Management/Process Owner(s)

In some cases, information will not be included in engagement reports due to it being classified or otherwise prohibited from general disclosure by federal, state, or local laws or regulations. Such information may be disclosed in a separate report to those parties authorized by law or regulation. In such circumstances, the Lead will assure that the draft report informs the readers that certain information has been omitted and the reason for the omission. As noted earlier, this includes Limited Use and Confidential Reports. (See [GAGAS 7.39](#))

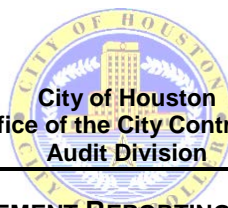
SUBSEQUENT EVENTS –

If after issuing the final report/deliverable, it is discovered that an error or omission has occurred, AD management and the Audit/Engagement team will meet to determine the magnitude and impact of the error/omission. If it is deemed that the error/omission would significantly impact decisions of the readers of the report, a formal communication will be distributed. This communication can come in the form of reissuance of the report, supplementing or amending the report results, or as a memorandum through the same distribution channels as the final deliverable. The process and errors/omission(s) will be documented.

RELEVANT PROFESSIONAL STANDARDS AND GUIDANCE

GAGAS

FINANCIAL AUDITS	4.17 – 4.45
ATTESTATION ENGAGEMENTS	5.18 – 5.44
PERFORMANCE AUDITS	7.03 – 7.44



City of Houston
Office of the City Controller
Audit Division

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IIA STANDARDS

- 2400 COMMUNICATING RESULTS
 - 2410 CRITERIA FOR COMMUNICATING
 - 2410.A1
 - 2410.A2
 - 2410.A3
 - 2410.C1
 - 2420 QUALITY OF COMMUNICATIONS
 - 2421 ERRORS AND OMISSIONS
 - 2430 USE OF "CONDUCTED IN CONFORMANCE WITH THE INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING"
 - 2431 ENGAGEMENT DISCLOSURE OF NONCONFORMANCE
 - 2440 DISSEMINATING RESULTS
 - 2440.A1
 - 2440.A2
 - 2440.C1
 - 2440.C2
 - 2500 MONITORING PROGRESS
 - 2500.A1
 - 2500.C1

IIA PRACTICE ADVISORIES

- 2410 – 1 COMMUNICATION CRITERIA
- 2420 – 1 QUALITY OF COMMUNICATIONS
- 2440 – 1 DISSEMINATING RESULTS
- 2500 – 1 MONITORING PROGRESS
- 2500.A1-1 FOLLOW-UP PROCESS

CHANGE HISTORY

Chg #	Date	Section	Description/Reason
1	9/25/2015	Draft Engagement Report Preparation	To address concerns brought about in preparation for the 2014 Peer Review as well as to address professional IIA and GAGAS standards on the subject Audit Evidence taken as a whole ion the draft audit report.
2	7/31/2017	Review Process	To establish standard timeline for receipt of the Acknowledgement Statement.