Section 3: Procedure

IA Procedure 3.2 - AUDIT REPORTS AND MANAGEMENT’S RESPONSES

Responsible Officer: Director of Internal Audit
Responsible Unit: Internal Audit Department
Effective Date: July 01, 1996
Last Revised on: November 20, 2008

Procedure Summary

After all analyses and testing for a project are complete and any potential issues have been discussed with management, Internal Audit (IA) will prepare a report that describes the results of the project. Written reports will contain only the most significant issues from a review. Less significant items will be presented to and discussed with management during the project.

All audit reports consist of the following sections:

- **Executive Summary** - Describes the objectives of the audit and gives an overall opinion about the control systems reviewed. If the opinion is other than satisfactory, e.g., if certain controls or activities needed to be improved, this section briefly states issues that led to the opinion and refers the reader to a section of the report where more detailed information is available.

- **Background**— Contains information that helps the reader understand the area and the significance of items in the audit report. This section typically includes the area’s mission, its major activities, and quantitative data such as revenue, expenditures, number of employees, etc. found in this section.

- **Findings and Recommendations**— Lists, in descending order of significance, the major issues noted in the audit. Each finding will be followed by a recommendation for steps to address the issue, and by management’s response to the auditor's comments.

- **Individuals Providing Responses**— Gives the names and titles of individuals who prepared management's responses.

Reports will be signed by the Director of Internal Audit and by the staff member who performed the review.
**Procedure Steps**

**Issuing Audit Reports**

Audit reports are initially issued in draft form and are marked "Draft—For Discussion Purposes Only" until the final version is released.

The first draft of a report is sent to management of the area audited and to other individuals who need to respond to the report. After these individuals have reviewed the report, they will have the opportunity to meet with IA to discuss the report. Once the wording and content of the report have been agreed upon, management will provide a written response to the findings and recommendations in the report.

**Management's Responses**

Management's responses are included in the body of the report, immediately after the related finding and recommendation.

A response should state whether management agrees with the finding. The response should also indicate whether management will implement corrective action suggested in IA's recommendation, or else describe alternative steps that will be taken to address issues that led to the finding. The response should also include an estimate of the date when corrective action will be complete.

IA will review these responses to determine if the action proposed will correct the issues described in each finding and the time frame for corrective action is reasonable.

**Disagreement Regarding Findings or Recommendations**

Every effort will be made to resolve the disagreement during the audit. Generally, this can be accomplished through discussion and exchange of additional information. If the disagreement cannot be resolved at the department level, IA will refer both sides of the issue to all necessary levels of senior management for review and resolution.

**No Planned Corrective Action**

If management declines to take steps to resolve an issue described in an audit report and the issue cannot be resolved through the process described above, their response stating this fact will be included in the report. That response will be followed by a statement from IA identifying the risks associated with allowing the situation to continue and stating that, by declining to take action, management has accepted these risks.

**Management Review**

After management's responses have been finalized and added to the audit report, the draft report will be sent to each level of management responsible for the area audited for review. Each level of management will have the opportunity to review the report and meet with IA to discuss the report and the results of the audit.

**Final Report**

After the draft report has been reviewed by appropriate members of senior management, the final version of the report is issued to the Chancellor of the University. Copies of the final report are also provided to the following:
• management of the area audited and of any areas that will assist with corrective action;
• senior managers responsible for areas affected by the audited (e.g., Vice Chancellor or Vice Provost, Dean, Associate Dean, etc.);
• the Vice Chancellor for Finance and Administration;
• the Internal Controls Manager; and
• other members of management who are in a position to ensure that any necessary changes are made, as appropriate.

Copies of all audit reports are also provide to members of the University’s Board of Trustees and to the Council of Internal Audit.

Contacts

Questions and concerns can be submitted using the Internal Audit Staff Directory.

Revision History

<table>
<thead>
<tr>
<th>Prior Revisions:</th>
<th>The policies in the Internal Audit Department Policies and Procedures Manual supersede any IA policies, procedures, appendices and information previously included in the University Business Manual, a publication of UNC Chapel Hill's Division of Finance.</th>
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<td>July 01, 1996</td>
<td>ocosdems  February 10, 1997</td>
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<td>November 20, 2008</td>
<td>Revise wording</td>
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