

Leading Practice:  
**TRANSPARENCY OF THE  
INTERNAL AUDIT REPORT  
IN THE PUBLIC SECTOR**

Release Date: December 2012



**The Institute of  
Internal Auditors**

*Global*

# Leading Practice: Transparency of the Internal Audit Report in the Public Sector

---

## Table of Contents

Executive Summary .....	3
Introduction.....	5
Defining Transparency.....	6
Transparency in the Public Sector .....	7
Auditing Standards .....	8
Survey Methodology .....	9
Survey Results .....	12
Conclusion .....	22
Authors and Reviewers .....	23
Appendix A - Survey Tool.....	24

# Executive Summary

As transparency practices continue to evolve across the world, public sector leaders have an opportunity to position themselves for potential changes to transparency arrangements within their own jurisdiction. Transparency is a term that describes openness through availability and accessibility.

This study draws on feedback gained from five continents around the world to ensure that internal audit leaders can drive or support discussions on the transparency of audit reporting. The study consolidates feedback from 160 respondents from 14 countries, with a high proportion of the responses drawn from countries in North America and Africa.

This study provides insights on current global transparency practices related to internal audit reports in the public sector. It is useful to boards, audit committees, senior management, chief audit executives (CAEs), legislators, information controllers, and other governance professionals.

The survey insights include:

- 85 percent of respondents said that their organization aims to be transparent.
- There is a high level of transparency in internal audit reports provided to the highest oversight authority, typically the Supreme Audit Institution (SAI) of the country.
- In a small number of cases (10 percent), respondents reported making their internal audit reports available to the media.
- It is unusual for internal audit reports to be made available on the organization's intranet for easy access. Just 25 percent of respondents indicated that this practice is currently embraced within their organization.
- Even fewer internal audit reports are made available to the general public on the Internet. Only 14 percent of respondents reported this practice.
- Of the organizations that make internal audit reports available to the public, most release the reports within one month to ensure timeliness.
- Some jurisdictions have laws granting public access to government information; 60 percent of respondents indicated that their organization must follow a legal mandate to make information available for public inquiries.
- The public entities that had a public information law were more likely to publish the report.
- Audit workpapers are subject to public information laws for 22 percent of study respondents.

CAEs are encouraged to monitor transparency developments in their own jurisdictions and position themselves for the challenge that may be just over the horizon. Some steps they can take now include (i) understanding the information transparency laws for their jurisdiction and monitoring any changes; (ii) establishing appropriate transparency policies and arrangements for internal audit reports for their organization; and (iii) training their staff to write clearly and comprehensibly to be understood by any potential reader.

# Introduction

The use of the term transparency has increased in recent years and had an impact on many areas, from disclosing more information in the financial markets to exposing government corruption. There are many definitions of and varying levels of transparency. For internal auditors, transparency is important as they work to improve an organization's good governance processes through assurance and consulting services.

This study was conducted to identify current global internal audit report transparency practices in the public sector. Transparency practices, for the purpose of this study, refer to practices designed to provide various levels of external and internal audit report exposure. The findings discussed are relevant to national, regional (i.e., state or provincial), and local (i.e., county, city, or village) governments, as well as quasi-governmental and international government organizations. These practices also may apply to other publicly-funded entities and not-for-profit organizations. In this paper, all of these entities will be referred to as public sector organizations or entities. The purpose of this study is to help public sector internal auditors and decision makers benchmark current transparency practices. Judgments were not made as to the appropriateness or desirability of transparency practices that public sector entities should adopt.

## Defining Transparency

Many definitions of transparency exist and they differ depending on the context and subject matter. Starting from a basic definition, Merriam-Webster defines *transparent* as “easily detected” and “readily understood.”<sup>1</sup> The World Trade Organization defines *transparency* as the “degree to which trade policies and practices, and the process by which they are established, are open and predictable.”<sup>2</sup> From the International Monetary Fund, “transparency refers to an environment in which the objectives of policy, its legal, institutional, and economic framework, policy decisions and their rationale, data and information related to monetary and financial policies, and the terms of agencies’ accountability, are provided to the public in a comprehensible, accessible, and timely manner.”<sup>3</sup> A prominent advocate of transparency, Transparency International defines the subject:

Transparency is about shedding light on rules, plans, processes and actions. It is knowing why, how, what, and how much. Transparency ensures that public officials, civil servants, managers, board members, and businessmen act visibly and understandably, and report on their activities. And it means that the general public can hold them to account. It is the surest way of guarding against corruption, and helps increase trust in the people and institutions on which our futures depend.<sup>4</sup>

These definitions share the key point of describing transparency as openness through availability and accessibility.

Transparency also involves differing levels of openness, from making documents available to only those managers responsible for addressing specific issues to full disclosure to everyone through Internet publication. Depending on the organization and the activity, the degree of transparency is modified to suit the situation. For public sector entities, the degree of transparency may differ due to legal mandates to release specific information or business decisions.

---

<sup>1</sup> <http://www.merriam-webster.com>

<sup>2</sup> <http://www.wto.org>

<sup>3</sup> <http://www.imf.org>

<sup>4</sup> <http://www.transparency.org>

# Transparency in the Public Sector

In the public sector, transparency has been promoted to increase accountability of government officials to constituents and taxpayers, and to reduce corruption, fraud, waste, and abuse. Others cite how transparency helps citizens to be more involved in political processes and have more power to affect government activities. However, the public can be protected through lack of transparency when sensitive information is withheld. The power of transparency stems from who obtains the information and what information is released to them.

*The Role of Auditing in Public Sector Governance*, released by The IIA in January 2012, states transparency as one of the governance principles critical to the public sector:

The principle of transparency relates to the openness of a public sector entity to its constituents. Good governance includes appropriate disclosure of key information to stakeholders so that they have the relevant facts about the public sector entity's performance and operations necessary to clearly understand motives and reach correct conclusions about the impacts of its actions. Accordingly, the public sector's decisions, actions, and transactions must be conducted in the open. Many public sector entities are required by law to make public documents available upon request. Additionally, many public sector entities are required by law to publish meetings notices including specific agenda items. Although the public's interest is sometimes served by protecting information from disclosure — such as instances where national security, criminal investigations, or the proprietary information of a private company would be compromised — the transparency of public sector actions and information plays a significant role in public oversight.

Auditors can provide a direct link between transparency and the credibility of the public sector entity. Lawmakers and the public look to audits for assurance that public sector actions are ethical and legal, and that financial and performance reporting accurately reflect the true measure of operations.

In promoting the profession, The IIA noted how internal auditors “strive for transparency throughout their organization, and when it is not at the appropriate level, they recommend ways to strengthen it.”<sup>5</sup> They also are promoters of credibility, integrity, and equity through the openness of public sector entities' activities in their audits. The transparency of audits can be very important in public oversight.

---

<sup>5</sup> Transparency, Reliability, Effectiveness, Ethics Brochure, <https://www.theiia.org>

# Auditing Standards

The IIA's *International Standards for the Professional Practice of Internal Auditing* (Standards) contains one standard applicable to the dissemination of the internal audit report:

## Standard 2440: Disseminating Results

The chief audit executive must communicate results to the appropriate parties.

## Interpretation

The chief audit executive or designee reviews and approves the final engagement communication before issuance and decides to whom and how it will be disseminated.

2440.A1 – The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

2440.A2 – If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the chief audit executive must:

- Assess the potential risk to the organization;
- Consult with senior management and/or legal counsel as appropriate; and
- Control dissemination by restricting the use of the results.

Supreme Audit Institutions (SAI), the highest audit organization of a country, are expected to follow the *International Standards of Supreme Audit Institutions* (ISSAI) promulgated by the International Organization of Supreme Audit Institutions. In ISSAI 20, Principle 7 states, “SAIs report publicly on the results of their audits and on their conclusions regarding overall governmental activities,” and Principle 8 states, “SAIs communicate timely and widely on their activities and audit results through the media, websites and by other means.”<sup>6</sup>

---

<sup>6</sup> <http://www.intosai.org>



# Survey Methodology

The IIA Public Sector Committee conducted an informal survey in June 2012 to obtain information on the transparency practices of the internal audit report in the public sector. The Committee received 160 responses to the survey.

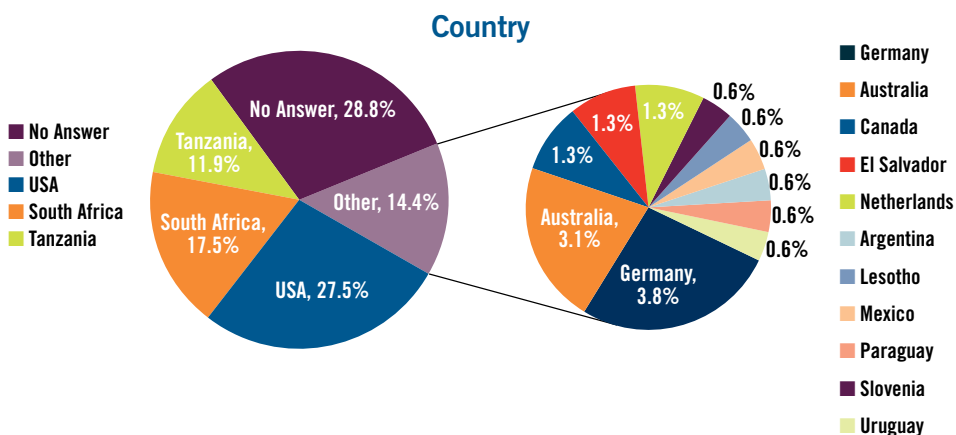
The survey was a combination of 17 multiple-choice and open-ended questions. The open-ended questions were used primarily to gather additional information or clarification pertaining to answers indicating “other.” The survey summary indicated that not all of the respondents answered every question. Respondents had the option to identify their organizations, and to provide website links to their publications of internal audit reports.

## Respondent Demographics

To help understand the perspectives of the respondents, several demographic questions were asked. This assisted the project team in analyzing how factors such as type of entity and department size impacted transparency practices.

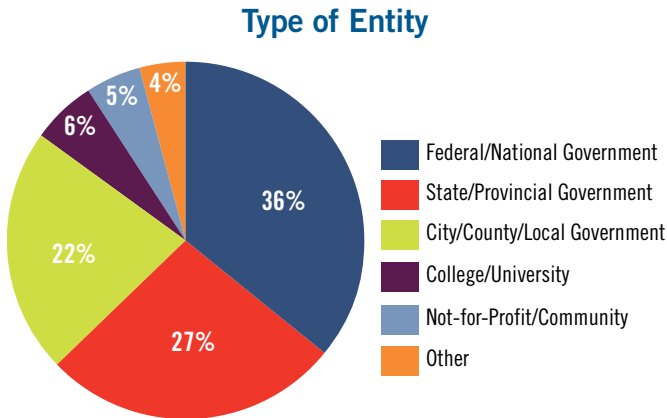
## Location of Respondents

The respondents were from 14 countries on five continents. The United States had the most respondents with 27.5 percent (44 respondents), and South Africa had the second most with 17.5 percent (28 respondents). By continent, North America had 31 percent (49 respondents), Africa had 30 percent (48 respondents), Europe had 5.6 percent (9 respondents), Australia had 3 percent (5 respondents), and South America had 2 percent (3 respondents).



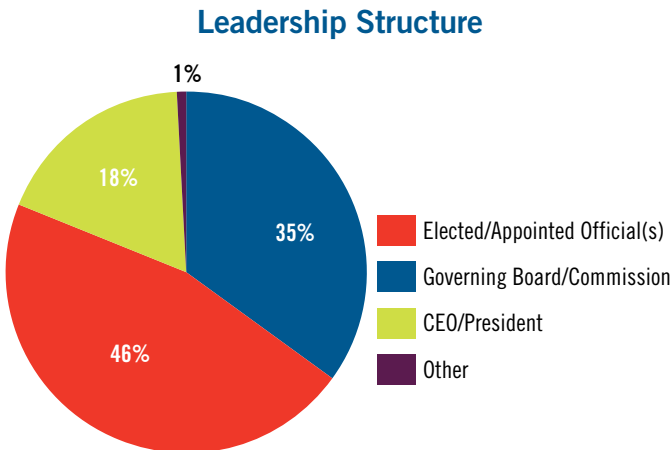
Type of Entity

The respondents were asked to identify their entity type to allow for analysis and comparison based on the level of government or other type of public sector entity. Of the 157 respondents who answered this question, the largest portion (36 percent) came from federal/national government entities. Half of the respondents (49 percent) comprise lower levels of government. Those that selected “other” include government agencies at unidentifiable levels and an intergovernmental organization.



Leadership Structure

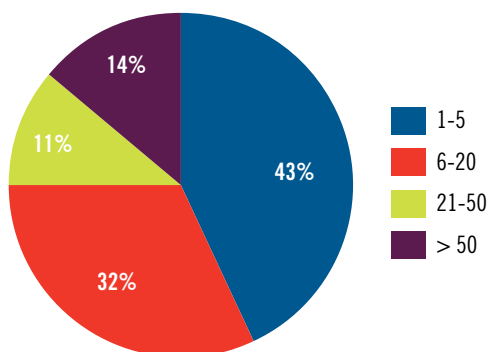
Of the 158 respondents who answered the question on the organization’s leadership structure, most organizations report to an elected or appointed official(s) (46 percent) or a governing board or commission (35 percent). One organization chose “other” and did not specify their leadership structure.



## Number of Staff in the Internal Audit Department

To allow for analysis and comparison based on the size of the internal audit function, respondents were asked how many staff members were assigned to the department. Of the 129 respondents who answered this question, 75 percent reported having 20 or fewer staff, with almost half (43 percent) having between one and five.

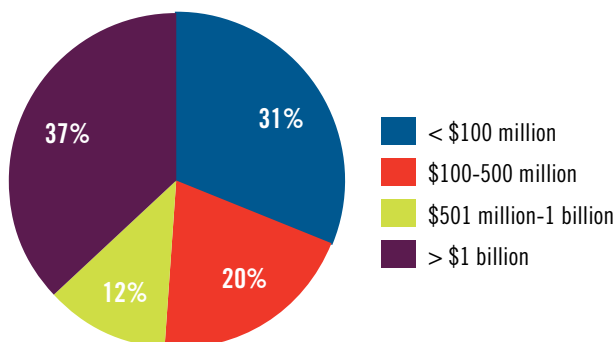
### Size of Internal Audit Department



## Revenue/Budget for Fiscal Year 2011

Respondents reported their organization's fiscal year 2011 revenue or budget, which allowed for analysis and comparison of the size of the organizations based on their financials. Of the 65 respondents who answered this question, most respondents either come from a large organization with over US \$1 billion in revenue/budget (37 percent) or a small organization with less than US \$100 million (31 percent).

### FY 2011 Revenue/Budget

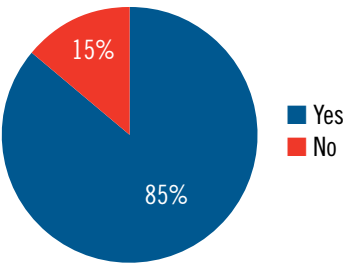


# Survey Results

## Organization’s Mission/Objective to be Transparent

The mission and objectives of an organization are believed to have an effect on the practices of an organization; thus, respondents were asked if being transparent is part of their organization’s mission or objectives. Of the 158 respondents who answered this question, 135 (85 percent) answered positively that their organization tries to be transparent.

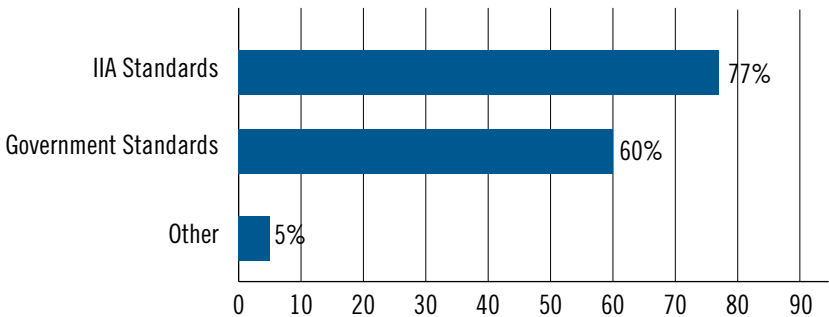
Mission/Objective to be Transparent



## Auditing Standards

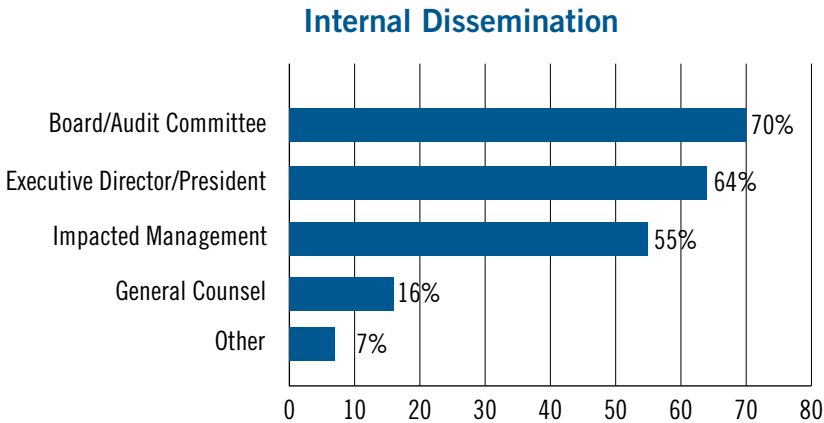
Auditing standards may contain provisions to disseminate results of internal audits to specific parties, such as Standard 2440: Disseminating Results. Respondents were asked to identify the audit standards their organization follows. Of the 159 respondents who answered this question, 123 (77 percent) indicated that they follow the *Standards* and 96 (60 percent) follow government standards prescribed or mandated by their country. Sixty-four (40 percent) follow both the *Standards* and government standards, and four (3 percent) do not follow either. Those who selected “other” designated standards from the Canadian Institute of Chartered Accountants, ISACA, CARE USA policies, Internal Accounting Circulars, and the ISSAI.

Standards Followed

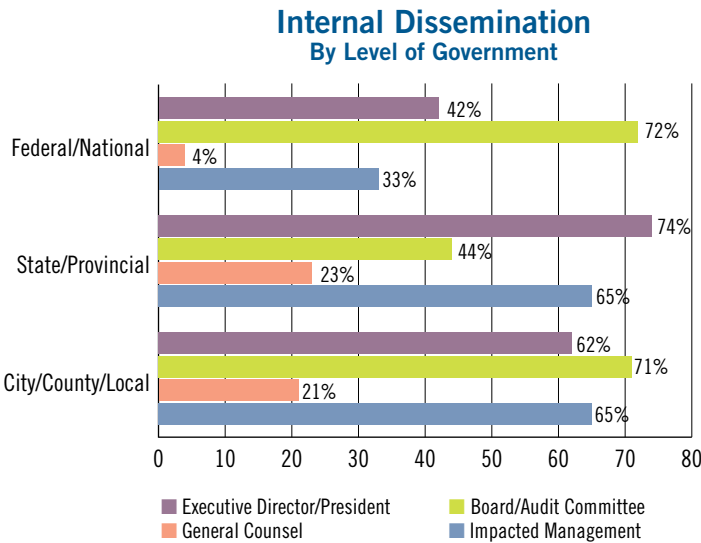


## Dissemination of Internal Audit Reports

To add value to an organization, results of internal audits should be reported to those parties responsible for due consideration and possible corrective action, to improve the organization. The project team asked who receives internal audit reports within the organization. Of the 146 respondents that answered this question, 102 (70 percent) indicated that the internal audit report is disseminated to the board or audit committee, 93 (64 percent) to the executive director or president, 81 (55 percent) to impacted management, and 24 (16 percent) to general counsel. Ninety percent of the respondents chose the board or audit committee, executive director or president, and/or impacted management. However, of those that followed the *Standards*, 9 percent did not choose any of these three top management parties. This may indicate noncompliance with the *Standards* and a lack of internal transparency. Those who indicated “other” included lower levels of management and dissemination to all employees.

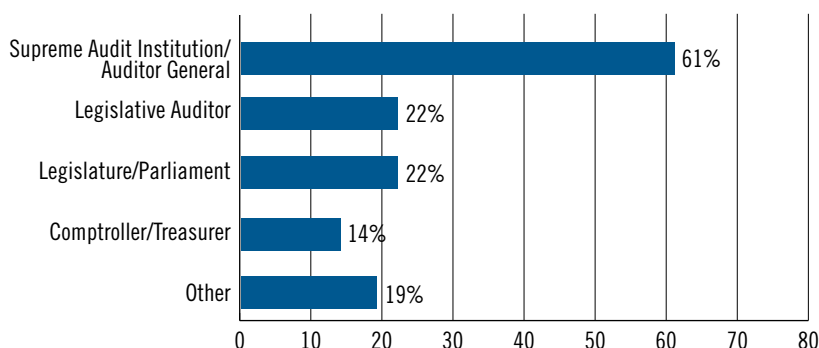


When sorted by levels of governments, it becomes evident that the federal or national governments are less likely to disseminate the report internally in all categories except to the board or audit committee. Conversely, state or provincial governments are less likely to disseminate to the board or audit committee. When categorized by the size of the organization based on revenue/budget, very small organizations are more than twice as likely to not disseminate the report internally except to the board or audit committee. For entities that follow the *Standards*, they are more likely to disseminate to impacted management and less likely to the executive director or president.



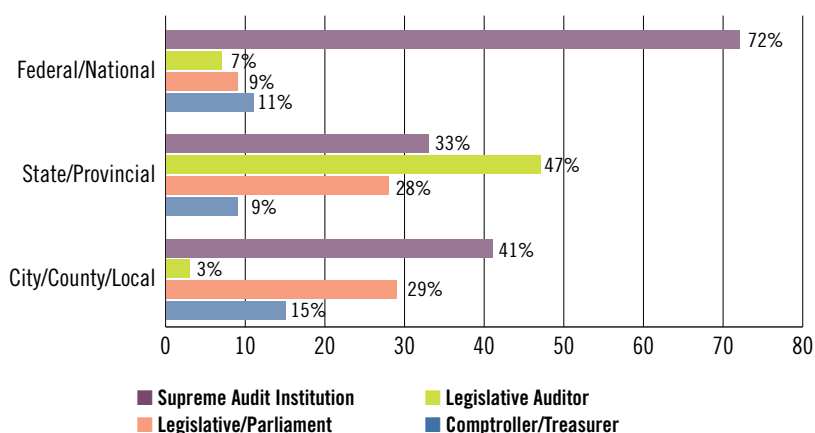
As respondents to the survey were not expected to be the highest level of government, the project team was interested in learning about the transparency of internal audit reports to oversight authorities and other intergovernmental relationships. Of the 129 respondents who answered this question, over half (61 percent) stated that the SAI of their country routinely receives the internal audit report. Given that 63 percent of respondents were at the national or state government level, this indicates that there is a high level of transparency to the highest oversight authority. Twenty-two percent of the respondents stated the legislative auditor receives the internal audit reports, 22 percent also stated the legislative branch of their government receives the reports, and 14 percent stated the comptroller or treasurer receives the internal audit reports. The 19 percent that selected “other” indicated various oversight entities, budget boards or committees, the executive branch of government, and other governmental agencies at the same level with a stake in the internal audit findings.

## Intergovernmental Dissemination

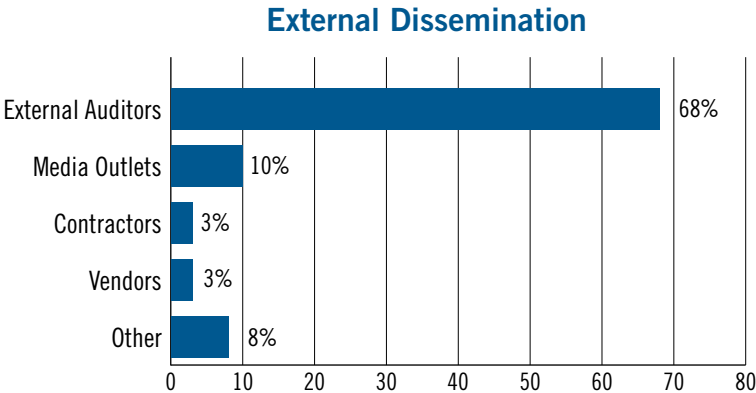


Federal or national governments are significantly more likely to disseminate the internal audit report to the SAI and less likely to disseminate to legislature or parliament. Approximately half of the state or provincial governments disseminate their reports to their legislative auditor, while the other levels of government rarely disseminate internal audit reports to a legislative auditor. As the size of the internal audit department increases, entities are more likely to disseminate reports to the SAI. As revenue/budget increases, entities are more likely to disseminate reports to the legislature. Entities that do not have a mission or objective to be transparent are twice as likely to disseminate their reports to a legislative auditor. For entities that followed the *Standards*, they are less likely to disseminate reports to other government entities, but are more likely to disseminate reports to the SAI.

## Intergovernmental Dissemination By Level of Government



When citizens cite transparency, they usually refer to transparency of government activities to the public. The project team asked which external parties receive the internal audit reports. Many respondents (68 percent) stated that external auditors routinely receive the internal audit reports. Ten percent of respondents reported disseminating the report to the media. Those who designated “other” included investors and public publication on the Internet, state library, and public information requests.



All entities that selected media outlets have a mission or objective to be transparent. All entities that selected vendors and contractors have over US \$1 billion in revenue/ budget, follow the Standards, and have a mission or objective to be transparent. If an entity follows a government standard or is a local government, they are more likely to disseminate their reports to media outlets. State or provincial governments are less likely to disseminate reports to external auditors. As the size of the internal audit department increases, entities are more likely to disseminate reports to external auditors.

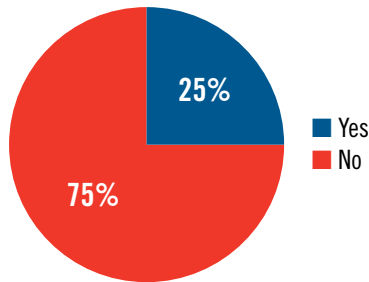
All respondents who disseminate the internal audit report to external parties also disseminate the report to the board or audit committee, management, or legal counsel. This may indicate full compliance with Standard 2440.A2, which specifies consulting with senior management and/or legal counsel prior to releasing results to parties outside the organization.



## Publication of Internal Audit Reports

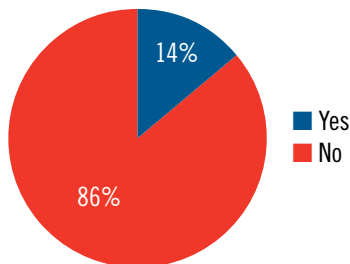
Given that many people within the organization may need access to the internal audit reports, the project team asked if the reports are published on the organization's intranet for easy access. The majority of respondents (75 percent) do not publish the internal audit report on their intranet. Seven percent of respondents selected "other" when asked about internal report dissemination. This indicates that the internal audit reports may not be published on the intranet accessible to all employees.

### Published on Organization's Intranet?

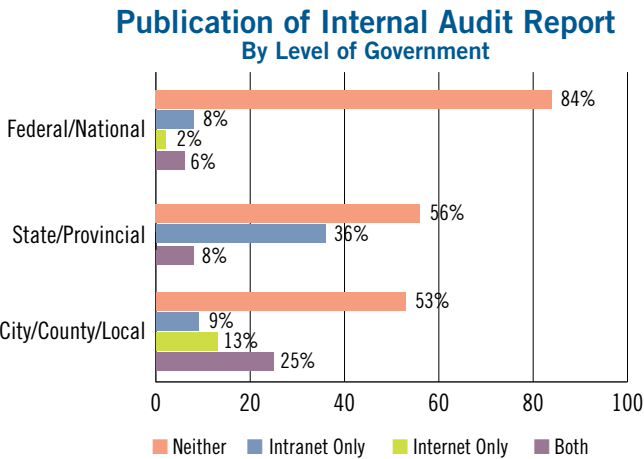


Respondents were asked to indicate if they publish internal audit reports on the Internet. Of the 143 respondents who answered this question, only 14 percent publish the internal audit report on the Internet. While 85 percent of organizations have a mission or objective to be transparent, only a small fraction is transparent through the Internet publication of the internal audit report. Of those that publish the report on the Internet, 74 percent publish on an intranet as well. For those that do not publish on the Internet, 82 percent do not publish on an intranet. This shows a strong relationship that public sector entities either publish on the intranet and Internet together or not at all.

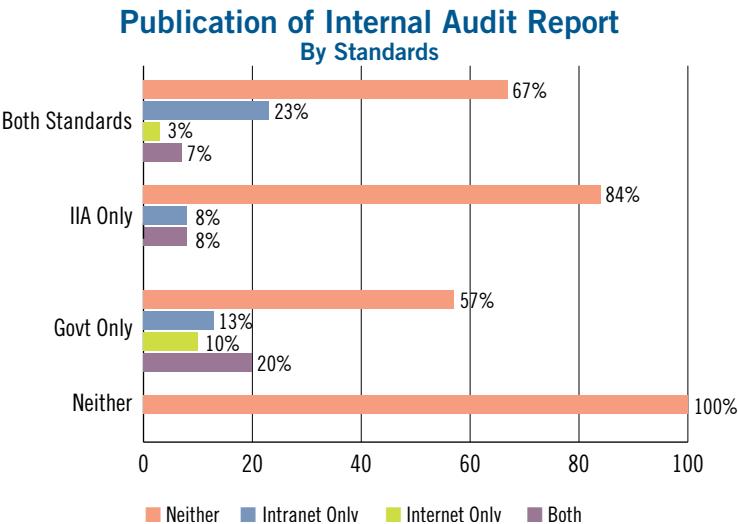
### Published on the Internet?



When cross-referenced with the level of government, patterns exist between the methods of internal audit report publication. The federal or national governments are less likely to publish the report on the intranet or Internet. The lowest levels of governments are significantly more likely to publish on the Internet.

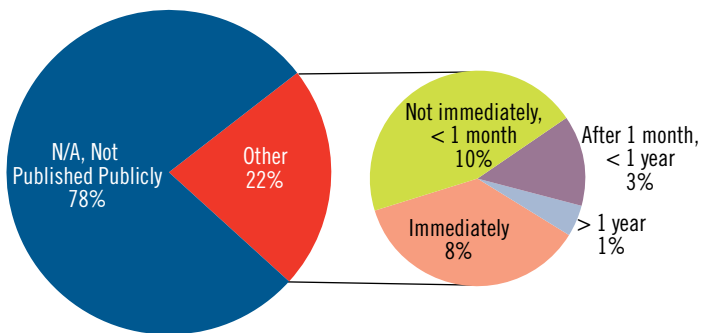


In regard to following certain standards, public entities that followed government standards are more likely to publish the internal audit report than entities that follow the *Standards*. If both standards are followed, the entities are more likely to publish only on their intranet.



Because timeliness is one component of transparency, the project team wanted to know how long organizations wait to publish the internal audit report to the public. Of the 131 respondents to this question, 22 percent stated they publish the internal audit report to the public, which is an improvement over the 14 percent who publish solely over the Internet. Although 18 percent publish the report within one month, the remaining 4 percent feel it is appropriate to release the reports to the public after some time has passed. Possible reasons that organizations may wait to publish the internal audit report include the resolution of issues and information that becomes less current and less sensitive.

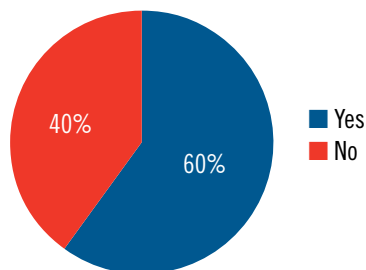
### When Are Reports Published to the Public After Internal Dissemination?



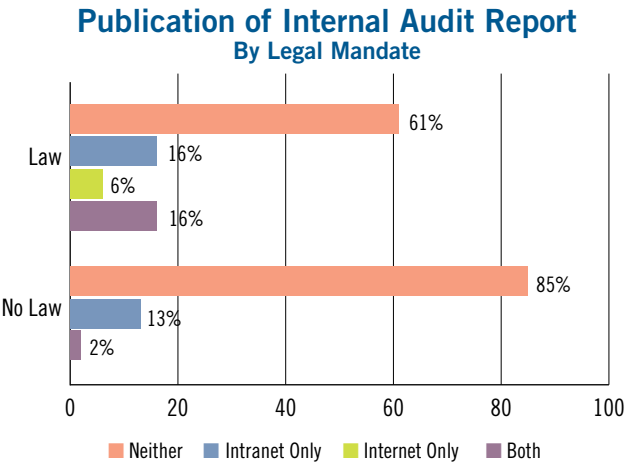
### Legal Mandate for Publicly Available Information

Since many countries have laws granting the public access to government information, the project team asked the respondents if their organization must follow a legal mandate to make information available for public inquiries. Of the 137 respondents to this question, 60 percent of the organizations are required by law to make information publicly available.

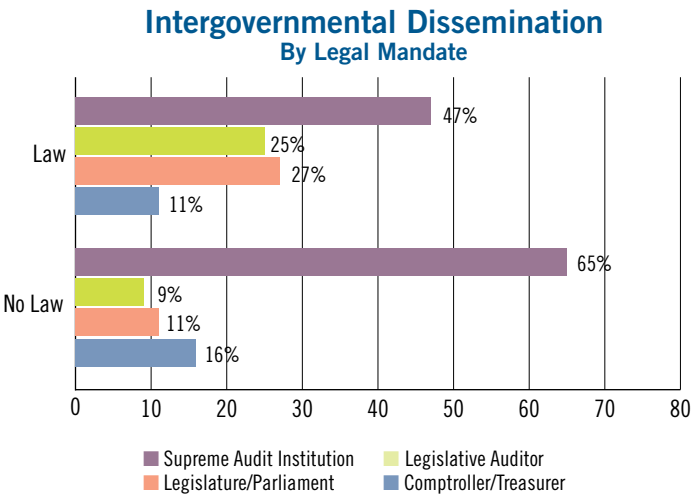
### Legal Mandate to Make Information Publicly Available?



The public entities that have a public information law are more likely to publish the report. The entities without a law are highly unlikely to publish the report on the Internet.

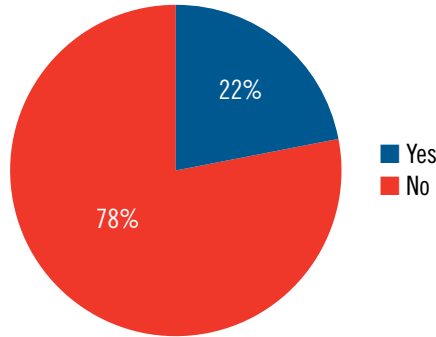


Regarding internal report dissemination, public entities with public information laws are more likely to disseminate the report to the executive director or president, general counsel, and management. For intergovernmental dissemination, entities with public information laws are more than twice as likely to disseminate reports to the legislature or parliament and the legislative auditor, but they are less likely to disseminate to the SAI. If an entity has public information laws, they are more likely to disseminate their reports to media outlets, but less likely to external auditors.



Audit workpapers may contain very sensitive information that is not included in the internal audit report. The project team wanted to know if workpapers were subject to being released under the jurisdiction of the countries' public information laws. Of the 137 respondents who answered this question, 22 percent designated that workpapers are subject to public information laws.

### Are Work Papers Publicly Available?



## Conclusion

The survey results identified common and best practices in disseminating and publishing the internal audit report. Although an analysis of the results showed various outcomes based on multiple factors, several points should be considered:

- Most of the public sector entities disseminate the internal audit report to an audit committee or senior management.
- The majority of entities strive to be transparent in regard to the transparency of the internal audit report, but most do not publish reports on an intranet or Internet.
- Federal/national governments are less likely than lower levels of government to disseminate internal audit reports to internal parties, including impacted management, except to the board or audit committee.
- Only a small portion of public sector entities are externally transparent, but most entities disseminate to external auditors.
- All entities that disseminate internal audit reports to an external party also disseminate these reports to senior management and/or legal counsel.
- Higher levels of government are less likely to publish audit reports on an intranet and/or Internet, and the lower levels are more likely to be transparent to the public through Internet report publication.
- Entities that follow The IIA's *Standards* are less likely to publish the internal audit report on an intranet and/or Internet.
- Entities that are subject to public information laws are more transparent in publication of the internal audit report.

The purpose of this study was to identify transparency practices and was not designed to offer judgments on the appropriateness or desirability of specific policies or frameworks that public sector entities should adopt. Public sector entities should determine the level of transparency that is fitting to their organization in accordance with applicable laws and regulations, and provides the most benefit to the public they serve.

# Authors and Reviewers

## Authors:

Steve Goodson, CIA, CCSA, CGAP, CRMA, CISA, CLEA

Solomon Brown

## Reviewers:

Greg Hollyman, CIA, CCSA, CFSA, CGAP

Drs. Tea Enting-Beijering, RA

Ken Mory, CIA

Gualter Portella, CIA, CGAP, CRMA

David Rattray, CIA, CCSA, CGAP, CRMA

Tow Toon Kim, CIA, CGAP

Daniela Danescu, CIA, CGAP

Sikhungo Dube

## Appendix A - Survey Tool

1. What type of public sector entity is your organization?
  - Federal/National Government
  - State/Provincial Government
  - City/County/Local Government
  - College/University
  - Not-for-Profit/Community-based Organization
  - Other, please specify
2. What is your organization's governance/leadership structure?
  - Governing Board/Commission
  - Elected Official(s)
  - CEO/President
  - Other, please specify
3. Is it part of your organization's mission/objectives to be transparent?
  - Yes
  - No
4. What auditing standards are followed by your organization?  
(Choose all that apply)
  - The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*
  - Government prescribed or mandated standards
  - Other, please specify
5. To whom are the internal audit reports disseminated within the organization?
  - Executive Director/President
  - Board/Audit Committee
  - General Counsel
  - Impacted Management
  - Other, please specify
6. What government entities or branches of government routinely receive the internal audit reports?
  - Supreme Audit Institution/Auditor General
  - Legislative Auditor
  - Legislature/Parliament



- Comptroller/Treasurer
  - Other, please specify
7. What other external parties routinely receive the internal audit reports?
    - External Auditors
    - Vendors
    - Contractors
    - Media Outlets
    - Other, please specify
  8. Are internal audit reports published on an internal intranet for the organization's use?
    - Yes
    - No
  9. Are internal audit reports published on the Internet for the public?
    - Yes
    - No
  10. If yes, please provide the link where your audit reports can be found.
  11. If applicable, how soon are internal audit reports published to the public after disseminated within the organization?
    - Immediately
    - Not immediately, but within one month
    - After one month, but less than one year
    - After one year or more
    - Not applicable, we do not publish reports to the public
  12. Is there a legal mandate in your jurisdiction that allows government information to be publicly available? If yes, what is this law called?
    - Yes
    - No
  13. Are workpapers subject to being released publicly under your jurisdiction's public information laws?
    - Yes
    - No

#### Demographics (Optional – But Useful)

14. What is the name of your organization?

15. What were your organization's estimated revenues (in US Dollars) for fiscal year 2011?

16. How many staff members are in the Internal Audit Department?

- 1 – 5
- 6 – 20
- 21 – 50
- > 50

17. Information

- Name
- Email Address
- Country

## About The Institute

Established in 1941, The Institute of Internal Auditors (IIA) is an international professional association with global headquarters in Altamonte Springs, Fla., USA. The IIA is the internal audit profession's global voice, recognized authority, acknowledged leader, chief advocate, and principal educator.

This material is not part of the IPPF but may be useful for internal audit practitioners and their stakeholders.

For other materials for the public sector provided by The IIA, please visit our website at [www.globaliia.org](http://www.globaliia.org).

For other authoritative guidance materials provided by The IIA, please visit our website at [www.globaliia.org](http://www.globaliia.org).

## Disclaimer

The IIA publishes this document for informational and educational purposes. This guidance material is not intended to provide definitive answers to specific individual circumstances and as such is only intended to be used as a guide. The IIA recommends that you always seek independent expert advice relating directly to any specific situation. The IIA accepts no responsibility for anyone placing sole reliance on this guidance.

## Copyright

Copyright © 2012 The Institute of Internal Auditors. For permission to reproduce, please contact The IIA at [guidance@theiia.org](mailto:guidance@theiia.org).



*Global*

**GLOBAL HEADQUARTERS**

247 Maitland Ave.

Altamonte Springs, FL 32701 USA

**T:** +1-407-937-1111

**F:** +1-407-937-1101

**W:** [www.globaliia.org](http://www.globaliia.org)