

Internal Audit Reporting - SIA and IIA Framework

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Refresher Course on Internal Audit (Virtual) organised by WIRC of ICAI

Presentation on 2nd July 2021

*High achievement always takes place
in the framework of high expectation.*



Benefits of IA framework

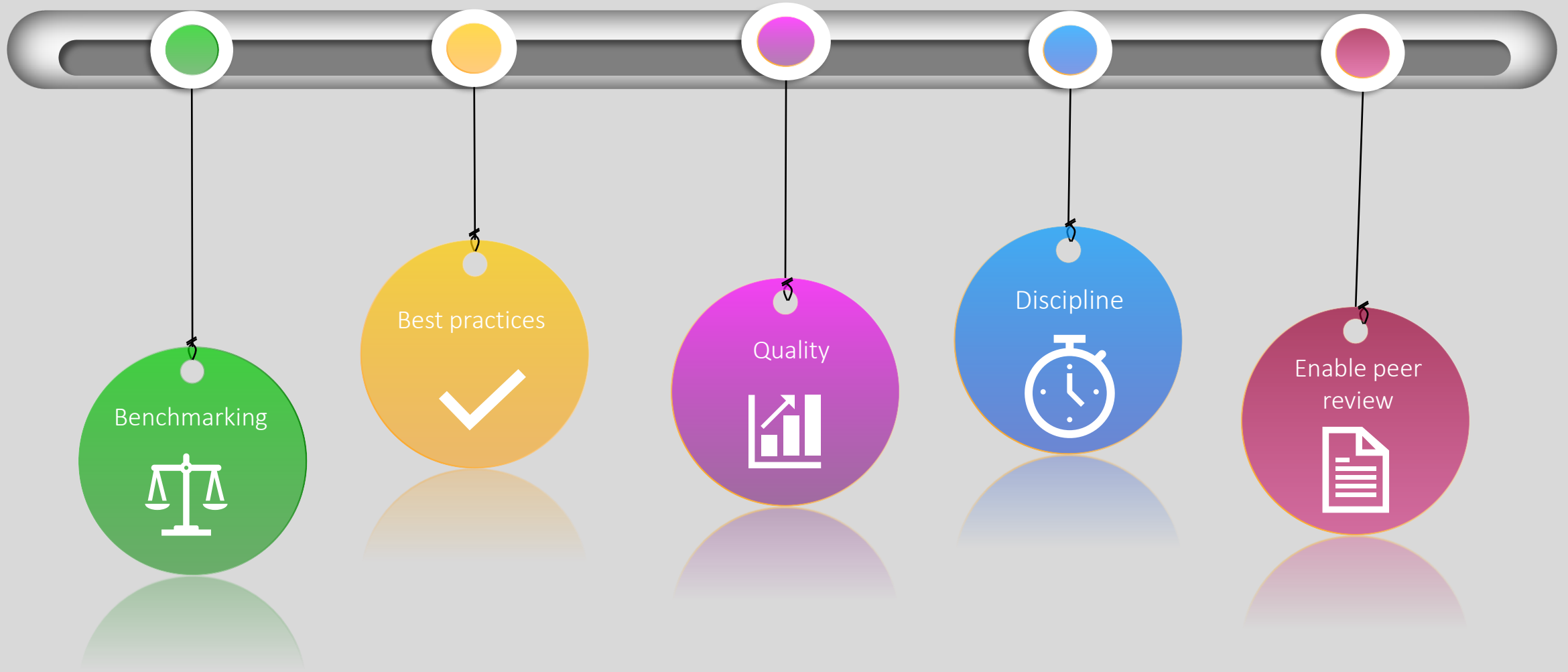


Table of Contents

I. Significance of reporting in Internal audit

II. Standards & framework – SIA & IIA

III. Aspects to consider during planning phase for effective reporting

IV. Nature of assurance

V. Key elements & flow of Internal audit report

VI. Common pitfalls leading to weak / ineffective IA reports

VII. Practical tips & suggestive templates

VIII. Key takeaways

I. Significance of reporting in Internal audit



Highlights effectiveness of governance, risk management & control processes (*)

Allows management to understand the issues and take corrective actions on a timely basis (#)

Demonstrates that planned audit objectives were achieved (#)

Well-written IA report showcases auditor's in-depth knowledge and willingness to partner with management for improvements (*)

Provides sound basis for any assurance given by Internal auditor (#)

Source:

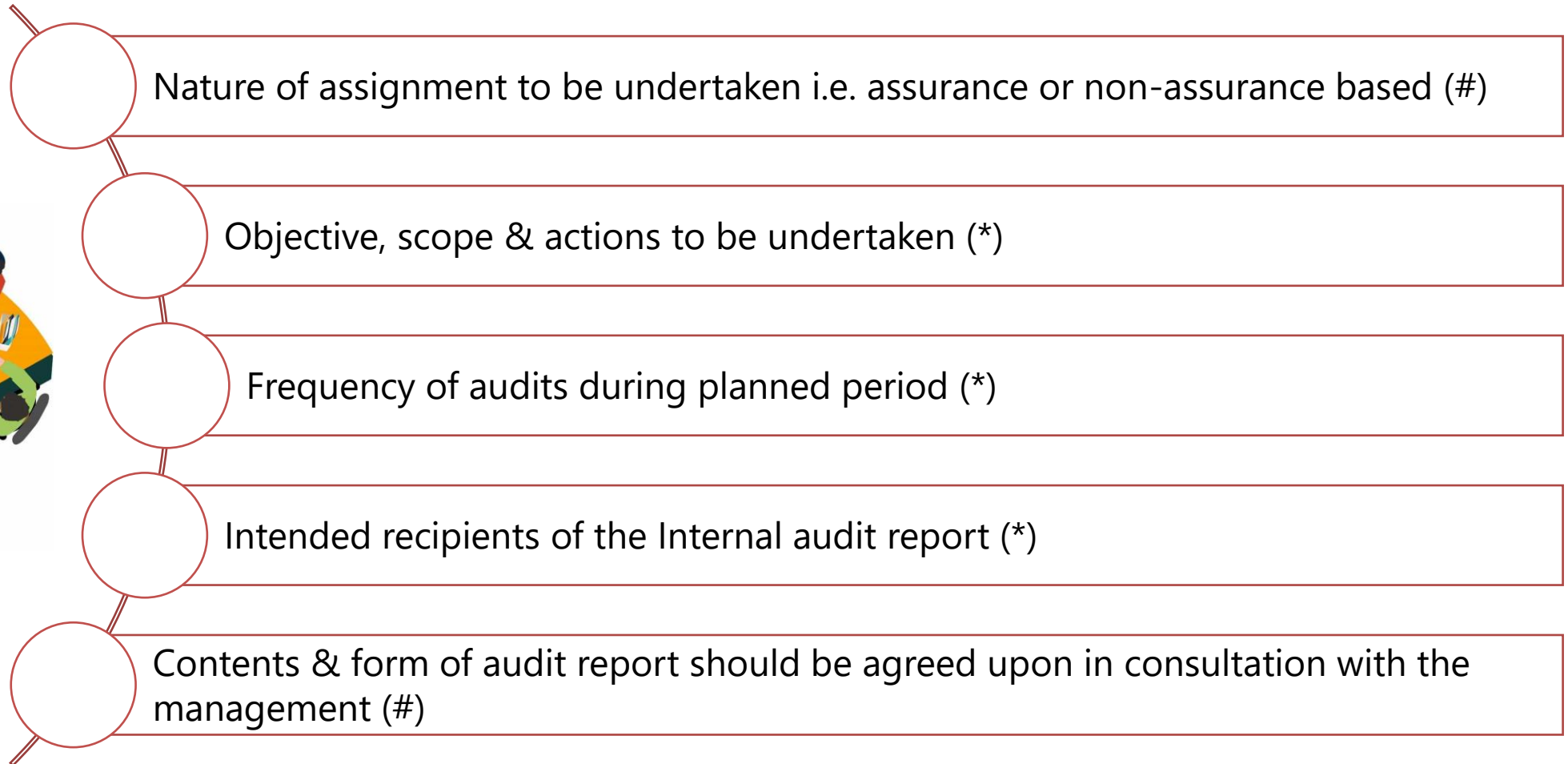
(*) IPPF Practice Guide (Audit Report) – Page 3 (Executive Summary) & Page 5 (Business Significance, Challenges and Opportunities)

(#) SIA 370 – “Reporting Results”–para 2.1

II. Standards & framework – SIA & IIA

Standards	Governing body	Applicable framework	Applicability in India	Key standards relevant to reporting
Standards on Internal audit (SIAs)	ICAI	Framework governing Internal audit (issued in Nov-18)	To be made mandatory in a phased manner (dates to be notified by ICAI)	<ul style="list-style-type: none"> • SIA 110 – Nature of Assurance • SIA 370 – Reporting results • SIA 390 – Monitoring & reporting of prior period issues
International Standards for the Professional Practice of Internal Auditing	IIA	International Professional Practices Framework	Recommendatory in nature	<ul style="list-style-type: none"> • 2060 – Reporting to Senior Management and the Board • 2400 – Communicating Results • 2410 – Criteria for Communicating • 2420 – Quality of Communications • 2440 – Disseminating Results • 2450 – Overall Opinions • 2500 – Monitoring Progress • 2600 – Communicating the Acceptance of Risks

III. Aspects to consider during planning phase for effective reporting

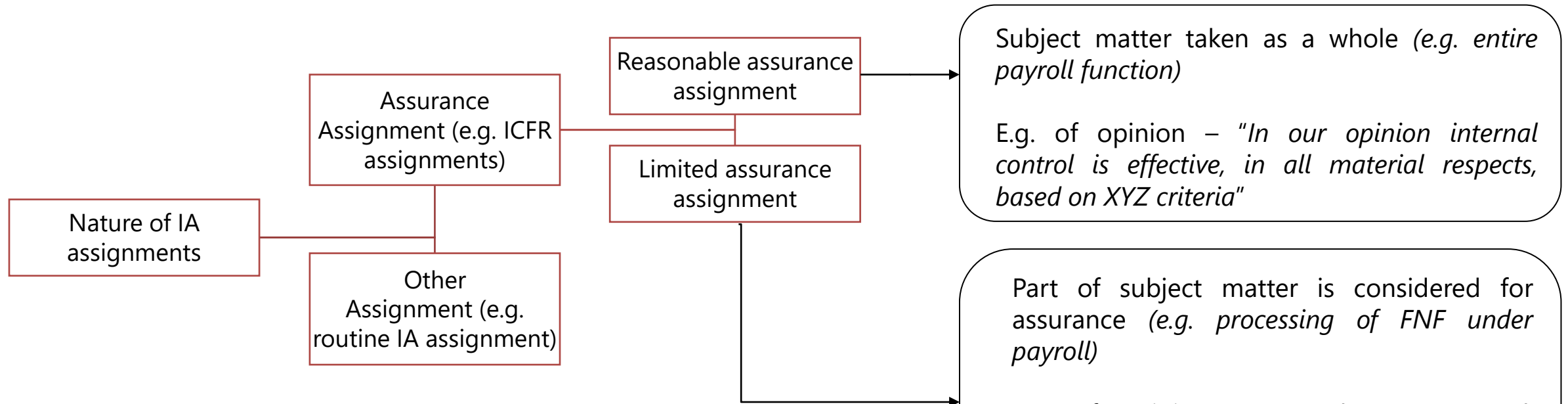


Source:

(*) IPPF Practice Guide (Audit Report) – Page 6 (Understanding the Stakeholders/ Users of Internal Audit Reports) & Page 8-10 (Report Issuance)

(#) SIA 370 – “Reporting Results”– para 1.1 & 3.3

IV. Nature of assurance

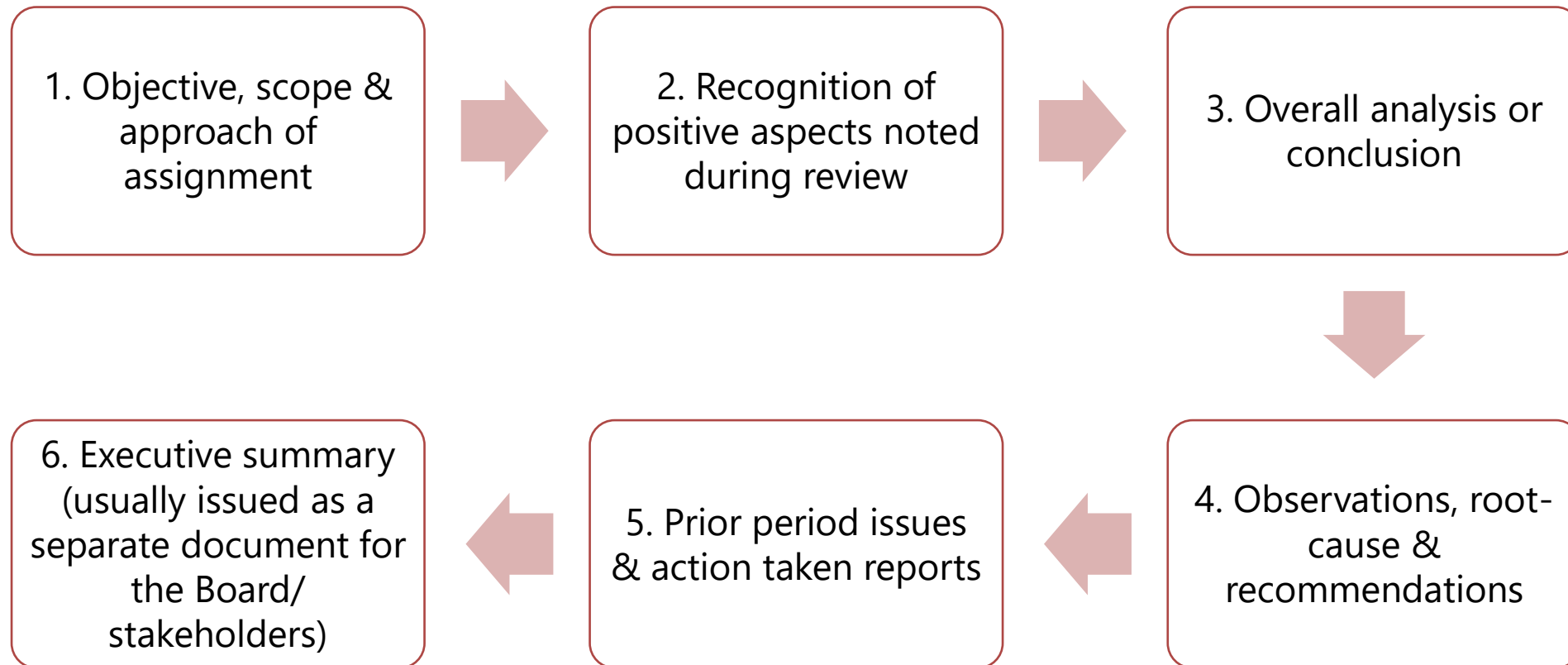


Points to remember:

- SIA 110 is applicable where an opinion is required to be given i.e. an assurance assignment (*Corresponding standard issued by IIA – 2450 – "Overall Opinions"*)
- After acceptance of assignments, an internal auditor cannot change assignment to a non-assurance assignment or from reasonable assurance to limited assurance without reasonable justification
- A change is justifiable when there is (a) Change in Assurance user's requirements or (b) Misunderstanding on nature of assignment

V. Key elements & flow of Internal audit report

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No specific format is prescribed for IA report in the IIA & SIA framework

1. Objective, scope & approach of IA

- Objective – purpose of specific assignment
- Scope – shall include planned audit activities and limitations to the scope
- Approach – work methodology, audit activities conducted, sampling, etc.



Points to remember:

- Objective & scope should be consistent with overall IA objectives & engagement plan
- Adequate justifications should be mentioned for scope limitations
- The approach section may also include brief synopsis of activity being audited / process being reviewed

2. Recognition of positive aspects

Following are few examples of positive aspects that may be acknowledged by Internal auditor:

- Strong internal control / process followed specific to any area or activity (#)
- Timely corrective actions taken by the management w.r.t risks identified (*)
- Appreciation of cooperation extended to IA activity (*)



Source:

(*) IPPF Practice Guide (Audit Report) – Page 7 (Report Content & Structure)

(#) SIA 370 – “Reporting Results”– para 4.1

3. Overall analysis or conclusion

- This section should include the summary of risks identified and applicable conclusions and recommendations thereon



Few points that may be considered while preparing overall analysis:

- Dashboards / tables may be used to depict no. of observations according to risk rating / importance
- Key recommendations / corrective actions requiring immediate attention may be summarized herein
- Trends (positive or negative) compared to previous audit periods may be shown for a better understanding
- Financial impact should be summarized for observations to highlight their significance

4. Observations, root cause & recommendations

Observations should be backed with adequate facts (examples, data, charts, etc.) and recommendations for mitigating risks

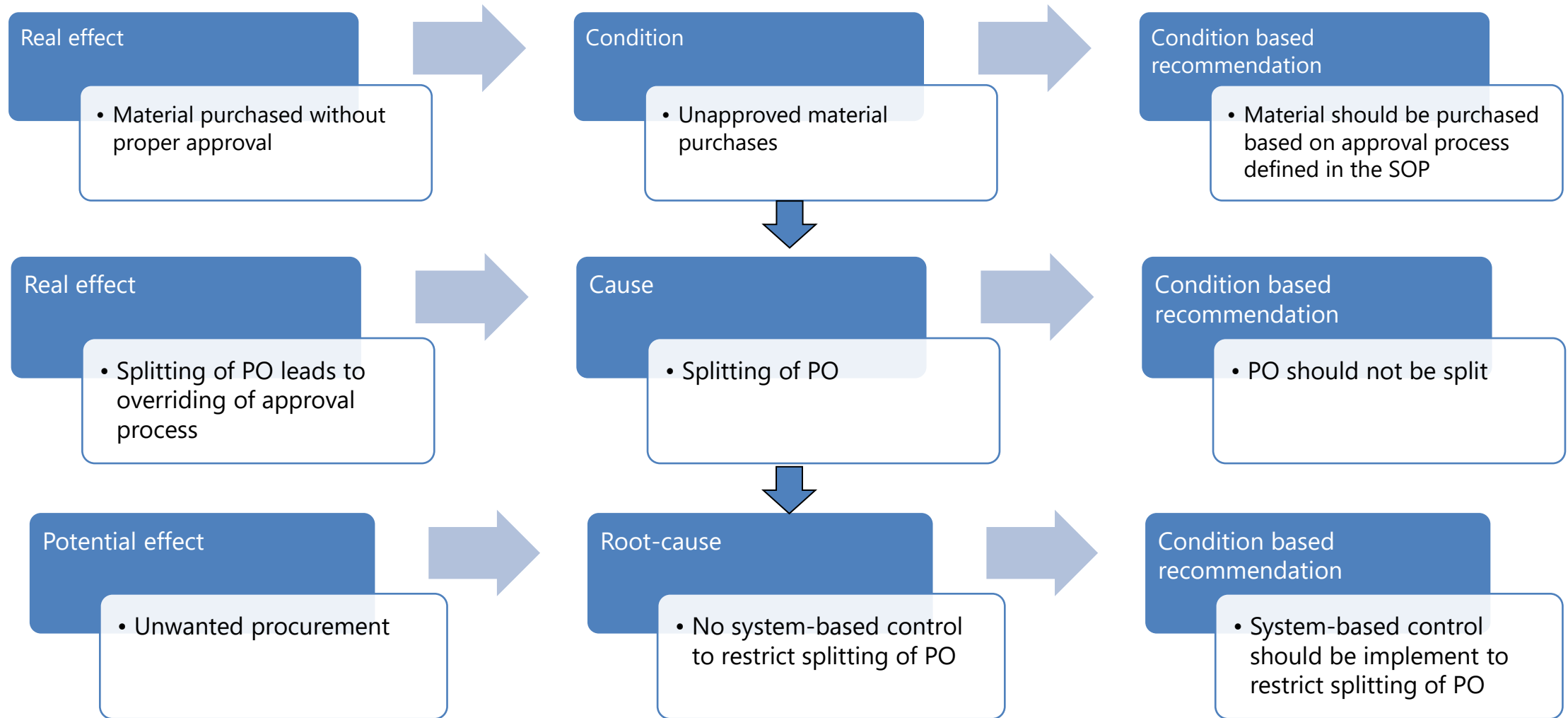
Each observation should be listed in order of significance (i.e. based on risk & impact)

Observations may be drafted in a positive manner (focus towards enhancement) or a negative manner (focus towards weakness)

Draft observations should be issued to the management / process owners for discussion (helps in reducing observation errors, misunderstandings & disagreements)

Root cause, real immediate effect & potential effect should be considered while drafting observations & recommendations (illustrated in next slide)

4. Observations & recommendations



4. Observations & recommendations

Observation writing style – following may be considered:

- Observations should be grouped by topic / cause / effect / risk (*)
- Wordings should be simple & free of technical jargons. Sentences should be short & to the point (*)
- Active voice should be used instead of passive, to the extent possible (to reduce vagueness & misunderstandings) (#)
- Tone of the report should be constructive, not adversarial (*)
- Charts, graphs & tables should be used to highlight key issues(*)

Source:

(*) IPPF Practice Guide (Audit Report) – Page 10 (Writing Style Considerations)

(#) IIA Publication (June 2021) – Back to Basics (Page 15)

5. Prior period issues & action taken reports

Track issues raised during previous audits → assess corrective actions taken → report open or pending items (#)

Audit evidence should be obtained to support closure of prior period issues / actions taken by the management (#)

If corrective actions are not implemented due to reasons beyond management's control (e.g. lockdown), the said fact should be mentioned in audit report & new time-bound action plan may be agreed upon (#)

While tracking prior period issues, Internal auditor should ensure that underlying conditions leading to the risk still exist as on date

If issues have not been addressed for a substantial period, written representations should be obtained from the management for acceptance of risk (#)

6. Executive summary



- Consistent with stakeholder's expectations & objectives of IA (*)
- Clear, concise & effectively deliver key message (*)
- Straight-forward describe relevant issues (*)
- Should not include any technical jargon or IA methodologies (*)
- More than just a condensed version of internal audit report (#)

Source:

(*) IPPF Practice Guide (Audit Report) – Page 11 (The Executive Summary)

(#) IIA Publication (June 2021) – Back to Basics (Page 15)

VI. Common
pitfalls leading to
weak / ineffective
IA report

VI. Common pitfalls leading to weak / ineffective IA report

Factual errors or omissions (*)

Omitting or not explaining scope limitations (*)

Conclusions based on few deviations or issues rather than all findings (#)

Not sharing draft observations with process owners (*)

Observations drafted without explaining implications or root cause (*)

Language that is too technical or filled with too much jargon (*)

Failing to acknowledge satisfactory performance (*)

Issuing late / delayed reports (*)

Source:

(*) IPPF Practice Guide (Audit Report) – Page 5-6 (Business Significance, Challenges and Opportunities)

(#) SIA 370 – “Reporting Results” – para 4.1

VII. Practical tips & suggestive templates

Flow of the observation & internal audit report

Simplicity & clarity in communication




Go from Macro to Micro

Helps set the tone

Usually readers want to know
the overall picture

Gives overall comfort or
discomfort as the case may be



Impression on reading initial points sets user's desire to
continue reading the report

Critical and relevant points keeps the reader interested

Innovations / Out of box thinking

Visual appealing

- Can be effectively used to show stock not arranged in warehouse
- Safety lapses
- Missing signs / labels

Flow charting

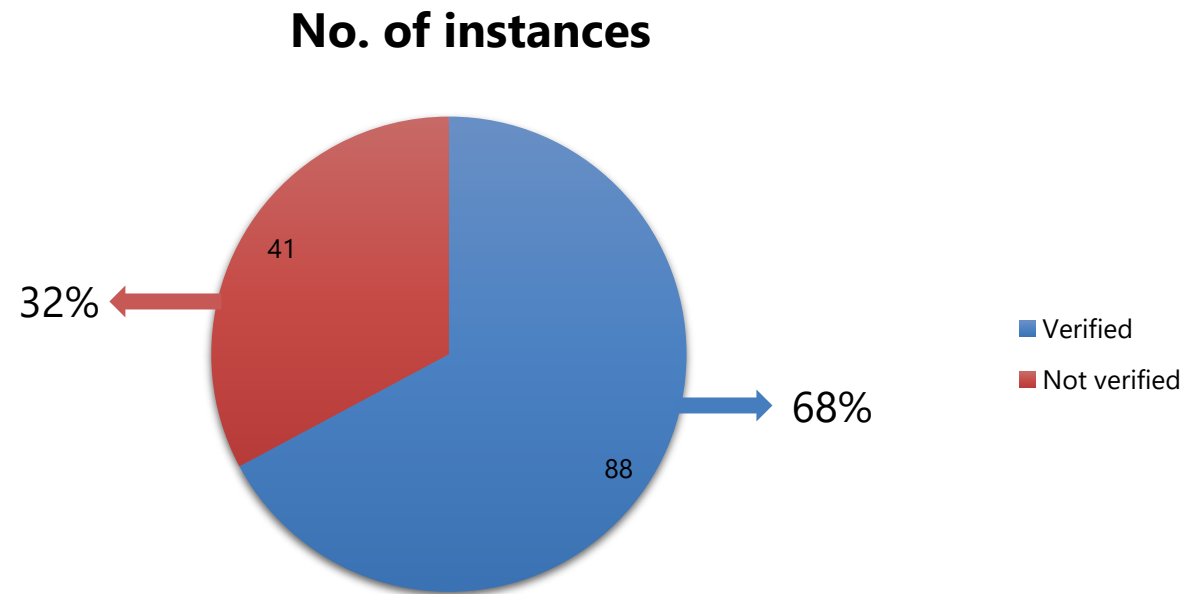
- Depicting redundant processes & duplications
- As-is Vs To-be
- Process gaps

The written content can be reduced as the picture & flow charts are self explanatory

Innovations / Out of box thinking

- Use of graphs / charts

- In 41 out of 128 instances, finance manager has not verified expense entries in SAP



Basis for risk rating of observations

$$\text{Risk} = \text{Impact} \times \text{Probability of occurrence}$$

Probability of occurrence	High	Medium	High	High
	Medium	Low	Medium	High
	Low	Low	Low	Medium
		Low	Medium	High

Impact of risk

Template for overall analysis

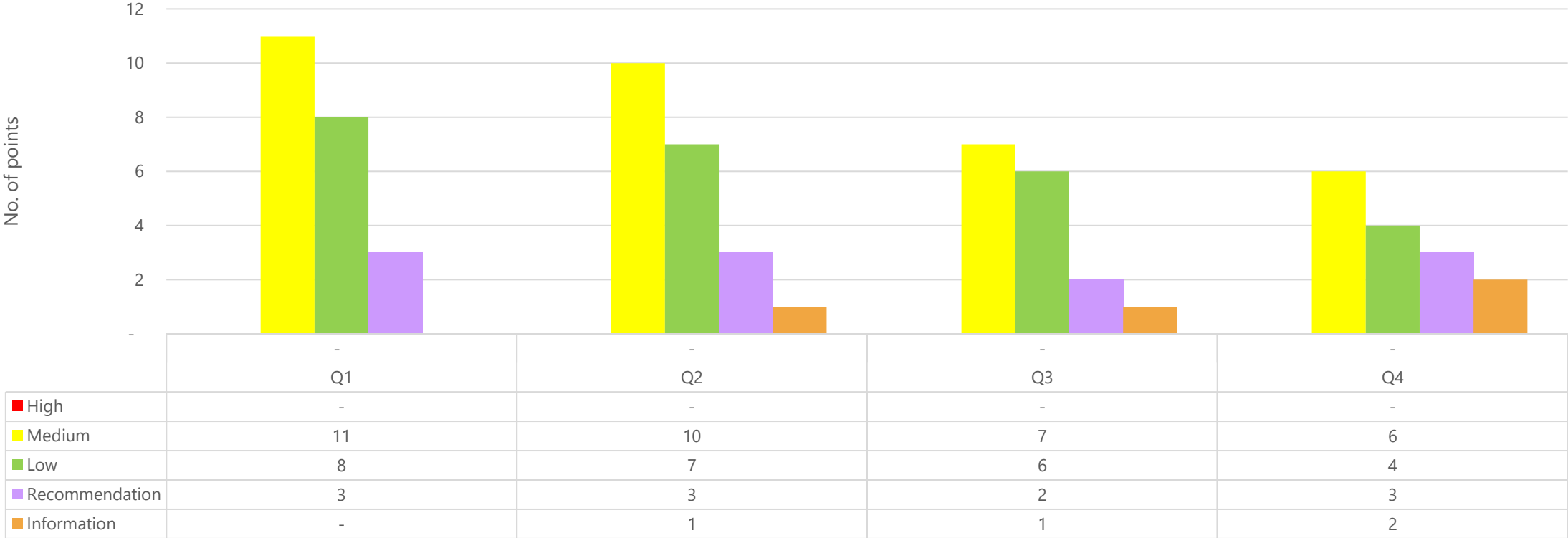
Areas	Our assessment on effectiveness of controls	Categories					
		High	Medium	Low	Recommendation	Information	
Procurement	=	Medium controls	-	1	5	2	1
Inventory	↑		-	1	4	2	-
Statutory compliance	↓	Improvement required	1	-	-	1	-
MIS	=	Strong controls	-	-	-	-	-
Routine	↑		-	-	-	1	-
Total			1	2	9	6	1

Legends:	=	No changes in effectiveness of controls as compared to previous period	↑	Improvement in effectiveness of control compared to previous period	↓	Deterioration in effectiveness of control compared to previous period
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Template for overall perspective



On overall basis, the number of points are reduced quarter on quarter.



There is no critical points observed during the financial year 2020-21

Template for tracking prior period points

Report issue date	Audit period	Area	Observation	Recommendation	Target date of implementation	Responsible person	Status as on current date
XX-Jul-20	FY 19-20	Sales	XX	XX	30-Sep-20	AGM, Sales	Not implemented
XX-Jul-20	FY 19-20	Sales	XX	XX	31-Oct-20	Manager, Sales	Implemented
XX-Aug-20	FY 19-20	Purchases	XX	XX	31-Oct-20	Procurement manager	In progress

VIII. Key takeaways

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- Well-drafted IA report is key to the management for decision making & enhancing governance (*)
- Communication through reports should be accurate, objective, clear, concise, constructive, complete, & timely (*)
- Good practice to share draft reports with the management for discussion and inputs prior to finalization (*)
- For lengthy assignment, periodic status updates / interim draft reports should be issued with progress of work (*)
- Reports should be shared only with intended recipients & appropriate limitations for circulation should be added (*)

(Continued...)

Source:

(*) IPPF Practice Guide (Audit Report) – Page 3 (The Executive Summary), Page 5-6 (Business Significance, Challenges and Opportunities) & Page 10 (Report Issuance)

Don't Delay; Value erodes with Time





Thank You

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