

Report Writing in Internal Audit – WICASA of WIRC ICAI

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Report writing

Skill or Art ?

Writing reports is more of a skill than an art, so following a few practical tips on planning and drafting should make all the difference.

Why to Write Reports ??????????



Only two reasons to write a report:

to spur its recipients into action, such as changing a particular process,

OR

to make them think about something in a different way.

Standard On Internal Audit 360 (Earlier SIA 9) – Communication With Management

- ❑ The Internal Auditor is required to have an effective two-way communication with the management, both while managing the internal audit function, and also while conducting an internal audit assignment.
- ❑ A continuous dialogue with management, at various stages of the internal audit process, is essential to the achievement of internal audit objectives.

Discussion Draft

At the conclusion of the fieldwork, the internal auditor should share the discussion draft.

Final Report

The internal auditor should submit the final internal audit report to the appointing authority or management, as directed.



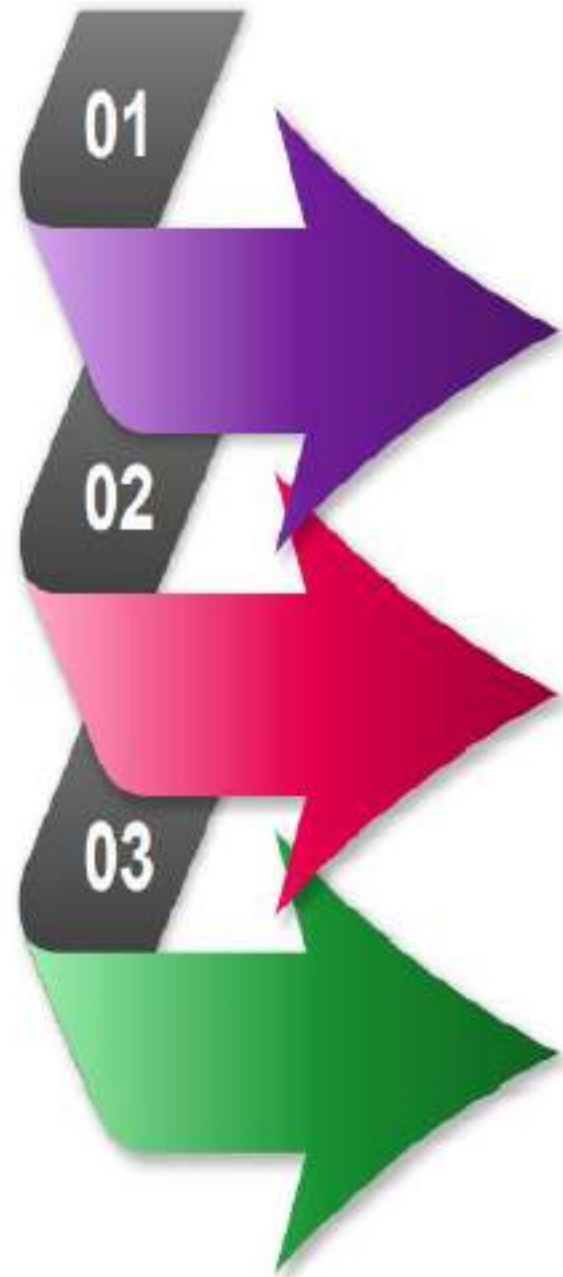
Exit Meeting

The internal auditor should discuss with the management regarding the findings, observations recommendations, and text of the discussion draft.

Formal Draft

The internal auditor should then prepare a format draft report, taking into account any revision or modification resulting from the exit meeting and other discussions.

Standard On Internal Audit 370 (Earlier SIA 4) – Reporting Results



Objectives of issuing internal audit reports

Share with the auditee, details of all significant findings based on audit procedures undertaken

Allow management to understand the issues and take corrective actions in a methodical and comprehensive manner

Provide a sound basis for any assurance being provided by the Internal Auditor

Typical Elements In An Internal Audit Report

01

- ▶ Title Page
- ▶ Addressee
- ▶ Report Distribution List
- ▶ Period of Audit Covered

02

- ▶ Table Of Contents

03

Executive Summary:

- ▶ Report Rating
- ▶ Audit Issues
- ▶ Status of Management Remediation Plan

04

Audit Issues Highlighting:

- ▶ Key Finding
- ▶ Root Cause of Issue
- ▶ Business Impact/Risk
- ▶ Issue Severity - Risk Rating
- ▶ Recommendation
- ▶ Management Comments
- ▶ Issue Owner
- ▶ Target Date of Action

05

- ▶ Assurance Limitation Disclaimer
- ▶ Annexures

Essentials Of A Good Internal Audit Report

Accurate	Objective	Clear	Concise	Constructive	Complete	Timely
Free from errors and distortions and faithful to the underlying facts	Fair, impartial, and unbiased and is a result of a fair-minded and balanced assessment of all relevant facts and circumstances	Easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information	To the point, avoid unnecessary elaboration, superfluous detail, redundancy, repetitiveness and wordiness	Helpful to the auditee /client and the organization and leads to improvements where needed	Lacking nothing that is essential to the target audience and includes all significant and relevant information and observations to support recommendations and conclusions	Opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action

Who Are The Stakeholders Of Internal Audit



Different Form Of Communication For Each Stakeholder

Process Owners

- Discussion of queries during audit
 - The draft internal audit report
 - Detailed annexures

CFO / CEO / MD / ACM

- Executive summary
- Dashboard presentation
- Final Internal audit report



HOD

- The internal audit report
- Discussion on observations at exit meeting and prima facie reply

Statutory Auditor

- Detailed audit report with annexures providing instances

Management Response

- ❑ Management response should be SMART (Specific, Measurable, Achievable, Reliable, Time-bound).
- ❑ Management response should contain the following:
 - ▶ Specific reply to the observation (to the point and not a general reply)
 - ▶ Action verbs like Define, Develop, Implement, Review, Approve, Perform, Generate, Set-up, etc.
 - ▶ The time frame for taking appropriate corrective action
 - ▶ Personnel responsible for taking action
 - ▶ Resource requirements, if any, for ensuring such compliance



Common Mistakes In Internal Audit Reports

Flow of Report

- ▶ More focus on the transaction rather than the process or system failure
- ▶ Lack of pattern or flow in the report – this confuses the reader
- ▶ Starts with the most low risk points – can lead to loss of interest of the reader
- ▶ Important point gets lost in the volume of pages

Incomplete Information

- ▶ Does not contain proper examples, sample size, extent of problem, root cause
- ▶ Not quantified for business impact or risk of the observations
- ▶ Recommendations (or poorly drafted recommendation)

Drafting Errors

- ▶ Spelling mistakes
- ▶ Wrong English
- ▶ Incomplete sentences
- ▶ Long sentences
- ▶ Incorrect use of punctuations

Use of Technical Jargons

- ▶ Confuses the reader
- ▶ Makes report reading more painful



Communicating audit results effectively requires both knowledge of the subject & knowledge of the audience.

Internal Audit Report Format

- ❑ Standards on internal audit do not specify any report format
- ❑ Different organizations use different report formats (Word, Excel and PowerPoint)
- ❑ The format depends on management expectation and requirements
- ❑ The appropriate format should be used with consistency
- ❑ Management will feel more comfortable if it becomes accustomed to the report format and can readily turn to whatever is of interest



Report Format	Characteristics
Word Format	<ul style="list-style-type: none">▶ Traditional form▶ Simple to use▶ Reference to report page / para
Power Point Presentation	<ul style="list-style-type: none">▶ Most commonly used▶ Facilitates use of risk indicators
Excel Sheet	<ul style="list-style-type: none">▶ Effective tool for grouping of various observations - especially annexures▶ Simple to use

Detailed Report – Features Of The Observation

Criteria

What is the standard that was not met?

The standard may be a company policy or other regulatory guideline. expectations used in making an evaluation

Condition

The factual evidence as to what was found



Cause

Reason for difference between criteria & condition [lack of controls, circumvention of controls or external influences]

Consequences

Difference between condition and criteria [impact on the individual, business unit and company as a whole, quantify the impact]



Corrective Action

Action that must be taken to correct the cause

5 Cs In Report Writing – Case Study

Observation To Contain 5Cs	Observation To Answer The Following	Example
C riteria	What is the standard?	Variation in stock on physical verification with the balance as reflected in the stock register should be NIL.
C ondition	What is wrong?	The stock physically verified was short by 5045 units as against the balance shown in the stock register.
C ause	Why is it wrong?	Issues made during the night shift were not recorded.
C onsequences	What is the risk / impact?	The stock position in the books is overstated and the possibility of stock pilferage is high due to lack of control.
C orrective Action	What should be done? / How to correct?	Night shift stock keeper needs to be appointed. Alternatively, the requirement of stock for the night shift should be issued at day end as per the requisition of the production in charge for the night shift. The consumption during night shift is verified by counting in the morning the balance stock left out of the lot issued to the floor during the previous days close.

Audit Observation Format

Rating

Observation	Risk	Recommendations	Management actions agreed or comments
2. Off-specification waste – testing and follow up	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
<p>All waste processed in the plant should comply with all contractual specifications and laws and valid permits.</p> <p>At present, the lab does a quick test as part of the acceptance testing and then does a complete test later. Waste may have been processed by the time the complete test results are available.</p> <p>In our review of all test results of tests performed 1.8 – 31.10.200X (n tests) we identified 7 cases of waste that had been accepted for processing based on the quick test. However the complete lab test performed later of these batches revealed that the waste had not been according to the required specification. These cases require follow up monitoring and appropriate notification to the waste generator. Such notification did not take place in the identified cases.</p> <p>The laboratory equipment and testing procedures are partly outdated and have not been updated to meet the requirements of the higher volumes of AFR being processed. No management reporting of test results, which would alert management to potential problems in a timely manner, is in place.</p>	<p>Production quality may be affected particularly in the future when larger quantities of waste are processed.</p> <p>Breach of laws and operating permits.</p> <p>Reputation risk.</p> <p>Collusion with waste generators.</p>	<p>Analyse the test results from the past 6 months in order to assess the reliability of the quick testing method. Identify any waste generators, if any, who systematically deliver out of spec waste.</p> <p>Assess the technical and practical feasibility of performing the full test before the waste is processed. Review the equipment, work flow and the Work Procedures of the lab.</p> <p>Implement regular reporting to management of test results (quick test and full laboratory analysis) and ensure the waste generator is notified of all cases which are out of specification and that all such cases are adequately followed up and resolved.</p>	<p>A special analysis of the test results in the past 12 months will be performed.</p> <p>The reliability of the quick test will be assessed, practical / technical options to improve reliability and timeliness of test results will be assessed.</p> <p>Waste generators supplying out of spec waste will be identified and an appropriate action plan will be developed to correct the situation.</p> <p>A regular reporting of test results will be implemented in order to identify potential problems in a timely manner.</p> <p>Corresponding amendments to the Work Procedures of the laboratory will be implemented.</p> <p>Deadline: 31.03.200X Person responsible: D</p>

1. CRITERIA =
What should be

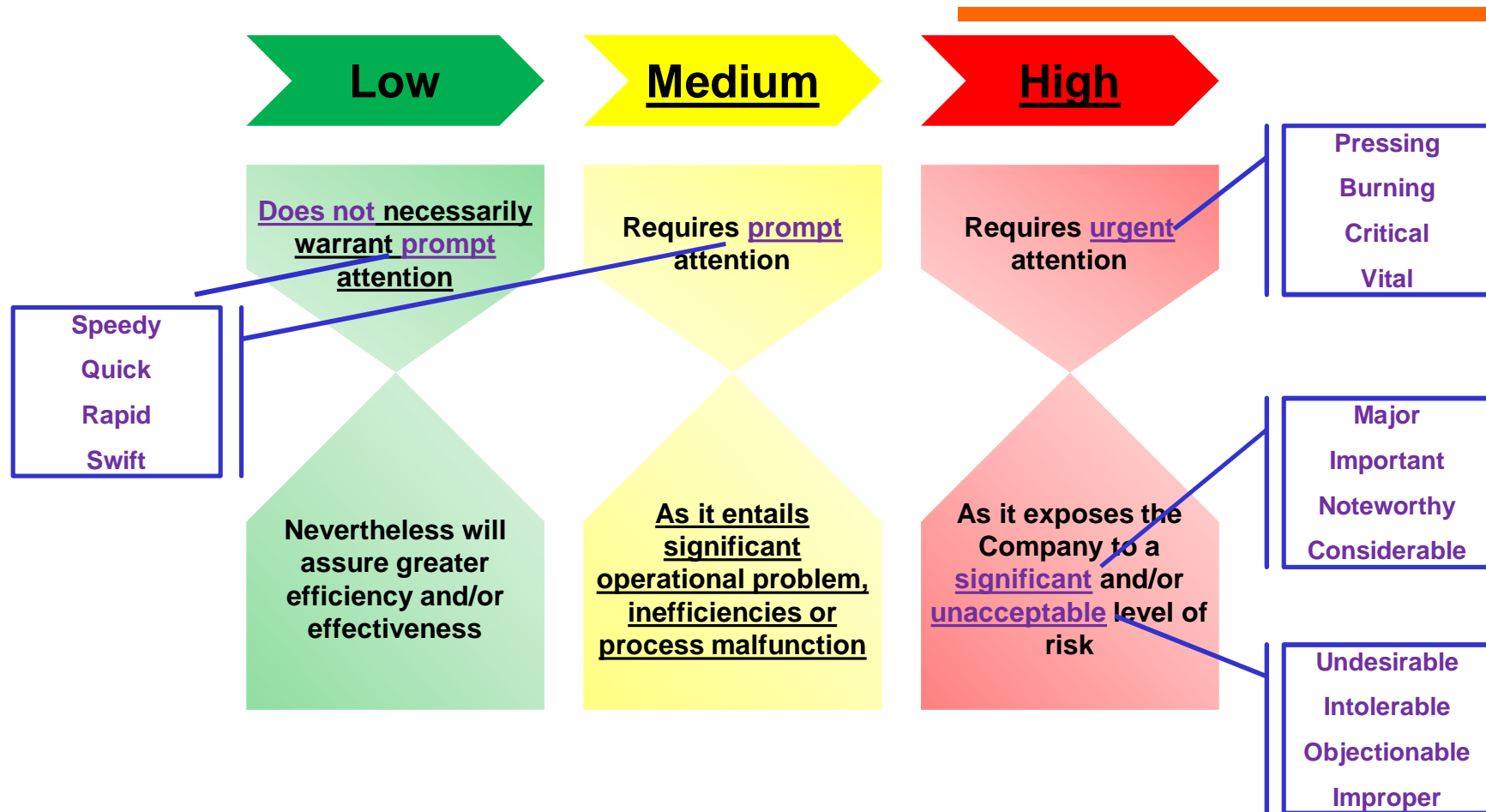
2. CONDITION =
What is;
What did you find

3. CAUSE =
Why is there a difference between Criteria and Condition

4. Consequences - What does this mean in terms of risk

5. Corrective Action = What will be Management Action

Basis of Individual Rating of Audit Observations



Risk Rating / Risk Category / Controls Rating – Legends

RISK RATING	
High (H)	Represents critical control weaknesses requiring prompt action to mitigate information systems or business process vulnerabilities. Adequate compensating controls do not exist to mitigate risk exposure, or may not be sufficient given the impact of a risk occurrence should it occur. Regulatory non-compliances involving penalties/prosecutions are also included in this category and having financial impact exceeding say USD 250K.
Medium (M)	Represents moderate control weaknesses requiring near-term management focus to strengthen existing controls. Some compensating controls are present, but additional controls are necessary to further mitigate risk exposure and having financial impact between say USD 100K to 250K.
Low (L)	Represents minor control weaknesses requiring management focus to enhance existing controls. Compensating controls are present to mitigate exposure (or if not, the impact of a risk occurrence is minor), but opportunities exist to enhance controls or improve operating efficiency and having financial impact say below USD 100K.

RISK CATEGORY	
Operational (O)	Effectiveness and efficiency of operations.
Financial (F)	Reliability of financial reporting / financial impact.
Compliance (C)	Compliance with applicable laws and regulations.
Process Improvement (PI)	Scope of improvement in the business process.

CONTROLS RATING	
Moderate (M)	Controls are present to mitigate most process/business risk, but management should evaluate opportunities to enhance existing controls.
Limited (L)	Existing controls may not mitigate process/business risk and management should consider implementing a stronger control structure.

Objective Criteria for Overall Report Rating

Rating	High	Medium	Low
Good	None	None	1-2
Satisfactory	None	1-2	Y
Marginal	None	> or = 3	Y
Weak	> = 2	Y	Y

Objective Criteria for Overall Report Rating

	Good	Satisfactory	Marginal	Weak
Controls	Are adequate and appear to be operating as intended.	Are adequate and appear to be operating as intended.	Are only partly adequate. Some controls are absent or do not appear to be operating as intended.	Are absent or do not appear to be operating as intended.
Recommendations		Minor recommendations to improve basic controls are provided.	Recommendations to improve controls or their operation require <u>prompt</u> management attention.	Recommendations to improve controls or their operation require <u>urgent</u> management attention.

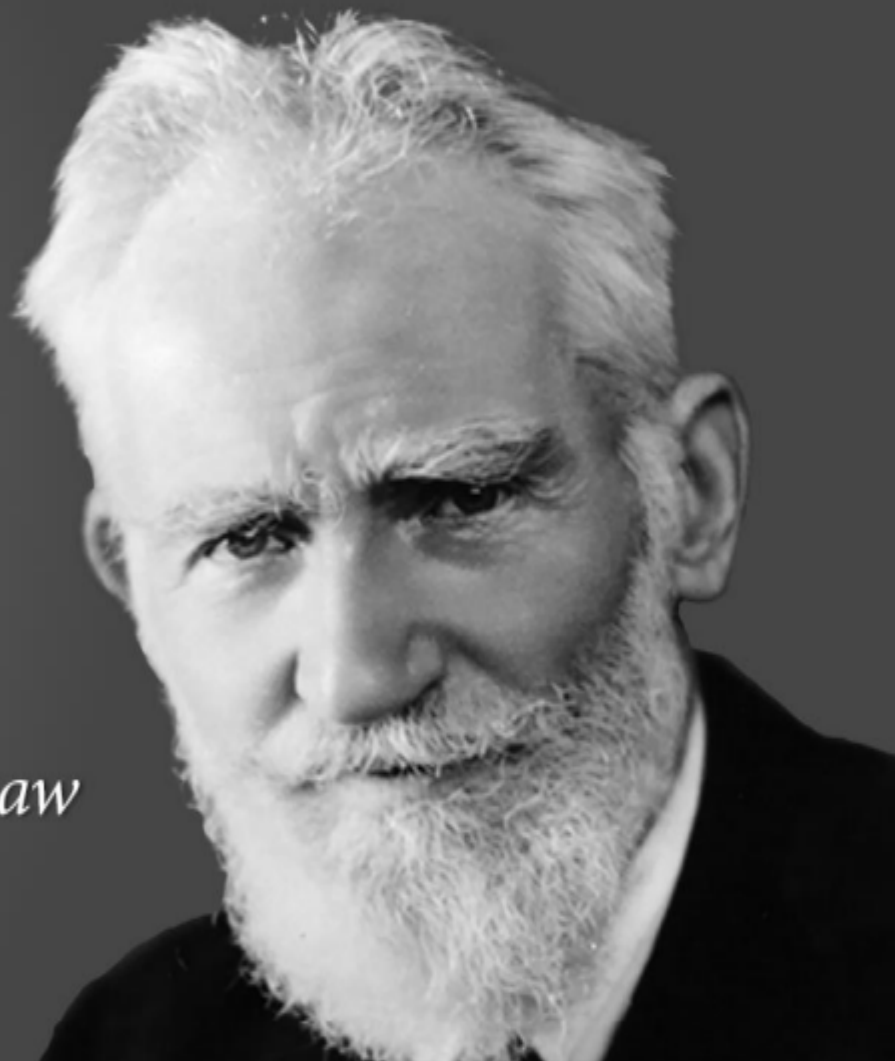
Audit Reporting Challenges

- ▶ Reporting issues that don't matter to the board and top executives
- ▶ Failing to communicate what matters when it matters
- ▶ Lengthy cycle times – time taken for formal report writing
 - Consequences of lengthy audit cycles are
 - Audit results are not timely
 - Stakeholders dissatisfaction
 - Inefficient use of internal auditors time
- ▶ Factually incorrect reports
- ▶ Size of the report and maintaining balance
- ▶ Implications or risk not being brought out clearly
- ▶ Focus only on negative aspects or mistakes
- ▶ Projecting process owners as villains or blowing up things out of proportion
- ▶ Lack of practical recommendations
- ▶ The reader cannot connect with the report



“The single biggest
problem in
communication is
the illusion that
it has taken place.”

~ George Bernard Shaw



“If you talk to a man in a language he understands, that goes to his head. If you talk to him in his language, that goes to his heart.”

Nelson Mandela





***“You never
have a second
chance to
make a first
impression”***

People begin
forming an opinion
within seconds

Difficult to reverse
first opinion





thank
you

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