

Seminar on Value Driven Risk Based Internal Audit

Report Writing

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Re-cap of Previous Sessions

- ✓ **Session 1:** Standards on Internal Audit
 - ✓ **Session 2:** Value delivered and key outcome
 - ✓ **Session 3:** Stakeholder Management and Soft skills
- ✓ **Session 4:** **Report Writing**

Report writing – Introduction

Internal audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes

What is IA Report


- ✓ Result (Output) of your Internal Audit
- ✓ Final deliverable which flags significant observations and Actions required
- ✓ The “only” tangible outcome of your work.
- ✓ Reference Point or Start Point of next Audit

Report writing – Preamble

Report Writing – Purpose and Objective

1. The primary purpose of any writing, whether formal audit report or a brief memo is to communicate a message to a reader. Robert Louis Stevenson said “write so that you cannot possibly be misunderstood”
2. In order to do this effectively, the writer must consider the audience who will receive and respond to the report; they should be able to understand the report without effort; they should never have to say “what do you mean by this? What evidence do you have? What do you want to do about this ?”
3. Use persuasive writing to convince your reader to accept the recommendations; show the reader that your conclusions are logical and valid and that suggestions represent an effective and feasible way of correcting the problem

Report writing – Phases in Report writing process



Report writing – Drafting a “Finding”

"Audit findings have often been regarded as containing the elements of criteria, condition, and effect, plus cause when problems are found. However, the elements needed for a finding depend entirely on the objectives of the audit. Thus, a finding or set of findings is complete to the extent that the audit objectives are satisfied and the report clearly relates those objectives to the finding elements."

Report writing – Drafting a “Finding”

Criteria	What should be the case?
Condition	What is the current case?
Cause	What is the reason for the current case?
Consequence (Effect)	What is the impact?
Corrective Action (Recommendation)	<p>What should precisely be done to reach the ‘should be’ scenario?</p> <ul style="list-style-type: none">· Be specific rather than being general· These should be actionable rather than theoretical· Recommendation should consider all aspects like Taxes, Compliance· Should have a tangible Cost - Benefit

Report writing – 5Cs for mapping the “Finding”

What is the key finding you want to communicate to your readers?

Condition

What is the policy, standard, principle or business practice you are evaluating?

Criteria

What is the root cause of the problem?

Cause

Why was the condition not detected or corrected?

What is the impact or materiality?

Consequence

What has gone or could go wrong as a result of the condition?

Correction

What is the policy, standard, principle or business practice you are evaluating?

Report writing - Drafting a “Finding” – Exercise

While reviewing the month end closing process for a public company for the second quarter, you have found out that the process is very ad-hoc without ensuring adequate check for completeness and timeliness. Expenses totaling INR 900,000 were not provided for. Draft the finding covering all essential elements.



Report writing - Drafting a “Finding”

Criteria	Adequate controls should be in built into the process to ensure completeness, accuracy and timeliness of the month end closing process
Condition	Certain expenses amounting to INR 9 lakhs were not provided for.
Cause	Adequate review procedures (maker checker, completeness checks) were absent.
Consequence (Effect)	Overstatement of profits to the extent of INR 9 lakhs for the quarter leading to inaccurate financial reporting.
Corrective Action (Recommendation)	<ul style="list-style-type: none">• Develop a month end closing checklist.• Provision entries for each month should be reviewed by an independent person.• Implement parking and posting concept in the system.

Report writing – 3 Cs for Editing report



Report Writing – Editing Report

- ✓ Always take a print out and review the report in hard copy
- ✓ Don't begin to edit your report the moment you finish drafting it. Allow some **"cooling" time**
- ✓ Before you begin editing, **review the needs of your reading audience**
- ✓ **Reconcile** the **objectives** listed in the report to the **findings** included to ensure the readers' expectations will be met
- ✓ Read through the entire report at a normal reading rate to evaluate flow and mark all discrepancies but do not revise until finished
- ✓ Keep versions. You never know when you may need to refer to an old version
- ✓ Finally, allow another "cooling" period and reread from beginning to end
- ✓ Finally get a review done by a person senior to you (if you can!)

Report Writing – Be specific and Precise

- ✓ Be **Specific:** Don't Say More Than You Can Support
- ✓ Be **Concise:** Say What You Mean-Neither More, Nor less
- ✓ Be Concise: Group by Concept
- ✓ Be **Clear:** Avoid Words That Can Be Interpreted Broadly
- ✓ Be **Accurate:** Don't Generalize Beyond the Scope of Evidence

Report writing – Be specific and Precise - Exercise

The audit review revealed that Payroll was only being checked by HR and not independently checked by Finance as a part of the monthly payroll process in order to improve the control efficiency

We noted that Payroll was not being independently checked by the Finance department

Report writing – Paragraph readability

What makes a good paragraph?

- ✓ Contains only one idea
- ✓ Has clear, easy-to-read sentences
- ✓ Is short
- ✓ Has unity and coherence

Unity

Unity means that all sentences develop the central idea, as expressed in the topic sentence

Coherence

Coherence means that sentences are in logical order and take the reader smoothly and logically from one sentence to the other.

Logical Connections

Watch out for the tendency to write based on your knowledge of the subject without ensuring connections between thoughts are made in writing.

Report writing – Paragraph readability – Exercise

Rearrange the following sentence:

Based on this approved sheet, the Compensation Benefits department prepares a summary and forwards the same to the Finance (Payroll) department at the time the bonus-payout is due. However, the Finance (Payroll) department does not independently verify the accuracy of the bonus summary received from the Compensation Benefits section with the summary excel sheet approved by the CEO, CFO, GM-HR and Department Heads. Individual departments prepare the bonus calculation sheets after agreeing with the respective employees and submit these sheets to the HR department. The overall bonus pay-out for the year is formally approved on the excel sheet by the CEO, CFO, GM-HR and Department Heads.

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Internal Audit Report writing – Effective writing hints

1. Use outlines to plan what you will say and refer to it constantly and try to arrange your points in a sequence and put the most important ones first
2. Start where your readers are; don't write to a level higher than your reader's knowledge of it; remember your prime purpose is to explain something, not to prove you are smarter than your readers; attempts to impress the reader are usually self-defeating
3. Don't use words, expressions, phrases known only to people with specific knowledge or interests; For example, "based on the results of the statistical tests, it was discovered that the error rate was 7.2% with a 95% confidence level". It should have been said that "numerous errors were found that support the findings".
4. Stick to the point; refer to your outline and constantly ask the question "does it relate to a point in the outline? If not, should I include it in the audit report? If not, I'm getting off track.

Internal Audit Report writing – Effective writing hints – (continuation)

5. Be brief; when you write, condense to make it tighter, straighter, easier to read and understand
6. Present points in a logical order
7. Avoid mysteries in writing the report; hit the reader with the main point in the opening sentence of each paragraph
8. In written communications the basic tools are words, sentences, and paragraphs and effective use of these tools may make the difference whether the message you intended to give was the one the reader received

Report writing – Report Check List

- ✓ Use **Bullets and Be Consistent** with their format throughout the document
- ✓ Be consistent with the use of **font types** and their **size**
- ✓ Always **spell check**
- ✓ Use the word **‘Draft’** as a watermark whenever draft versions are being sent
- ✓ **Text and line spacing** to be consistent
- ✓ Alignment of **heading, sub-headings**
- ✓ Be consistent with the use of **‘Caps’ and Small’** Letters
- ✓ Be consistent with the use of words –
‘Departments’/’Functions’/”Business Units’
- ✓ Make sure all numbers have the corresponding currency (wherever applicable) and are consistent throughout the report. Further, make sure the denominations are consistent (E.g. in 000’s, in millions) - Align these with client protocols

Report writing – Typical Internal Audit Report Layout



- ✓ Cover Page
- ✓ Table of Contents
- ✓ Objective
- ✓ Background Information
- ✓ Scope Limitation
- ✓ Observations & Conclusion
- ✓ Summary of Results
- ✓ Detailed Results
- ✓ Appendices or Exhibits

Report writing – Sample Layout of Internal Audit Report

Name of Unit / Company
Internal Audit Report for the

_____ Company Limited

Unit: _____

Internal audit report for the year _____

Section	Contents	Page Ref.
A	Executive Summary	
B	Sign Off Page	
C	Observations	

Audit Dates	
Audit Period	
Audit Firm	
Partner In Charge	
Audit Team	
Total Man days	
Report discussed and finalized on	
Total number of pages	

Name of Unit / Company
Internal Audit Report for the

Sign Off Page

For ABC Associates Chartered Accountants	
Partner/Manager	
Financial Controller	General Manager

Report writing – Sample Layout of Internal Audit Report

Name of Unit / Company
Internal Audit Report for the

EXECUTIVE SUMMARY

Priority 1 Issues

Priority 2 Issues

Priority 3 Issues

Name of Unit / Company
Internal Audit Report for the

Observation grading			Root Cause Definitions	
High	H	High , requires immediate Management attention to improve the operating effectiveness of the control	People Issue	The exception noted results from non-adherence to the laid down processes and procedures.
Medium	M	Medium, requires corrective action and acceptable level of assurance.	Process	The process/ control gap is the result of an inherent limitation of the business process.
Low	L	Low, requires minimal level of assurance that the process are operating effectively and efficiently.	Technology	The process/control gap is the result of inherent limitations of the IT architecture supporting the business process.
			Policy	These exception noted results from the deviation from the policy and Statutory norms.

Report writing – Sample Layout of Internal Audit Report

Name of Unit / Company
Internal Audit Report for the

AREA/DEPT	OBSERVATION(S)	RISK(S)	H	RECOMMENDATION(S)
		AUDITEE RESPONSE		

COVERAGE			ROOT CAUSE(S)			VALUE DRIVER		
<i>Population Coverage Period: From</i>	<i>To</i>		<i>Policy</i>		<i>Process</i>	<i>Efficiency</i>		
<i>Population Size: Bills/Vouchers/Docs</i>			<i>People</i>		<i>Technology</i>	<i>Effectiveness</i>		
<i>Sample Size:</i>	<i>Bills/Vouchers/Docs</i>	<i>Sample Value:</i>	<i>Previous Year Point? (Y/N)</i>			<i>Risk Mitigation</i>		

Report writing – Dos and Don'ts

DOs	DON'Ts
Report to be structured	One-off cases not to be reported (unless very substantial)
Use simple language	Repetitive language should be avoided
Be-Specific- to the point (different points to be stated separately	Don't mix up different points in the same
Identify the root cause of the problem	Lengthy annexures to be avoided-maximum one sheet is enough
Give value based impact (quantify)	Contradictions to be avoided -(same point contradicated in another point)
Give issue based impact (control lapse)	
Give adequate instances- with population and coverage details	
All annexure to have values and totals	
Figures (values) given in the points should tie up with that in the annexure	
Annexure reference in the report should match with the actual annexure number	
All annexure to have relevant (Comprehensive) information relating to the point	
Issue to be segregated	
Right words should be used in the points	
Terms (nomenclature) used by the auditee should be used in the points	
Important points in annexures should be given as instances in the main point itself(besides the annexure	
Every point should have adequate supporting papers with relevant baqck-up diocuments	