REFRESHER COURSE ON INTERNAL AUDIT

WEBINAR

REPORTING RESULTS

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Aug 05, 2022

Topics covered in Webinar :

✓ Session 5 : Reporting Results

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

Objectives of IA reports

The objectives of issuing Internal Audit Reports is to :

- ✓ 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

The overall objective of Reporting Results is to highlight the effectiveness of internal controls and risk management processes to enhance governance in line with the Internal Audit Charter

✓ Dissemination of the results of internal audit and reporting the findings to management is an essential part of any internal audit. Reporting of results needs to be done with a certain level of uniformity and should have clarity and agreement with regard to the nature of assurance being provided through these reports.

✓ Reporting of internal audit results is generally undertaken in two stages: (a) At the end of a particular audit assignment, an "Internal Audit Report" covering a specific area, function or part of the entity is prepared highlighting key observations arising from those assignments and issued to the auditee. (b) On a periodic basis, at the close of a plan period, a comprehensive report of all the internal audit activities covering the entity and the plan period is prepared normally on a quarterly basis and submitted to the highest governing authority responsible for internal audits, generally the Audit Committee.

✓ The internal audit report shall be issued within a reasonable time frame from the completion of the internal audit work

Communication with Management

✓ **Internal Auditor is required to have an effective 2 way communication with management both while managing the IA function and while conducting IA assignment.**

✓ All communication shall be clear, appropriate and in line with the agreed process and timelines

✓ The process documentation shall outline the various modes (e.g., verbal, written, picture, video, etc.)and channels of communication (e.g., through phone, hard-copy (paper), email, file exchange, etc.,) the periodicity and timelines for communication and also cover certain essential information required to be communicated. Where essential matters are concerned, any verbal communication should subsequently be confirmed in writing and maintained as audit documentation.

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

Draft

Edit

Submission

Report writing – Drafting a "Finding"

"Audit findings have often been regarded as containing the elements of <u>criteria</u>, <u>condition</u>, and <u>effect</u>, plus <u>cause</u> 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"

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)	What should precisely be done to reach the 'should be' scenario? • 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"

Report writing - Drafting a "Finding" –Example

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)	• 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

CONCISE

- Identify key finding(s) and prioritize

COMPLETE

- Determine what types of information (and how much) are needed to support each key finding

CLEAR

- Consistently apply standards for coherent written communication

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)

Be Specific:
- **Don't Say More Than You Can Support**

Be Concise:
- **Say What You Mean-Neither More, Nor less**

Be Clear:
- **Avoid Words That Can Be Interpreted Broadly**

Be Accurate:
- **Don't Generalize Beyond the Scope of Evidence**

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

What makes a good paragraph?

✓ **Contains only one idea**

✓ **Has clear, easy-to-read sentences**

✓ **Is short**

✓ **Has unity, coherence & logical connections**

Unity

Coherence

Logical Connections

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

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

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

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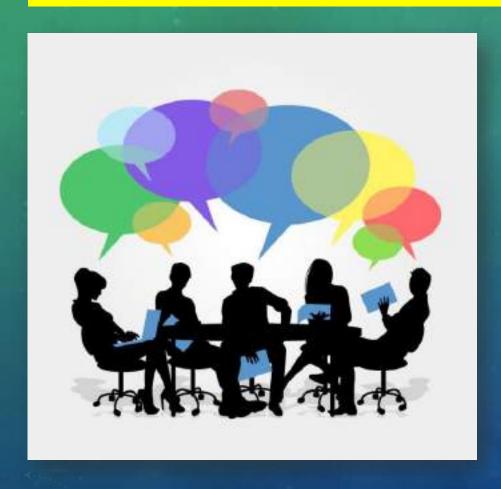
Internal Audit Report writing – Effective writing hints – (continuation)

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

Name of Unit / Company
Internal Audit Report for the

EXECUTIVE SUMMARY

Priority 1 Issues

Priority 2 Issues

Priority 3 Issues

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Page 3 of 6

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.
			Technology	The process control gap is the result of inherent limitations of the IT architecture supporting the business process.
Low	L	Low, requires minimal level of assurance that the process are operating effectively and efficiently.	Policy	These exception noted results from the deviation from the policy and Statutory norms.

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Page 4 of 6

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	
Population Coverage Period: From	To		Policy	Process	Efficiency	
Population Size: Bills/Vouchers/Docs			People	Technology	Effectiveness	
Sample Size:	Bills/Vouchers/Docs	Sample Value:	Previous Year Point? (Y/N)		Risk Mitigation	

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Page 6 of 8

- Report to be structured

- Use simple language

- Be-Specific- to the point (different points to be stated separately)

- Identify the root cause of the problem

- Give value based impact (quantify)

- Give issue based impact (control lapse)

- Give adequate instances- with population and coverage details

- All annexures 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 annexures 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 back-up documents

One-off cases not to be reported (unless very substantial)

Don't mix up different points in the same

Repetitive language should be avoided

Lengthy annexures to be avoided-maximum one sheet is enough

Contradictions to be avoided -(same point contradicted in another point)

Thank You