



How to write Internal Audit Report By

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What is internal Audit report

Internal Audit report is the document prepared as an outcome of the internal audit process . It contains a clear written expression of significant findings and recommendations based on the review of the polices, processes, risks and transaction processing.




Types of Auditors Reports

- External Auditors – Statutory Audit
- Internal Auditors – Management Decision Making

Key Considerations

- The internal audit report is often the main, routine vehicle through which senior management understands the value that internal audit delivers.
- Audit report presents the results of an examination or review within the organization and is considered to be the core deliverable of internal audit services.
- Poorly communicated results may completely detract from what may be critical information for senior management and the board.
- Well-organized and communicated results are a key indicator of competency and professionalism.
- Each organization has unique reporting practices and expectations that affect the format, frequency and depth of their communications.



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.



Key Areas in Report writing

When writing a report there are five key areas which you should always consider:

1. What is the purpose of the report?
2. Who will read it?
3. How to start
4. The report structure
5. Styles and presentation

Essentials of Good Internal Audit Report

- Accurate
- Objective
- Clear
- Concise
- Constructive
- Complete
- Timely

STAGES IN REPORT WRITING

The audit report is a process in itself, which starts with:

- Introduction
- Identification of audit findings/Observations and Observed Lapses
- Preparation of first draft report
- Discussions draft
- Exit meeting & formal draft
- Final report

Example (has to prepare)

- Observation To
- Criteria : What is the standard? Variation in stock on physical verification with the balance as reflected in the stock register should be NIL.
- Condition What is wrong? The stock physically verified was short by 5045 units as against the balance shown in the stock register.

Some questions Ask yourself the following questions

- Have more than 95% of your audit recommendations during the last year been fully and successfully implemented?
- If you were the recipient of the report would you have been spurred into action?
- Were all your findings or recommendations different from last time this area was reviewed?
- Do your reports focus on the future rather than the past?
- Was the audit opinion a true reflection of the overall conclusions?
- Did the findings, conclusions, and recommendations really represent the key issues?
- Did you only report on the major issues found during the audit with the minor issues being dealt with separately?
- Were all your recommendations 100% practical?
- Do you believe that your reports are as good as they could be?



Introduction

- When writing a report there are five key areas which you should always consider:
 1. What is the purpose of the report?
 2. Who will read it?
 3. How to start.
 4. The report structure.
 5. Style and presentation.

The purpose of the report

- Before we start to write the report we need to know its purpose:
 - What is it for?
 - to report the findings of an audit review.
 - What are its objectives?
 - to provide an opinion on the risk management arrangements in respect of the area reviewed and to make recommendations for improvements, where appropriate




Who will read the report?

- Knowing who the reader is and then writing the report for that reader is vital.
- The reader could be management, Senior Officer including PAO, or the audit committee.

How to start

- Don't start writing too quickly.
- Undertake adequate preparation.
- Begin in the middle.
- Start by making some notes to clarify your ideas and assemble your facts and findings.
- Identify what your recommendations are going to be.
- Group your facts, findings and recommendations together.
- Order them so that they form a logical pattern.



Structure of the Report

1. Brief introduction, including background
2. Main results and conclusions (audit opinion)
3. Detailed findings
4. Appendices, including audit methodology, action plan.

Reporting Results

- 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

AUDIT REPORT STRUCTURE

Observations, Findings Recommendations

- The report should clearly mention the process name; significant observation and findings with respect to the criteria; analysis of the consequences of the findings; and recommendations of the auditor.
- Each observation should be supported by a set of facts
- Always give management a business reason for implementing recommendations.

AUDIT REPORT STRUCTURE (Cont.)

Auditee's response:

- All recommendations should be followed by the auditee's response.
- Responses should be included verbatim

Auditor's Comments:

These comments are used as necessary to further evaluate the adequacy of the auditee's written responses

Writing the Detailed Report

- Background or Overview of Audit area Reviewed
- Scope and Approach-what was looked at
- Audit Period (what period was included)
- Findings Summary- positive findings, issues or problems
- Detailed observations to includes 5 Cs

Auditor's checklist for report writing

- ▶ Reference Everything.
 - ▶ Avoid unverifiable claims and make sure to bridge any gaps of information by referencing where you obtained key facts and figures.
- ▶ Include a Reference Section.
 - ▶ Use indices, appendices, and tables in this section is very helpful.
- ▶ Use Figures, Visuals, and Text Stylization.
 - ▶ If you can put a number behind a fact or use a percentage to describe it, do so. Circle or highlight the key points you want to convey, as well as bold, underline, italicize, or use color to draw attention to key facts and figures. Use tables or graphs to summarize and draw attention to key trends or important data, wherever possible.

Auditor's checklist for report writing

- ▶ Note Key Statistics about the Entity Audited.
 - ▶ Noting key statistics about the entity audited in the Background/ Overview, if applicable, puts things in perspective and gives context and relevance to your audit findings.
- ▶ Make a "Findings Sandwich."
 - ▶ Layer a positive finding, followed by an issue, followed by a positive, and so on. Try to end the Findings Summary on a positive note.
- ▶ Ensure Every Issue Includes the **5 C's of Observations**.
 - ▶ Criteria, Condition, Cause, Consequence, and Corrective Action Plans/Recommendations.

Auditor's checklist for report writing

- ▶ Include Detailed Observations.
 - ▶ Detailed Observations are also a good place to include any additional facts and figures
- ▶ Always Perform a Quality Assurance Check.
 - ▶ Seek someone who does not have a direct connection to the audit so they can provide fresh eyes. If possible, ask someone from the department or function audited to review the report as well.

Auditor's checklist for report writing

- ▶ Avoid Blame – State the Facts.
 - ▶ Aim to preserve the relationship with audit clients by being as objective as possible and avoiding blame. Simply state issues and recommended actions.
- ▶ Be as Direct as Possible.
 - ▶ Avoid soft statements when making recommendations (such as “Management should consider...”) and opt for solid recommendations and calls to action instead

Review

- ▶ Go through the report and ask yourself:
 - ▶ If I leave out any section, will it make any difference?
 - ▶ If I put in additional information, will it really help the reader?
- ▶ Can the layout be improved?
- ▶ Is it easy for the reader to see the structure of the report; can they find what they want quickly?
- ▶ Am I “seeing what I want to see”?

Ask someone else to check it

Conclusion

- **Report**
- **R**emember – the report is the output most people will see.
- **E**xplain – need to explain context of audit and testing undertaken.
- **P**hrasing – make sure the report is clear and easy to understand.
- **O**rdered – is the report written in a logical way?
- **R**ead through – make sure you read through the report thoroughly.
- **T**hink – would I understand this audit if I was only reading the report?



Communication With Management

1. 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.
2. A continuous dialogue with management, at various stages of the internal audit process, is essential to the achievement of internal audit objectives.

Communication With Management

- ▶ **Discussion Draft:** At the conclusion of the fieldwork, the internal auditor should share the discussion draft;
- ▶ **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;
- ▶ **Final Report:** The internal auditor should submit the final internal audit report to the appointing authority or management, as directed.

Stakeholders Management

- Identify your stakeholders (who / to whom)
- Identify stakeholders expectation (why)
- Identify how the message will be communicated (the stakeholder's preferred method)
- Identify communication necessary to satisfy stakeholders expectation and keep them informed (what)
- Identify and finalize how the report will be communicated (this should be finalized at the design stage itself)
- Identify time frame / frequency of communication
Adherence to time frame i.e. avoid last minute rush

What Are The Stakeholders Expectations

▪ Head of the Organization:

- Overall risk assessment
- Categorization based on risk
- Summarized findings
- Root cause analysis
- Recommendations Process owner's acceptance, agreed action plan, first-person responsible for implementation and target date
- Value addition

What Are The Stakeholders Expectations

■ Audit Committee:

- Overall coverage and risk assessment;
- Statutory non-compliances;
- The Summarized finding of key issues;
- Preventive controls/automated controls;
- Management comments, agreed action plan, first-person responsible for implementation and target date;
- Providing assurance/comment on improvement;
- Value addition.

What The Stakeholders Likes To See

- ▶ Value-Adding Processes:
 - ▶ Revenue/Costs/Savings;
 - ▶ Efficiency improvement;
 - ▶ Procurement
 - ▶ Dashboard reporting

What The Stakeholders Likes To See

➤ Fraud Risks:

- Fraud scenarios
- Late adjustments
- Related parties
- Exceptions
- Journal entries
- New transactions / regions / products
- Whistleblowing events
- Delays
- Continuing control deficiencies.

What The Stakeholders Likes To See

► Compliances:

- Comprehensive compliance tracking and monitoring
- Self-assessments
- Independent reviews
- Compliance history and assessments
- **Board** certifications

Pervasive Threat To The Internal Audit Objectivity/Reporting

- The situation in which individuals in leadership positions exercise their authority to achieve a personal benefit, or to protect an organization, attempt to manipulate the internal audit activity or internal audit reports.
- Such manipulation may result in actions to restrict the scope of audit activities, suppress audit findings, or undermine the credibility of the Chief Internal Auditor or the Internal Audit personnel's activity.

Lack of Independence Could Have Impact On Internal Audit Reporting

- Key measures to ensure the independence of the Internal Audit department:
 - The Chief Internal Audit should meet privately with the Board/Audit Committee without the presence of the management.
 - The Audit Committee should have final authority to review and approve the annual audit plan and all major changes to the Audit plan.
 - The Audit Committee should review the performance of the Chief Internal Auditor and overall Internal Audit function at least once a year, as well approve the compensation levels for the Chief Internal Audit.
 - The Internal Audit charter should clearly articulate both functional and administrative reporting lines for the function as well as its principal activities.
 - The reporting line should facilitate open and direct communications with CEO, senior executive group and line management.
 - The Internal Audit should have unrestricted access to information flows so that it receives adequate and timely information concerning the activities, plans and business initiatives of the organization.
 - Budgetary controls and considerations imposed by the administrative reporting line should not impede internal audit in accomplishing its objective.

Language

“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



Concluding Thoughts

- The people who receive internal audit services (audit clients) are becoming more seeking greater value-add from audits. They are seeking insights gathered from operational audits, rather than a narrow compliance audit approach.
- Internal audit is not an isolated technical exercise but it is an integral part of the corporate governance process and the report which is the culmination of the audit process has far-reaching consequences in changing the way the business is done and risks are managed.
- A report is a reflection of the auditor's mindset and is only as good as the approach with which the audit has been done. No amount of add on by way of style and presentation can mask the inadequacy of the auditor's performance.
- The internal auditor has to not only possess adequate knowledge of the business he is auditing but also internalize that he is part of the management and his audit objective is aligned to the business enterprise objective and goals.
- Management is seeking internal audit reports that are easy to read, 'tell a story', and get to the point.
- Management values internal audit reports that provide a conclusion or opinion on the activity audited.
- The success of audit reporting is determined largely by the attitude and approach with which internal auditor carries out his duties. As auditors, we should aspire to be the agents of positive change in the organization, and strive to be viewed and accepted as valued insiders.

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