

INTRODUCTION

What is an Audit Report?

- * An audit report is a formal document where internal audit summarizes its work on an audit and reports its findings and recommendations based on that work.
- * The Auditor's report is provided as an assurance service in order for the user to make decisions based on the results of the audit.

An audit report apart from disclosing the findings about the auditee also helps the users to evaluate the performance of the auditors themselves. More often than not, the report becomes a statement of the auditor's credibility when they are circulated, referred to and implemented.

It is a major factor by which the reputation of internal audit department is established.

INTRODUCTION

An Internal audit report is basically a four step process comprising of:

What is wrong?

+ Disclosure of findings and processess involved in arriving at such finding.

Why is it wrong?

+ Description of findings-the root cause analysis.

How to correct it?

+ Recommendations and Suggestions.

What will be done?

+ Auditee's views and comments.

INTRODUCTION

An Internal audit report should have the following features:

- × Disclose findings:
 - + Present findings both favourable and unfavorable in a concise manner so that the auditee is apprised of the situation in an operation/ segment.
- Description of findings:
 - + Adverse findings should be described in detail. It could be internal control weakness, gaps, violations of procedures or any other audit concern. Each finding must be provable. Auditor beliefs, without proper documentation will not be carried to the report.
- Suggestions and Recommendations:
 - + The auditor should make suggestions for prevention or correction of the deficiencies or gaps identified.
- × Auditee's Comments:
 - + The auditee may wish to provide clarifications on any of the issues reported or state the constraints or mitigating circumstances or what corrective action the auditee has initiated or proposes to initiate.

INTERNAL AUDIT REPORT-CONTENTS

Internal audit report should contain:

- + observations and comments of the auditor,
- + presents the audit findings, and
- + discusses recommendations for improvements.
- Internal auditor's report should contain a clear written expression of significant observations, suggestions/recommendations based on the policies, processes, risks, controls and transaction processing taken as a whole and managements' responses.

INTERNAL AUDIT REPORT-COMMUNICATION

Different stages of communication and discussion should be as under:

- Discussion Draft: At the conclusion of fieldwork, the auditor should draft the report and present it to the entity's management for auditee's comments.
- Exit Meeting: The auditor should discuss with the management the findings, observations, recommendations, and text of draft and obtain their comment on the draft, achieve consensus and reach an agreement on the audit findings.
- * Formal Draft: The auditor should prepare a formal draft, in view of the outcome of the exit meeting and other discussions. Upon review of such changes by the auditor and the management, the final report should be issued.
- Final Report: The report should be submitted to the appointing authority or such members of management, as directed

INTERNAL AUDIT REPORT-COMMUNICATION

The auditor should make management aware, as soon as practical and at an appropriate level of responsibility, of material weaknesses in the design or operation of the internal control systems, which have come to his attention.

The communication of material weaknesses to management would ordinarily be in writing, as part of the internal audit report.

Report should also specify that only weaknesses which have come to attention as a result of the audit have been reported and that examination has not been designed to determine the adequacy of internal control for management purposes.

The auditor in his report to the management, should provide:

- + A description of the significant deficiency or material weakness in internal control.
- + His opinion on the possible effect of such weakness on the entity's control environment.

TYPES OF AUDIT REPORT

Oral Report

Interim (Informal) Report

Descriptive Audit Report

Summary Audit Report

TYPES OF AUDIT REPORT

An Internal audit report should have the following features: Oral Reports

- + Such reports should only be supplementary and not a substitute to written reports.
- + This mode might be used for reporting findings requiring emergency action; or as an oral presentation; or as a prelude to the formal written report.
- + the auditor should document all oral communications also recording to whom such communication was made.

Interim (Informal) Reports

- + Such reports are issued when the management has to be informed of significant event or problems requiring prompt action.
- + Sometimes it is used to record the discussions in an oral presentation.
- + The content of such a report is eventually included in the final report.

Descriptive Reports

- + In most audit assignments a detailed regular report is given at the conclusion of audit.
- The form and content may vary with different type of assignments, functions or as may be mandated by the auditee.

AUDIT REPORT USERS: INTERNAL USERS

Audit reports must meet the varying information needs of its users: *Addressee of report:*

- + The Final Report should always be addressed to a person one level above the auditee or as mandated by the appointing authority.
- + The additional copies or CC may be marked to persons in the distribution list as finalized at the time of engagement or as mandated by the appointing authority.
- + Draft reports may be addressed directly to the auditee level for obtaining their response.

Confidentiality:

+ Hard copies: The report should be marked strictly confidential, and should be circulated in sealed envelopes, only to the persons mentioned in the distribution list.

INTERNAL AUDIT REPORT WRITING

Soft copies: To ensure transparency and visibility, a single mail should preferably be sent with CC to persons in distribution list, instead of sending individual mails to each such recipient.

Audit report Users: External Users

There can be external users of the Internal Audit Report also.

When the auditor has a specific responsibility, arising out of law or a regulation or a professional standard applicable to the auditor, to communicate directly to an appropriate authority...... or a regulator, the terms of engagement should contain a clear mention of such responsibility.

ESSENTIALS OF A REPORT

The report should be:

Accurate

Free from errors and distortions and faithful to the underlying facts.

Objective

Fair, impartial, and unbiased and is a result of a fair minded and balanced assessment of all relevant facts and circumstances.

Clear

Easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information.

Concise

To the point, avoid unnecessary elaboration, superfluous detail, redundancy, repetitiveness and wordiness.

ESSENTIALS OF A REPORT

The report should be:

Constructive

Helpful to the engagement client and the organization and leads to improvements where needed.

Complete

Lacking nothing that is essential to the target audience and includes all significant and relevant information and observations to support recommendations and conclusions.

Timely

Opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

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

- Identification of audit findings
- Preparation of first draft report
- × Discussions draft
- Exit meeting & Formal Draft
- Final Report

× Planning

Drafting

Revising

Planning

"Begin with the end in mind."

Analyse the audience

- + Who will be the most important reader of the report?
- + How much do they know about the subject?
- + How do they plan on using the report?
- + How interested are they in the report?
- + What's their reaction going to be to the report's message.

Use a Top Down Approch

- + Use a heading that would accurately summarise the report's message.
- + Write a summary paragraph that summarises the report's key points.

Write paragraphs that explain and provide evidence for the statements made in the summary paragraph

clarification of work performed.

Limitation

* When there is a limitation on the scope, the report should describe the limitation.

AUDIT REPORT STRUCTURE

Executive Summary

This section should contain summary of **key findings**, **observations and recommendations for the benefit of the top management**.

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.

Auditee's response

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

AUDIT REPORT STRUCTURE

Auditor's Comments

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

AUDIT REPORT STRUCTURE

General Comments

- * This section is reserved for points of interest that are of lesser magnitude than findings, but of interest to operational management.
- Written responses from the auditee are not required for general items.

Follow up

- This section contains the status of corrective action taken or proposed corrective actions and or compliance of previous internal audit observations already taken or being taken, also action not taken and reasons thereof.
- Revised timelines of open items and fixation of responsibility of concerned persons

Date & Place of signing

- It should contain the date on which the auditor signs the report expressing his comments and observations.
- Specify location (generally the city where report is signed).

5 CS IN REPORT WRITING

Observations and Recommendations in report writing emerge by a process of comparing criteria (the correct state) with condition (the current state).

The report should specify the following:

Criteria

These are the standards or measures used in making an evaluation and/or verification (The correct state).

Condition

It is the factual evidence that the auditor found in the course of the examination (The current state).

Causes

The reasons for difference between expected and actual conditions.

Consequence

The risk or exposure the organization and/or others encounter because the condition is not consistent with the criteria (the impact of the difference).

Corrective Action

It refers to action recommended/suggested to correct existing conditions or improve operations and may include suggestion for correcting or enhancing performance as a guide for management.

5 CS IN REPORT WRITING: CASE STUDY CRITERIA

Variation in stock on physical verification with the balance as reflected in the stock register should be NIL.

Condition

The stock physically verified was short by 2 units as against the balance shown in the stock register.

Causes

Issues made during the night shift were not recorded.

Consequence

The stock position in the books is overstated and possibility of stock pilferage is high due to lack of control.

Corrective Action

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.

PROVIDING ASSURANCES

An opinion is best expressed when using a defined criteria and evaluation structure.

There are two different types of opinions, positive assurance and negative assurance.

- + Positive assurance implies a lot of responsibility and should be used with caution and consideration. A positive assurance opinion requires the highest level of evidence.
- + A positive assurnace should not be given unless the auditor has been mandated to do so and the auditor's scope encompasses such assaurance. Such assurance is supported by adequate, competent evidence in accordance with prescribed standards.

Increased precision in the information provided in an opinion increases the amount of evidence needed to support the opinion.

FOLLOW UP

- Once a final report has been issued, the auditor should schedule a follow up review to ensure that needed actions based on the audit recommendations have been taken.
- The internal audit documentation should cover all important aspects of an engagement such as review of the findings, communication and reporting and follow up.
- Follow up's nature, timing, and extent should to be based on the scope of engagement.
- Though such a follow up is desireable it often falls on a line of conflict raising question as to whether such a follow up will convert the role of the internal auditor into a policeman from that of a local management partner.
- Thus it is suggested that the auditor should play only a limited specific role after the final audit report has been issued.

CONCLUDING REMARKS

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 viewd and accepted as valued insiders.

Internal audit is not an isolated technical exercise but is an integral part of the corporate governance process and the report which is the culmination of the audit porcess has far reaching consequences in changing the way the business is done and risks are managed.

The internal auditor has to not only possess adequate knowledge of the business he is auditing but also internalise that he is part of the management and his audit objective is aligned to the business objective and goals.

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 ons by way of style and presentation can mask the inadequacy of the auditor's performance.

Open Discussion

Questions

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