

AUDIT COMMITTEE MEMBERS WORKSHOP

Value adding Audit Committee Reports
and Reporting

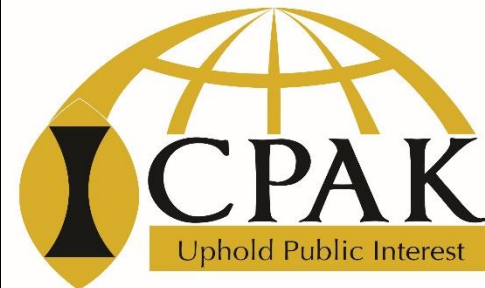
HELD ON 22nd to 23rd June 2017

Uphold.

Public.

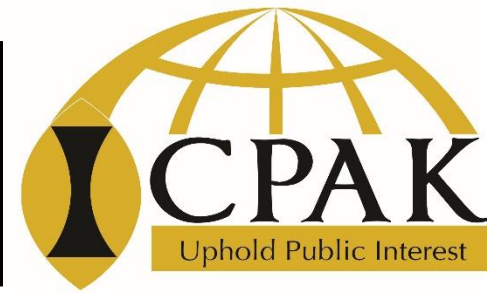
Interest.

Presentation Agenda



1. Background information Audit Committees vis-a-vis IAF.
2. Effective Audit Committee reporting
3. Audit Committee Reporting Agenda.
4. Audit Committee Reporting to the Board.

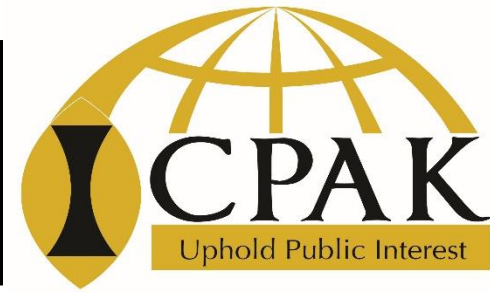
Background Information



Internal audit is a vital tool of the audit committee ;

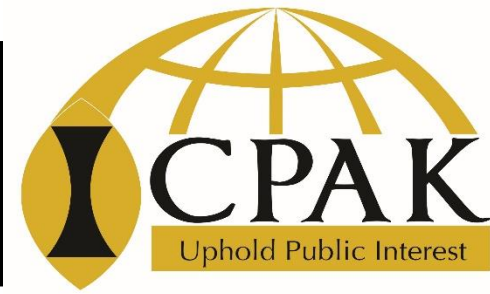
- The audit committee's tasks include reviewing the company's internal controls, Governance and Risk Management systems.
- It ensures that internal audit is free to work independently and objectively, i.e. free from the influence of those being audited.
- It ensures that internal audit has the necessary resources and access to information to enable it to fulfil its mandate.

Background Information cont'



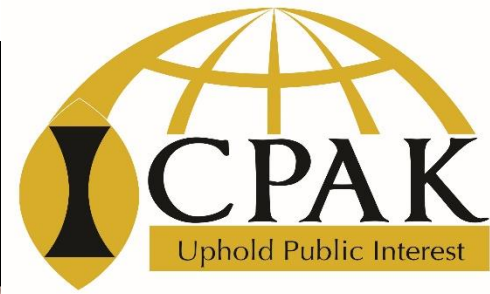
- The committee also approves the appointment or termination of appointment of the Head of Internal Audit, and its chair should play a direct role in decisions concerning the Head of Internal Audit's appraisal and remuneration.
- Balancing their role as advisor and counsellor to management with their fiduciary duty to monitor and oversee management .

Background Information cont'

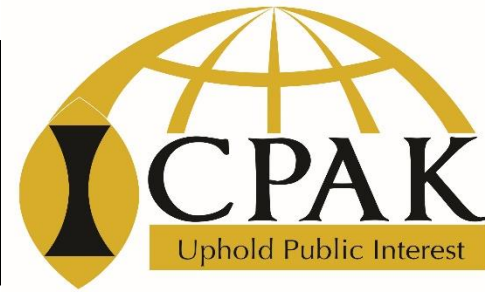


- They must communicate openly and often with management, carefully review information received, and challenge management as appropriate.
- They must not, though, play the management role. Some refer to this oversight responsibility as “**Noses in; fingers out.**”
- To do this, it utilises the skills and expertise of the internal audit function, agreeing the scope of its work, its priorities and resources.

Audit Committee Reports

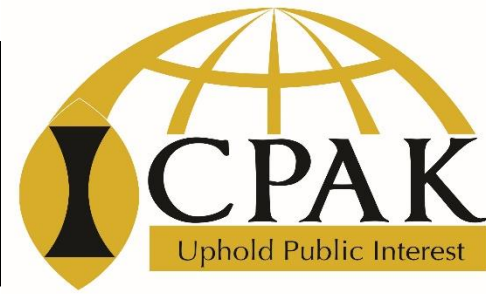


Effective Audit Committee Reports



- People have been struggling with the challenge of writing effective internal audit reports since the dawn of time. Several books have been written on the topic and every year experts lead classes. Most importantly, I think many if not most of us have missed the point.
- We should communicate what our stakeholders *need to know*, not *what we want to say*.

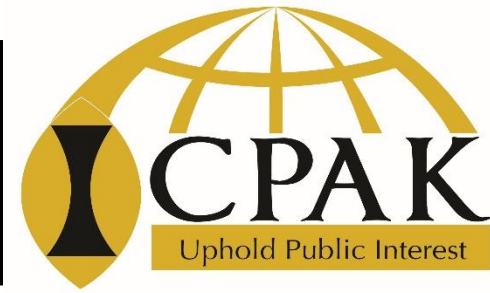
Audit Committee Agenda



Based on the mandate of the AC the agenda of the AC should typically include but not limited to;

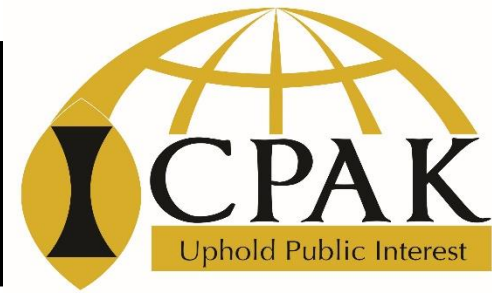
1. Progress on Implementation of IA Work Plan.
2. Internal Audit Report for the Quarter.
3. Risk Management Reports.
4. Follow up on Implementation of Audit.
recommendations.
5. Combined Assurance Reports or/and follow up.
6. Governance and Compliance review update.

Audit Committee Agenda: Internal Audit Work plan

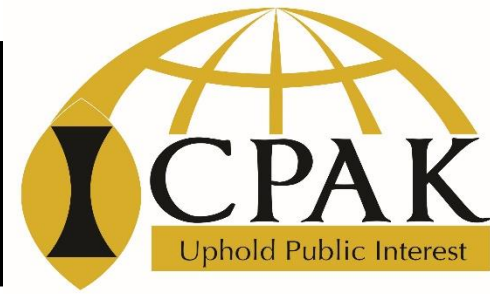


- The Internal Audit will establish a risk-based annual plan to determine the priorities of the internal audit activity, consistent with the organization's goals.
- The HIA should communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and to the board for review and approval.(ISPPIA 2020)
- During Audit Committee meetings its important to provide a progress report on the implementation of the Work plan.

Internal Audit Reports

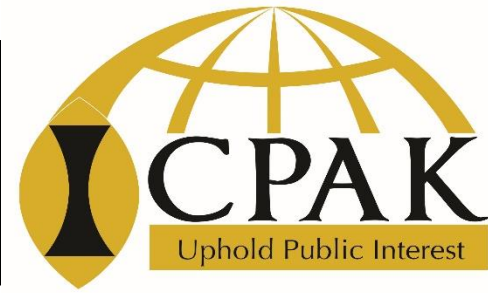


Audit Committee Agenda: Internal Audit Reports



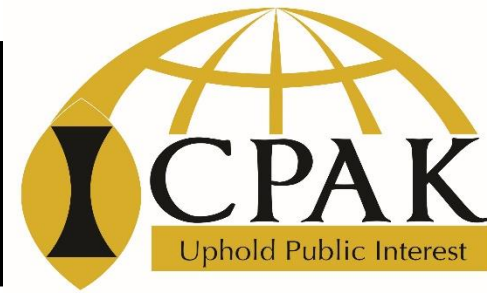
- As internal audit professionals, we are often recognized for many outstanding characteristics and skills that we bring to bear in executing our important role.
- We are lauded for independent organizational structures, personal objectivity, risk management and business acumen, and analytical skills.
- However, there is one attribute for which Internal Auditors are rarely praised: *the ability to communicate effectively*.

Audit Committee Agenda: Internal Audit Reports Cont'



- It is revealing that the IIA *Standards* do not require an audit report! **Standard 2400**, Communicating Results, simply says "Internal auditors must communicate the results of engagements."
- The audit report is not a document that summarizes what we did and what we would like to tell management and the board.
- It is a communication vehicle. It is the traditional way internal audit communicates what management and the board *need to know about the results of our work*.

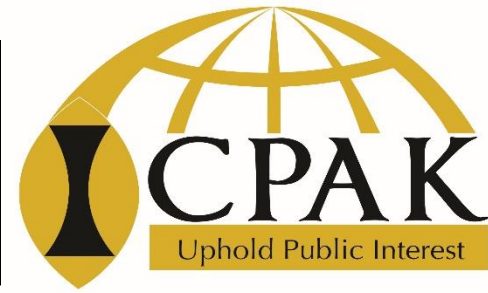
Audit Committee Agenda: Internal Audit Reports Cont'



Standard **2420**, Quality of Communications, says "Communications must be accurate, objective, clear, concise, constructive, complete, and timely." The Interpretation that follows has some powerful language, including these sentences:

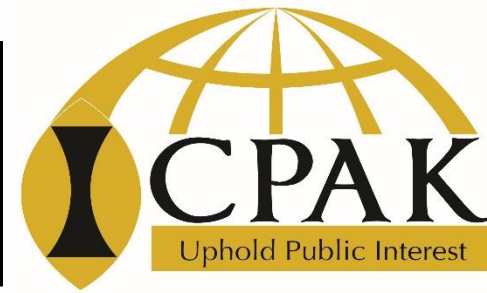
- a) Clear communications are **easily understood** and **logical**, avoiding unnecessary **technical language** and providing all significant and relevant information.
- b) Concise communications are **to the point** and avoid **unnecessary elaboration, superfluous detail, redundancy, and wordiness**.

Audit Committee Agenda: Internal Audit Reports Cont'



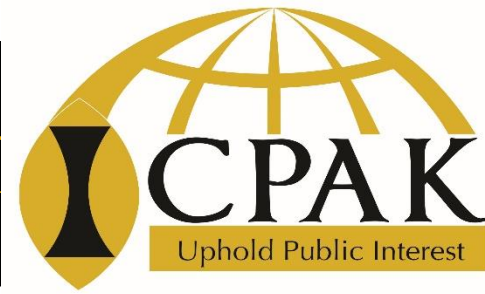
- Constructive communications are helpful to the engagement client and the organization and **lead to improvements** where needed.
- Complete communications lack nothing that is essential to the target audience and **include all significant and relevant information** and observations to support recommendations and conclusions.

Internal Audit Reports DON'Ts'



- A well-written audit report should be a **call to action**, but a poorly written report can result in inappropriate action or in no action at all.
- In some cases, poor report writing can ruin working relationships or actively harm an auditor's reputation.
- Little things can mean a lot, and at times, a minor change to how a recommendation is worded can make all the difference in how our suggestions are received.

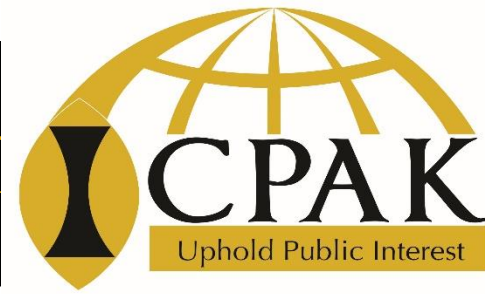
Internal Audit Reports Top 10 DON'T



1. Don't say, Management should consider ‘

- Audit reports should offer solid recommendations for specific actions. When our recommendation is merely to *consider something*, even the most urgent call to action can become vague.
- No auditor wants a management response that says merely, "*Okay, we'll consider it.*"

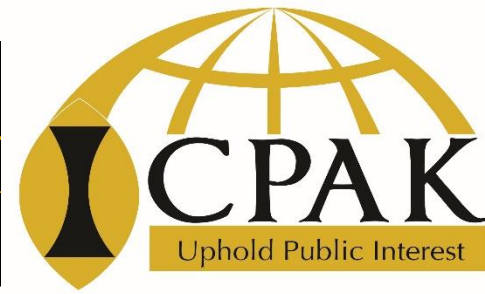
Internal Audit Reports Top 10 DON'T



2. Don't use weasel words.

- It's tempting to hedge our words with phrases such as "*it seems that*" or "*our impression is,*" or "*there appears to be.*"
- It may feel safer to avoid being specific, but when you have too many hedges, particularly in the same sentence, there's a danger that you are not presenting well-supported facts.
- Report readers need to know they can rely on our facts, and overuse of weasel words can make solid recommendations sound a little too much like feelings.

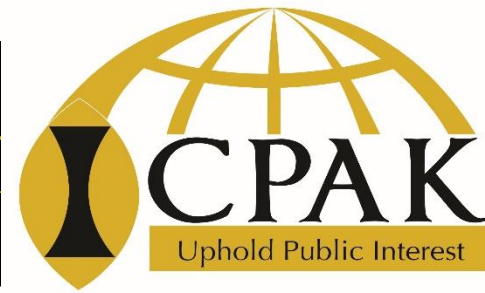
Internal Audit Reports Top 10 DON'T



3. Use intensifier's sparingly.

- Because they can add emphasis, words such as "*clearly*," "*special*," "*well*," or "*very*" might seem to be the opposite of weasel words.
- These intensifiers are so nonspecific that they can be another type of "weaseling."
- Intensifiers raise questions such as "*significant compared with what?*" and "*clearly according to whose criteria?*" If you use intensifiers freely, two readers of the same report may be left with very different impressions:

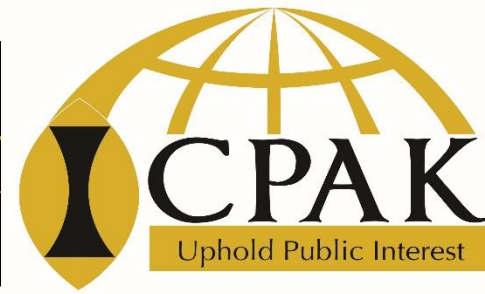
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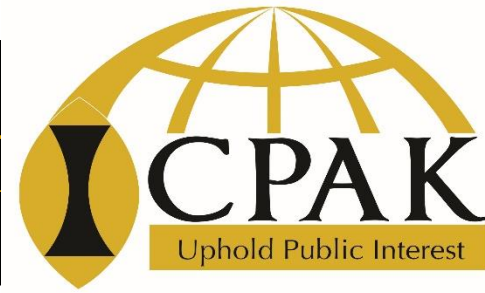
Internal Audit Reports Top 10 DON'T



4. The problem is rarely universal.

- It's good to be specific, but there's a danger in words such as "*everything*," "*nothing*," "*never*," or "*always*." "You always" and "you never" can be *fighting words* that can distract readers into looking for exceptions to the rule rather than examining the real issue.
- It's safe to say you tested 10 transactions and none was approved — less safe to say transactions are never approved.

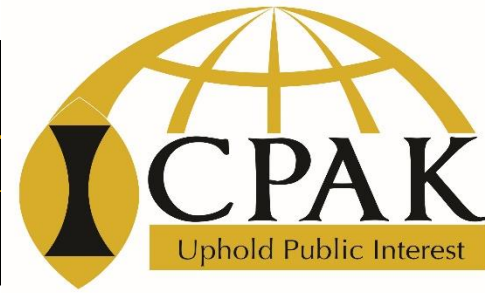
Internal Audit Reports Top 10 DON'T



5. Avoid the blame game.

- The purpose of internal audit reports is to bring about positive change, **not to assign blame**. We're more likely to achieve buy-in when our reports come across as neutral rather than confrontational.
- The goal is to get to the **root cause** rather than to call out the name of the **guilty party**. It's fine for a report to identify the party responsible for taking action on a recommendation — not so fine to say, "It was James's fault."

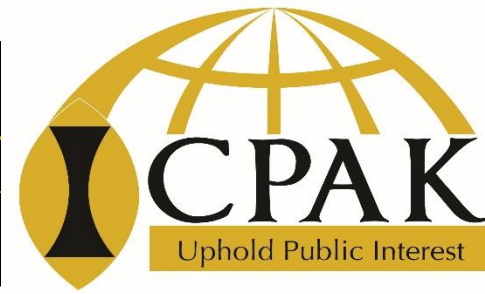
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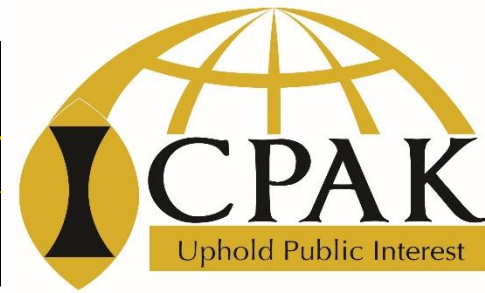
Internal Audit Reports Top 10 DON'T



6. Don't say "management failed."

- Making statements such as "management failed to implement adequate controls" will invariably annoy those to whom we are looking to implement corrective actions.
- Simply stating the condition without assigning blame through words like "fail" is much more likely to result in the needed corrective actions and help preserve our relationship with management for the next time we conduct an audit of their area.

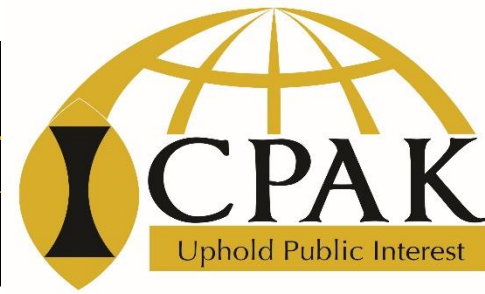
Internal Audit Reports Top 10 DON'T



7. "Auditee" is old-school.

- A few years back, people undergoing an audit were most often referred to as "*auditees*." Today, many experts believe that the phrase has negative connotations and that "*auditee*" *implies someone who has something done to them by an auditor.*
- Internal audit has become a collaborative process, and terms such as "*audit client*" and "*audit customer*" indicate that we are *working with management, not working on them*

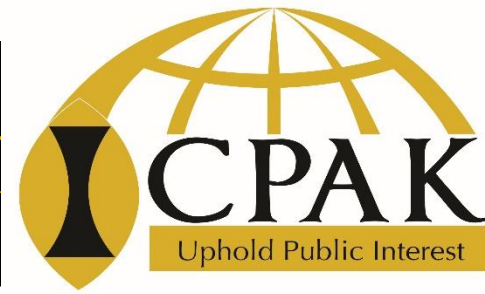
Internal Audit Reports Top 10 DON'T



8. Avoid unnecessary technical jargon.

- Every profession needs a certain amount of technical jargon, but the more we can avoid audit-speak, the more we can be sure that the message is clear.
- If you use more than one phrase such as "transactional controls," "stratified sampling methodology," on a single page of an audit report, don't be surprised when some of your readers check out without reading to the end of the report.

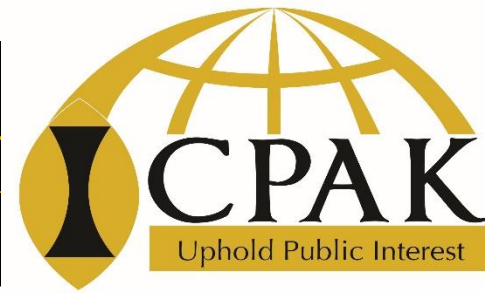
Internal Audit Reports Top 10 DON'T



9. Avoid taking all the credit.

- It is tempting in audit reports to use phrases such as "*internal audit found*" or "*we found*."
- Management will often point that you are taking credit for identifying something that wasn't all that well-concealed.
- It comes off like you threw them under the bus, and then backed over them.

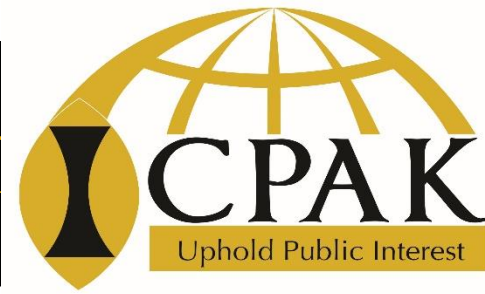
Internal Audit Reports Top 10 DON'T



10. If it sounds impressive, you probably need a rewrite.

- Work to get readers to remember your recommendations and take action — not to impress with pompous words or bloated phrases.
- Avoiding jargon is only the beginning: Try substituting "by" for "by means of," "now" for "at the present time."

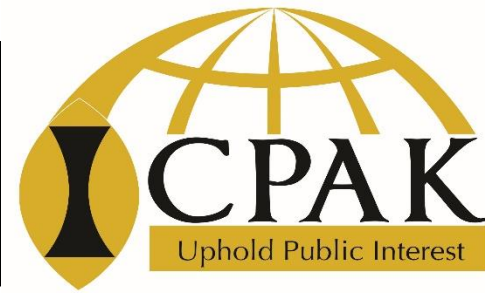
Internal Audit Reports Top 10 DON'T



Example;

"During the aforementioned examination of the accounts undertaken by the internal auditors, the team evaluated the cumulative impact of individually immaterial items and in doing so relied on the assumption that it was appropriate to consider whether such impacts tended to offset one another or, conversely, to result in a combined cumulative effect in the same direction and hence to accumulate into a material amount."

Consolidation of the Report of IA



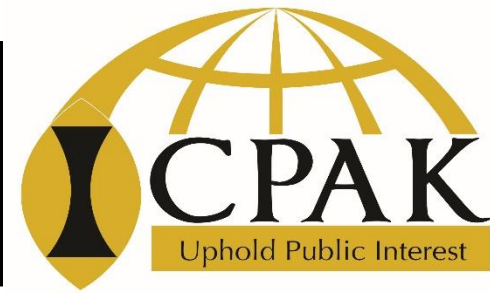
The reporting of IA to the AC in terms of their quarterly Assurance and Consulting assignments should be guided by;

1. Is there anything they need to worry about?
2. Are there any issues of such significance that management should be monitoring how and when they are addressed?

-In other words, the reports should be by exception.

-AC are going to trust internal audit and operating management to address routine issues they don't want to take time on matters that didn't merit their attention

Report of the IA to AC Reporting Template;



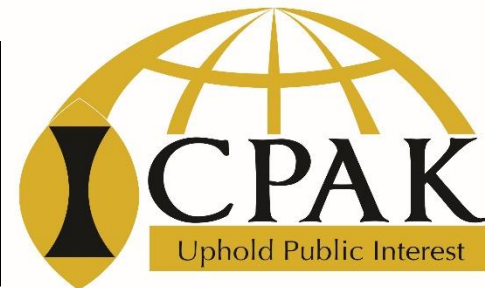
Issue	Risk	Recommendation	Ranking of the Finding	Agreed Action	Responsible Person(s)	Implementation Timelines

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Audit Committee Agenda: Risk Management Reports

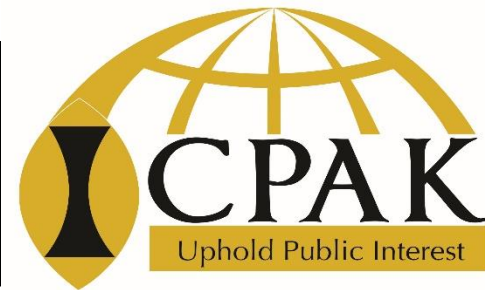


Risk Management Report



- One aspect of internal audit that's virtually certain to change — and keep changing — is its attention to risk.
- Too much focus on controls can lead practitioners to lose sight of the fact that they're a means, not an end, he says; controls are designed to mitigate risk, so they need to be kept in perspective.
- If AC it will not focus on the key performance issues or risks faced by the entities; auditing and assurance services may not be effective; and valuable opportunities for improved performance may be lost.

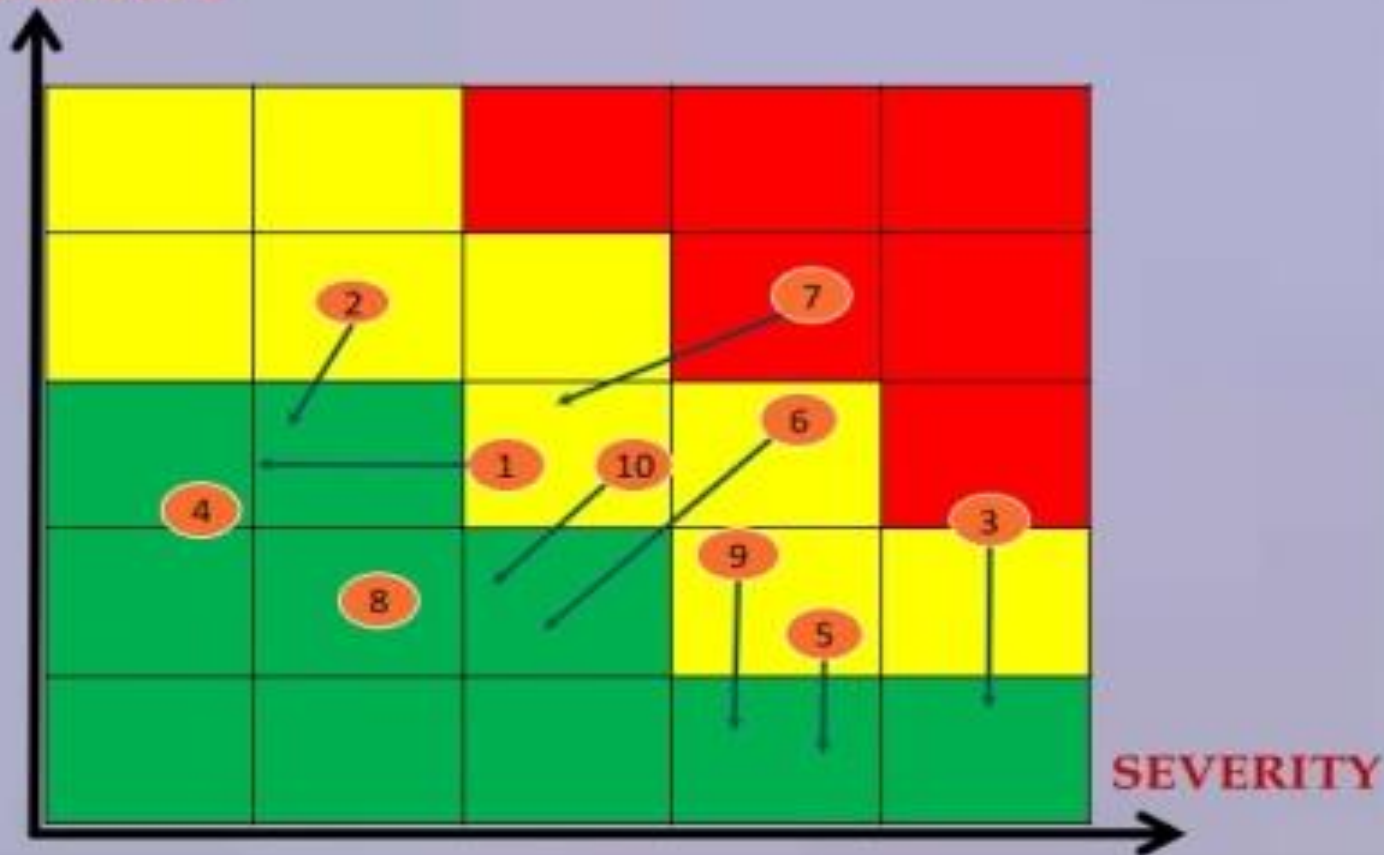
Risk Management Report



- Institutions that have a functioning ERM should therefore as a standard item of agenda report to the ARC committee on the Significant risks and mitigation measures pursued by management.
- The reporting to the AC should be guided by the phase *‘What are the top risks that keep you up at night?’*
- The reporting of the significant risks can take a form of;
 1. Top X/or 10 Risks.
 2. Risk Heat map for High risks.

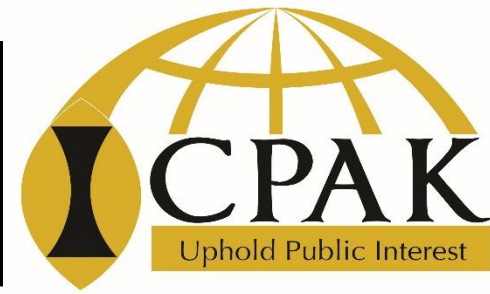
Risk Heatmap

PROBABILITY



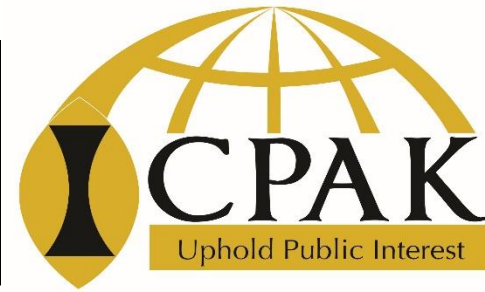
SEVERITY

Audit Committee Agenda: Follow up on Implementation



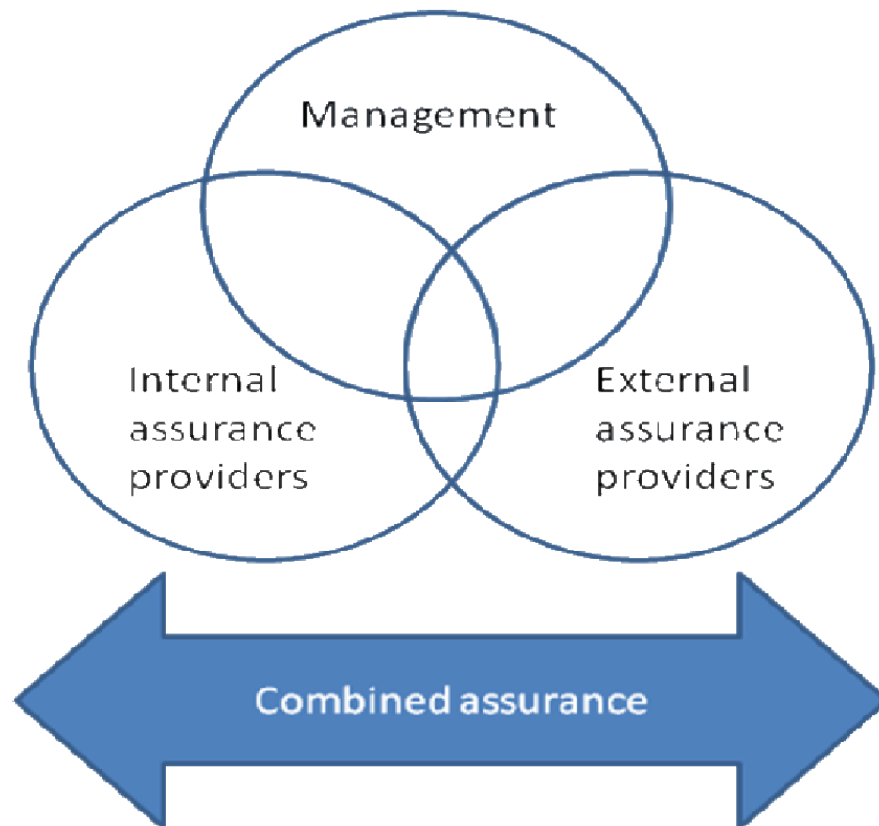
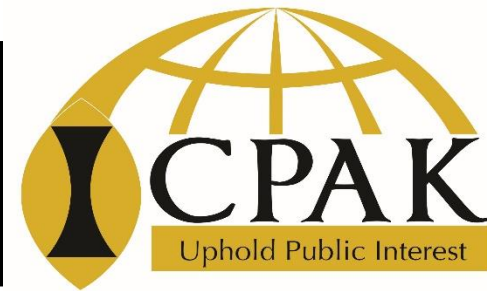
- IAF has the responsibility to follow up and determine whether or not the audited entity has taken steps to adequately, effectively and timely address the matters reported in audit findings and recommendations.
- The ultimate success of the audit occurs when the audited entity takes appropriate steps to reduce risks or improve operations as recommended by the audit.
- IAF therefore monitors on a quarterly basis, the status of implementation of open/Closed recommendations and present an appropriate report of the same to the AC.

Audit Committee Agenda: Combined Assurance Providers



- The audit committee is responsible for monitoring the appropriateness of the company's combined assurance model and ensuring that significant risks facing the organisations are adequately addressed.
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- This is driven by the urge to leverage the synergies of different assurance activities to more efficiently and effectively optimize assurance.

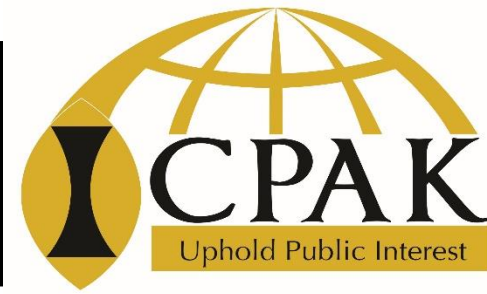
Audit Committee Agenda: Combined Assurance Providers



Examples of External Assurance Providers;

1. External Auditors
2. Regulators
3. EMU for Public
4. PIC for Public
5. Insurance Risk Survey etc.

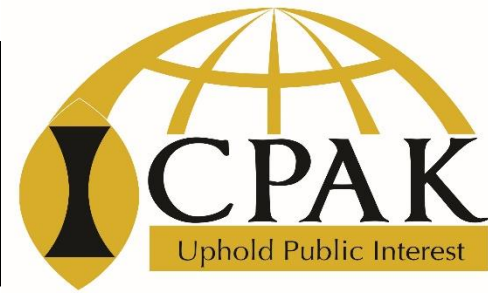
Combined Assurance Providers Reporting Template;



Issue	Risk	Recommendation	Agreed Action	Implementation status	Responsible Person(s)	Implementation Timelines

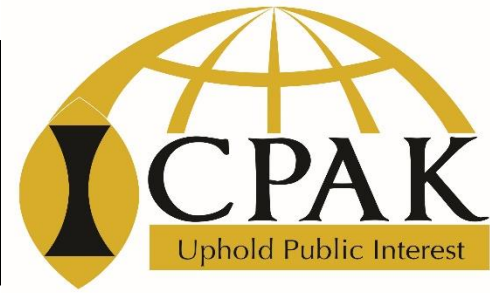
Audit Committee Agenda:

Compliance status



- Compliance review is the examination of business functions to determine whether or not the organization is meeting specific contractual, regulatory or predetermined requirements.
- Compliance review will involve review of the departments with regard to compliance with specific regulations or predetermined requirements.
- These reviews will be in accordance with contractual agreements and/or Government regulations.
- Compliance reviews may expose possible areas that present the possibility of fines/penalties or and litigation.

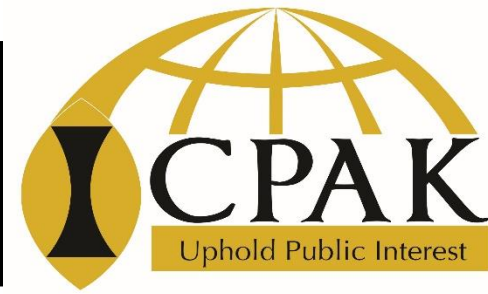
Compliance Status Reporting Template;



Stature/ Regulation	Legal/Pre-determined requirement.	Findings	Compliance Level

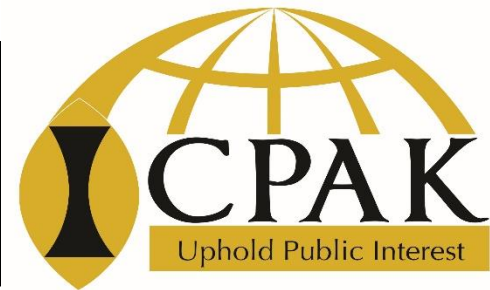
Audit Committee Agenda:

Governance status



- Corporate Governance is concerned with the way that an organization is operated and directed and in particular it encompasses the operations of the Board and its Committees as well as the overall control and Risk management.
- The Governance review is the examination of Board and Committees functions to determine whether or not it's in line with the Governance structures stipulated in the approved Board Charter and relevant Statutes.

Governance Status Reporting Template;



Stature/ Regulation	Legal/Pre-determined requirement.	Findings	Compliance Level

Audit Committee reporting to the Board



- AC Report should be circulated with the papers of the next governing body meeting and for the chairperson of the AC to provide an update to the governing body on the deliberations.
- Minutes of the AC would usually be presented at the meetings of the governing body as annex.

Audit Committee reporting to the Board



- It is good practice for the AC to provide the chief executive or governing body with an annual report of their work and recommendations, and of any outstanding issues and concerns.
- The Annual report should include;
 - AC effectiveness.
 - Internal Audit effectiveness.
 - Effectiveness of management.

Thank You!

