

INTERNAL AUDIT MASTER CLASS

Theme: The journey towards competence and professionalism

Engagement Reporting

26th - 30th April 2021

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Background



1. Main goal: Report to trigger action.
2. Report areas of satisfactory performance or improvement
3. Tailor report to meet client needs:
 - Answer their key questions
 - No surprises
 - Length of report
 - Whole report vs extracts
 - Tone and language (technical?)



Poll Questions



- About how many internal audit engagement reports does your internal audit function issue in a year? I don't know, 1-12, 13-24, 24-36, >36
- What is the typical length (in pages) of an engagement audit report in your organization? I don't know, <10, 10-19, 20-29, 30-39, 40-49, >=50
- What is the typical length of the Executive Summary section of the engagement report: I don't know, 1-2, 3-5, 6-10, >10

5C's of a Finding



5C's - Criteria



- Legal requirement
- Applicable standard
- Policy or procedure
- Prudent / good practice
- Improvement opportunity

1. Criteria –
What should
be



5C's - Condition



- The current state compared to the criteria / observation.
- Are there other compensating controls?
- Is it a recurring issue?
- How widespread is it?
- Not to be confused with the cause or consequence

2. Condition
Current state

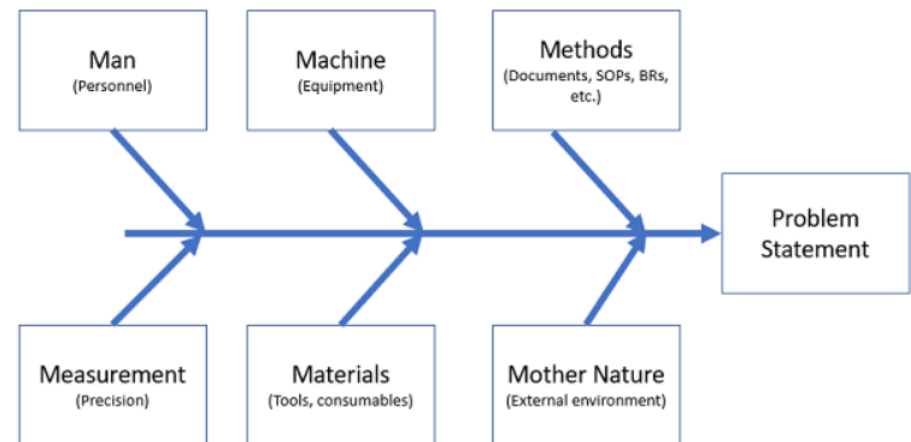
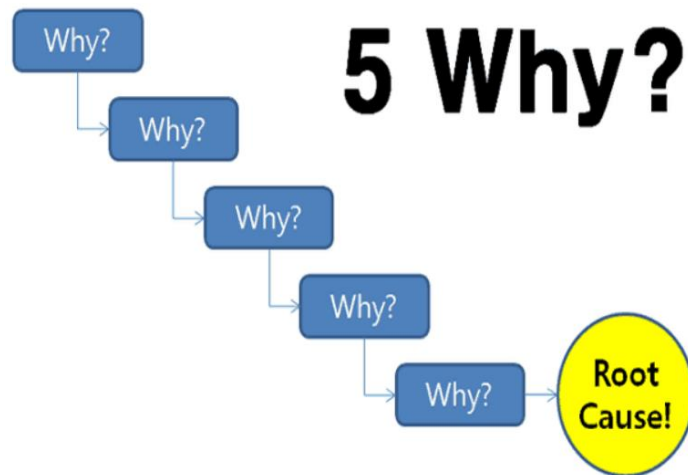


5C's - Cause



- Root cause (disease not the symptom)
- Resolving the cause should resolve the condition
- How to establish root cause:

3. Cause
Why did it occur?



5C's - Consequence

- Given the condition and criteria, **so what?** (risk or business impact)
- What is the actual or potential impact:
 - Achievement of objectives.
 - Loss – life, financial, reputation, market share, talent.
 - Health and safety.
 - Legal or regulatory sanction.

4. Consequence
What is the risk?



5C's – Corrective Action



- Management actions vs comments
- Addresses root cause(s)
- Practical and cost effective
- Who - at appropriate level
- When – based on priority
- Have the objectives of the process in mind

Corrective Action

Responsible Person

Due Date



5C's – Case Study



Element	Description
Criteria	Section 5.4 of the Finance Manual requires the correct net pay amount to be paid to staff
Condition	An overpayment of net pay by KSh 1,000,000 was made to 10 staff members in the month of March 2021. This was after the net pay file generated from the payroll system was edited before it was uploaded on the banks EFT payment system.
Cause	There is no automatic interface between the payroll system and the banks EFT system, it thus requires manual intervention
Consequence	1. Financial loss of Ksh 1,000,000
Corrective action	1. Encrypt the file to prevent editing 2. Automate the interface

5C's – Risk Ratings



- Each finding is assigned a risk rating
- Based on a defined risk rating criteria
- Helps the reader to:
- Assess the significance of control deficiencies
- Prioritize corrective actions

High

Significant

Medium

Low

Risk Rating – Example 1



The residual risk after consideration of the effectiveness of internal controls /risk mitigators remains [***risk rating***] and is

High	above the acceptable tolerance level
Significant	above the acceptable tolerance level
Medium	Within the organization's risk tolerance
Low	Within the organization's risk tolerance

Risk Rating – Example 2



Risk Rating	Description
Critical	Issue represents a control weakness, which could cause or is causing severe disruption of the process or severe adverse effect on the ability to achieve process objectives. Requires immediate notification to the Audit Committee.
High	Issue represents a control weakness, which could have or is having major adverse effect on the ability to achieve process objectives. Requires prompt management action.
Moderate	Issue represents a control weakness, which could have or is having significant adverse effect on the ability to achieve process objectives. Requires short-term management action.
Low	Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives. Requires management action within a reasonable time.

Case Study - Risk Rating



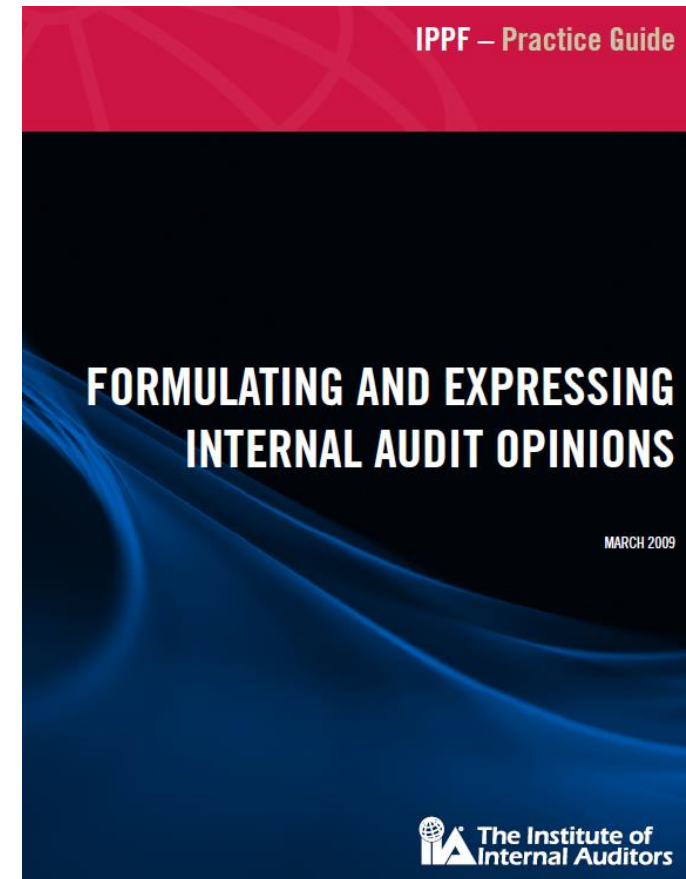
Risk Rating	Which of the payroll findings would you report under each of the following risk ratings?
Critical	
High	
Moderate	
Low	

Audit Opinions



Opinion on effectiveness of internal controls over:

- A single process / engagement
- Whole entity on governance, risk management and internal control processes (annually)
- For a given period of time
- Consider: risk appetite, residual risk and adequacy of work done



Opinion Criteria – Example



Opinion	Description
Effective	Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Some Improvements Needed	A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Major Improvements Needed	Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
Unsatisfactory	Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.

Poll Questions



1. Are you using risk ratings in your internal audit reports?

- I don't know
- Yes
- No

2. Are you including audit opinions in your internal audit reports?



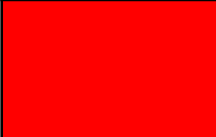
- I don't know
- Yes
- No

Conformance Statement 2430



This audit was “conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*”

- Use of statement not mandatory
- Must be supported by the results of both internal and external QA

	Generally Conforms
	Partially Conforms
	Does Not Conform

Q&A

