

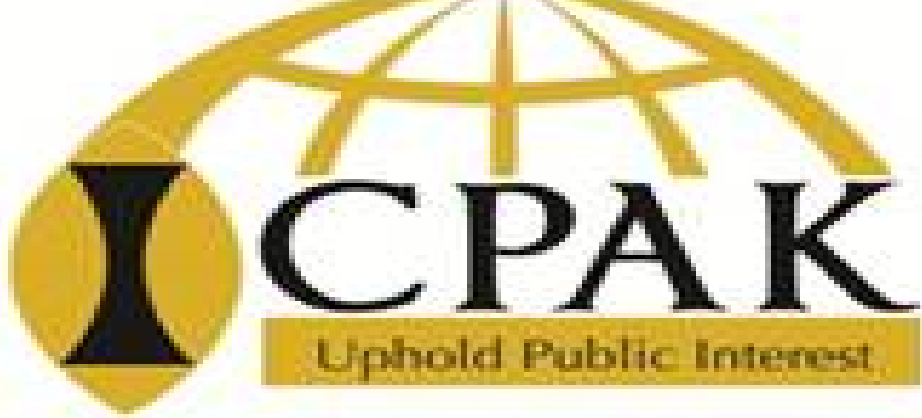
2020-2021
2nd EDITION

MASTER CLASS

Internal
Audit
Essentials



THE INSTITUTE OF
CPA BELGIUM



The Internal Audit Master Class

Executing the Engagement;

☐ Identifying Information

☐ Analysis and Evaluation

by:

CPA Erick Audi

Wednesday, 28th April 2021

Lake Naivasha Resort, Nakuru County

Uphold public interest

Credibility

Professionalism

Accountability

Profile

- CPA, CIA Erick Audi
- MBA-UON (Finance), B. Comm. -University of Nairobi (UON), Accounting Option
- CPA, Certified Internal Auditor (CIA), CISA Certifications
- Certified ISO Lead Auditor; ISO 9001:2015
- Member of ICPAK, ISACA, IIA & KIM
- Over 16 years working experience from private & public sector institutions including (Audit Firm, KRA, KeRRA, Ketraco & KenGen)
- Passion for Governance, Risk Management & Control Advisory Services.
- Seasoned Facilitator/Trainer on Internal Audit, Controls, Risk Management and Governance processes for Audit Committee & Boards.
- Currently, works at KenGen as the Internal Audit & Risk Manager

Presentation Agenda



Learning Objectives

- ✓ Familiarize with the IIA Standards involving audit fieldwork
- ✓ Learn the best practice in identifying, analyzing & evaluating information
- ✓ Be aware of the best practices in gathering audit evidence
- ✓ Familiarize with audit testing strategies



Presentation Agenda



- ☐ Introduction
- ☐ Relevant IIA Standards
- ☐ Identifying Information
- ☐ Types and methods of gathering evidence
- ☐ Types of Audit Testing
- ☐ Analysis and Evaluation of Data
- ☐ Class Exercises





The Institute of
Internal Auditors

Introduction



- ❑ Fieldwork is the process of gathering evidence for measurement and evaluation.
- ❑ The purpose of the conducting the audit engagement is to gather **sufficient, appropriate audit evidence to reach a conclusion on each of the objectives identified in the planning phase.**
- ❑ The fieldwork stage concludes with a list of significant findings from which the auditor will prepare a draft audit report.
- ❑ **The Internal Auditor should execute all the tasks on the basis of Audit Programs prepared at the end of the planning phase of the audit engagement.**

Relevant IIA Standards

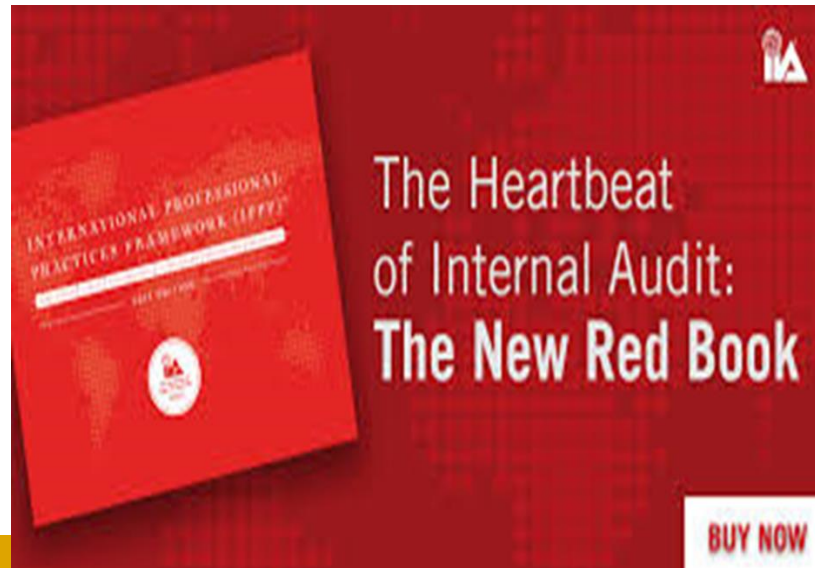


- ❑ Internal Auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives **(Standard 2300)**.
- ❑ Internal Auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement objectives **(Standard 2310)**.
- ❑ Internal Auditors must base conclusions and engagement results on appropriate analyses and evaluations **(Standard 2320)**.

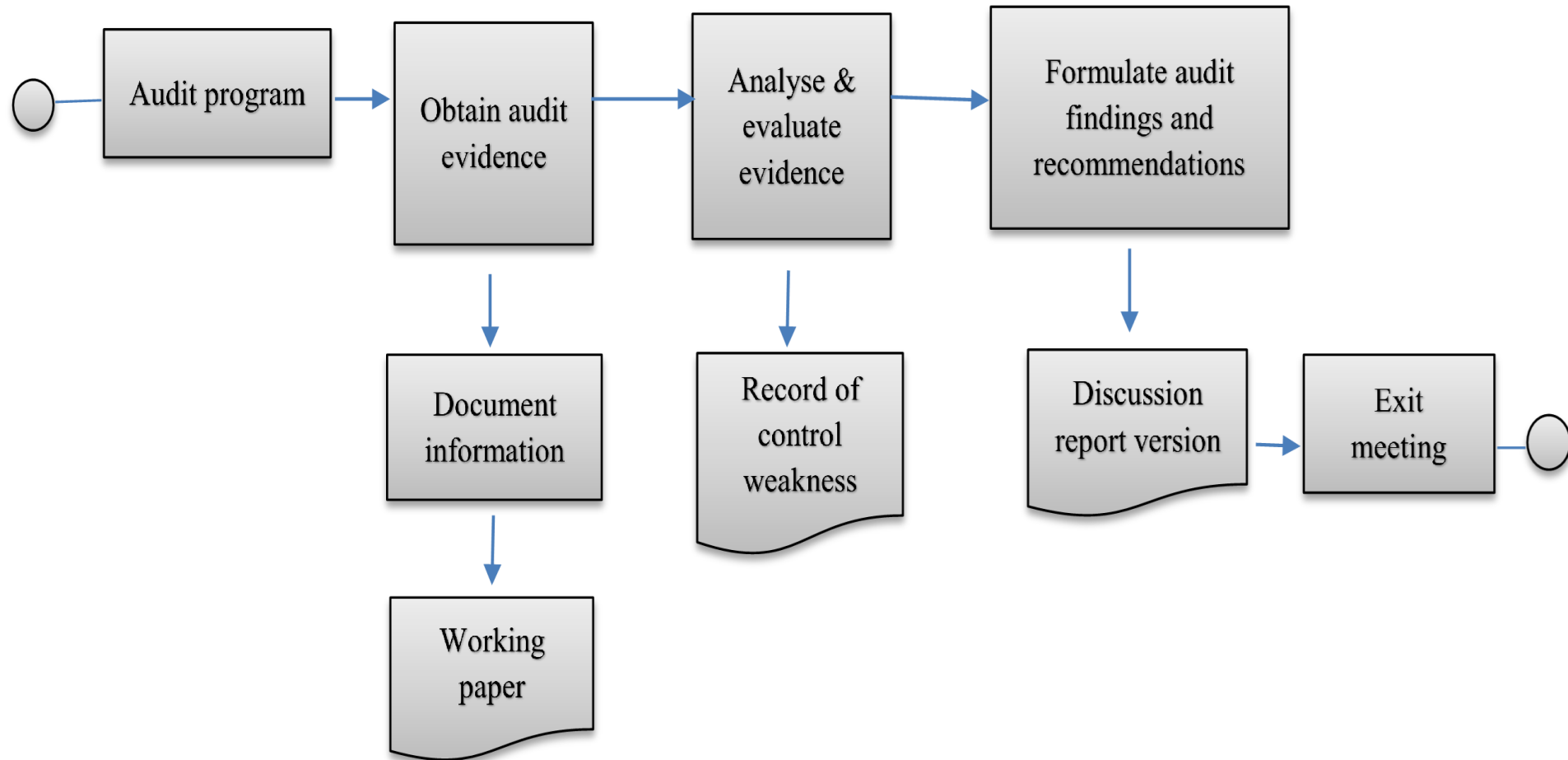
Introduction-IIA Standards



- ❑ Internal Auditors must document relevant information to support the conclusions and engagement results (**Standard 2330**).
- ❑ Engagement must be properly supervised to ensure objectives are achieved, quality is assured, and staff are developed (**Standard 2340**).



Overview of Engagement Performing Phase



2310 – Identifying Information



Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

- ❑ **Sufficient information** is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor.
- ❑ **Reliable information** is the best attainable information through the use of appropriate engagement techniques e.g., statistical sampling & Analytical procedures
- ❑ **Relevant information** supports engagement observations and recommendations and is consistent with the objectives for the engagement.
- ❑ **Useful information** helps the organization meet its goals.
- ❑ **Legally obtained**
- ❑ **Efficient and economically** obtained.

Methods of Gathering of Audit Evidence



Types of Audit Evidence



- ✓ **Physical evidence** - Physical evidence is obtained by direct inspection or observation of people, property or events. Inspection of tangible assets provides reliable audit evidence about their existence, but not necessarily as to their ownership or value.
- ✓ **Documentary evidence** - Documentary evidence consists of information that exists in some permanent form such as letters, contracts, accounting records, invoices, and management information on performance. It may be internal, external or a combination of both.

Types of Audit Evidence



- ✓ **Testimonial evidence** - Testimonial evidence is obtained through inquiries, interviews, or questionnaires. Inquiry and confirmation consists of seeking information from knowledgeable persons inside or outside the organization.
- ✓ **Analytical evidence** - Analytical evidence arises from the application of analytical review procedures which focus on: (1) relationships between financial and or statistical data; (2) comparison with previous years, and (3) comparison with budget, management information, etc. Unusual analytical results are investigated.

Assessing the Quality of Audit Evidence



- ✓ Evidence generated by the auditor is more reliable than evidence provided by the management or staff of the audit client;
- ✓ Evidence obtained from external sources is more reliable than that provided internally;
- ✓ Documentary evidence is more reliable than oral evidence.
- ✓ Audit evidence that is generated internally is more reliable when the related controls imposed by the entity are effective.
- ✓ Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies or facsimiles.

What not to do when gathering information/Evidence



- Assume or presume that documentation exists.
- Accept what you are told without checking the supporting facts.
- Fail to document information gathered, analyzed and evaluated.
- Collect too much information.
- Collect irrelevant information.
- Failure to protect the information gathered.

Selection of Audit Procedure



The criteria for selection of the most suitable audit technique:

- ☐ Will the technique meet the objectives of the audit stage or phase?
- ☐ Has the auditor the skills to use the procedure?
- ☐ Is the material to be audited available and in a condition to be used with the audit procedure?
- ☐ Will the procedure be cost effective? e.g., will the time and effort to perform the procedures far exceed the benefit of using it?
- ☐ Will the conclusions reached after using the procedure be valid?

Analysis techniques:

- Inspection
- Re-performance
- Vouching
- Tracing
- Re-computation/calculation
- External Confirmation
- Analytical procedures
- Data Analytics –***ACL/IDEA software***

Analysis provides the basis for well supported findings. The quality of recommendation is based on knowledge gained.

Evaluation – Assessing control effectiveness



- ❑ Perform an evaluation to verify that for each risk, a control is designed and operating effectively so that there is reasonable assurance that the risk is mitigated to an acceptable level.
- ❑ Internal auditors must evaluate both the design and operating effectiveness of a control, because either can be deficient.
- ❑ Evaluation involves assessing the root cause of the audit observation/finding to enable the Internal Auditor provide recommendations to close or correct the audit finding and resolve the root cause.

Evaluate control operating effectiveness



Criteria for evaluating the adequacy of specific control designs:

- Whether it responds to a control objective
- Whether it ensures a favorable or desirable outcome
- Whether it has been implemented by the Management

Factors to be considered while evaluating the effectiveness of internal controls:

- Alignment between controls and risks identified
- Nature of controls
- Follow-up actions taken by an organization
- Frequency of controls
- Period covered by the controls

What if controls are ineffective?



- ❑ Determine if there are compensating controls offsetting the ineffective control
- ❑ Determine if the client has implemented the control in another manner
- ❑ Ineffectively designed controls should not be tested; should be noted as audit findings
- ❑ Effectively designed controls should be tested

Audit Testing



- IIA Performance Standard – 2320, internal auditors should base conclusions and engagement results on appropriate analyses and evaluations. There are three types of audit tests.
- Compliance Testing
- Substantive Testing
- Analytical Review

Compliance Testing



Compliance testing is the testing of an operation or task against predetermined criteria to measure its compliance. Compliance tests are concerned with:

- *Were the necessary procedures performed?*
- *How were they performed?*
- *Who performed them?*
- *Were the procedures performed consistently?*

Examples of Test of Controls

- ✓ *Inquiries of appropriate management, supervisor, and staff personnel.*
- ✓ *Inspection of documents, reports, and electronic files.*
- ✓ *Observation of the application of specific controls.*
- ✓ *Re-performance of the application of the control by the auditors.*

Substantive Testing



Substantive audit evidence is the term used to describe the evidence obtained from performing substantive procedures that include tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures.

Examples of Substantive Tests:



- ✓ Confirmation e.g., confirming account balances with third parties.
- ✓ Physical examination e.g., examining fixed assets or inventory
- ✓ Cut-off testing e.g., testing shipping and goods received cut-off
- ✓ Reconciliation e.g., reconciling a subsidiary account to the general ledger
- ✓ Observation e.g., touring facilities or observing inventory count teams
- ✓ Inquiry e.g., asking audit client to explain the bases for their judgements
- ✓ Examination e.g., examining contracts and agreements
- ✓ Re-computation e.g., re-computing the client's depreciation expense
- ✓ Tracing e.g., tracing test counts from the physical inventory observation to the inventory listing.
- ✓ Vouching e.g., agreeing account details to supporting documentation such as invoices or cancelled cheques
- ✓ Casting/recalculation e.g., verifying the mathematical accuracy of a report.

Analytical Procedures



Analytical review is an important part of substantive testing, and appropriate techniques should be used wherever relevant. **Analytical Procedures includes:**

- ✓ **Trend analysis** - the analysis of changes in an account over time.
- ✓ **Ratio analysis** - the comparison, across time or to a benchmark, of relationships between accounts and between an account and non-financial data.
- ✓ **Reasonableness testing** - the analysis of accounts, or changes in accounts between accounting periods, that involves the development of a model to form an expectation based on financial data, non-financial data, or both.
- ✓ **Regression analysis** - the use of statistical models to quantify our expectation, with measurable risk and precision levels.
- ✓ **Scanning** - the identification of anomalous individual items within account balances or other data through the scanning or analysis of entries in transaction listings, subsidiary ledgers, general ledger control accounts, adjusting entries, suspense accounts, reconciliations, and other detailed reports.

Analytical Procedures



Analytical Procedures include comparison of financial information with:

- *Prior-Period Information*
- *Budgets*
- *Forecasts*
- *Data from similar programs or organizational units/benchmarks*
- *Related non-financial information*
- *Internal Auditors may further investigate any significant deviations from the expectations to determine the cause and/or reasonableness of the variance (e.g., fraud, error, or a change in conditions). Unexplainable results may indicate a need for additional follow-up and may suggest the presence of a significant problem that should be communicated to senior management and the board*

Analysis and Evaluation Data



- ❑ After data is collected, it should be analyzed and evaluated.
- ❑ Analysis mean breaking down data/activities/processes into smaller, more manageable parts to determine attributes, relationships, cause, effect, etc. and make inferences or determine whether further examination is required.
- ❑ Evaluation is the systematic determination of the merit, worth, or significance of the subject matter to arrive at a judgment in terms of adequacy, efficiency or effectiveness.
- ❑ When conducting a root cause analysis, internal auditors must exercise due professional care by considering effort in relation to the potential benefits (Standard 1220.AI).

Analysis and Evaluation Data



During fieldwork, analytical procedures should be used to support the results of the assignment. Auditors should consider various factors in determining the extent to which analytical audit procedures should be used to achieve the engagement objectives; they include:

- The significance of the area being examined;
- The assessment of risk and effectiveness of risk management in the area being examined;
- The adequacy of the system of internal control;
- The availability and reliability of financial and non-financial information;
- The precision with which the results of analytical audit procedures can be predicted;
- The availability and comparability of information regarding the industry in which the organization operates; and
- The extent to which other engagement procedures provide support for engagement results.

Analysis and Evaluation Data



- Evaluation enables an auditor arrive at a professional judgment. As auditors compare circumstances observed against relevant criteria, they evaluate the significance of any variance and determine whether corrective action is necessary.
- Auditors should draw conclusions for each audit objective. Conclusions should be specified and not left to be inferred by readers.
- The strength of a conclusion depends on the persuasiveness of the evidence supporting the findings, and they should be free from personal biases or prejudices and be objective.

Analysis and Evaluation Data



- ☐ The conclusion reached by audit team should be the same as would have been reached by a similar experienced professional reviewing the same evidence.
- ☐ Throughout the course of the audit, the HIA should assess whether the audit team has collected enough appropriate evidence to address the risk in the activity being audited, as well as the agreed audit objectives.

Detailed Audit Procedures



Auditors may perform the following detailed audit tests during the fieldwork:

- a. **Vouching** – testing recorded amounts by examining supporting documents to determine whether they represent an actual transaction.
- b. **Tracing** – following a document through its processing cycles to the accounting records to determine whether all transactions have been recorded
- c. **Re-computation** – verifying the mathematical accuracy of figures. The value of this procedure is limited as the reliability of the evidence obtained depends on the validity of the underlying input.
- d. **Scanning** – searching for obvious exceptions in a large quantity of data.

Audit Sampling



- ❑ Audit sampling is performing an audit test on less than 100 percent of a population. In sampling, the auditor accepts the risk that some or all errors will not be found, and the conclusions drawn (e.g., all transactions were proper and accurate) may be wrong.
- ❑ Sampling enables auditors to obtain and evaluate audit evidence about some characteristic of the sample in order to form or assist in forming a conclusion about the population from which the sample is drawn.
- ❑ Internal auditors may test a complete population or a representative sample of information. If they choose to select a sample, they are responsible for applying methods to assure that the sample selected represents the whole population and/or time period to which the results will be generalized. The use of CAATs may enable the analysis of an entire population of information rather than just a sample.

Monitoring quality of execution and progress of work



- ☐ It may become necessary to make certain revisions during execution of the audit program.
- ☐ The scope of the audit may also occasionally be required to be amended in order to capture useful additional evidence. In addition, the extent of testing may also be required to be extended. This may particularly be necessary when a fraud or other serious deficiencies, such as misinterpretation of a rule, is suspected and it may become necessary to fully quantify the effect of that deficiency.
- ☐ Internal Auditors should take care to ensure that changes to the audit program do not impact the audit objective, the audit criteria or time schedules.

Monitoring quality of execution and progress of work



- ❑ Internal Auditors should consult with and obtain the approval of the HIA for any changes in the audit program.
- ❑ Internal Auditors should ensure that evidence is properly recorded in appropriate worksheets, supported with copies of documents when deemed necessary.
- ❑ As the work progresses, the Internal Auditor should complete in respect of each audit objective or sub-objective the Audit Finding sheet.
- ❑ Internal Auditors should continuously evaluate the evidence being collected to make a conclusion on the '**condition**'. And if the 'condition' is considered to be defective, they should consider whether the evidence would be sufficient to determine the cause and the effect. If additional testing and evidence is considered to be necessary to minimize audit risk, then the HIA should be consulted and action taken accordingly.

Liaison with the Audit client and other senior staff during fieldwork



- Throughout the audit, the Internal Auditors should have discussions with the audit client and the senior staff of the audit client to review and discuss observations and findings and potential recommendations.
- This helps ensure that all pertinent information has been considered in developing conclusions and provides an opportunity for the audit team and the audit client to work to develop effective solutions to identified deficiencies.
- This process is likely to result in more prompt corrective actions. At the end of the audit, this informal communication process is formalized through closing or exit meetings and written reports.

Recording Information during Audit



- ❑ Auditors should record all elements of the assignment in the working paper file, in accordance with the format outlined.
- ❑ The contents of the file should clearly support the bases of the observations and recommendations to be reported to the Management and provide evidence that the audit was performed in accordance with IIA Standards.
- ❑ Working papers should be developed in a timely manner as the audit progresses. They help to enhance the quality of the audit and facilitate effective review and evaluation of the audit evidence obtained and conclusions reached before the audit report is finalized.

[Sample Working Paper Templates](#)

Class Exercise: Example I

The Internal auditor has a responsibility to design audit procedures to obtain sufficient and appropriate evidence

Required

- (i) What are the Five (5) types of procedures for obtaining audit evidence?
- (ii) For each procedure highlighted in (i) above, describe an example relevant to the **Audit of Plant, Property & Equipment**

Class Exercise: Example 2

The auditor has a responsibility to design audit procedures to obtain sufficient and appropriate evidence. There are various audit procedures for obtaining evidence, such as external confirmation.

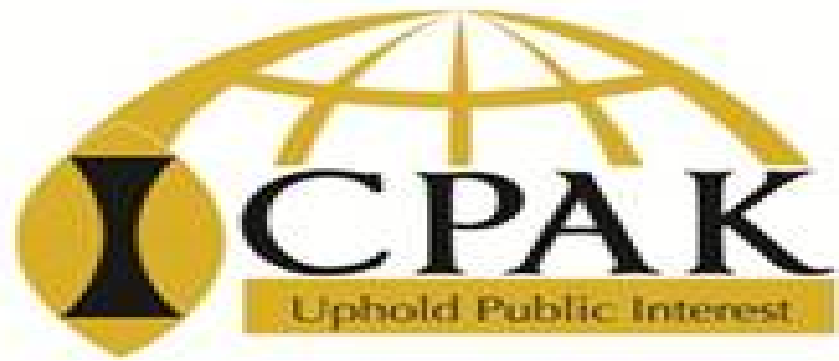
Required:

Apart from external confirmation:

- (i) State & explain FIVE (5) procedures for obtaining evidence and;
- (ii) For each procedure, describe an example relevant to the **audit of purchases and other expenses.**



AUDIT REPORT



Engagement Reporting:

- ☐ **Exit Meetings**
- ☐ **When to communicate audit findings**
- ☐ **Qualities of a quality audit report**
- ☐ **Components of an engagement report**

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Credibility

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Learning Objectives

- ✓ Familiarize with the IIA Standards of Communicating Audit Results
- ✓ Understand the purpose of engagement communication
- ✓ Learn the features of best practice in audit communication
- ✓ Be aware of the issues and risks in audit report writing
- ✓ Familiarize with effective strategy in developing audit reports
- ✓ Familiarize with the ideal structures of Internal Audit Report

Presentation Outline

- ☐ Introduction
- ☐ Exit Meeting
- ☐ IIA Standards on Reporting
- ☐ Audit Reporting challenges
- ☐ Developing content of an Internal Audit Report
- ☐ Typical structure of an Internal Audit Report
- ☐ Writing Executive Summaries
- ☐ Qualities of a Good Internal Audit Report
- ☐ Deadly Sins of Audit Report Writing
- ☐ **Case Study**
- ☐ Conclusion



Paul Richard E. Chambers' latest blog posts at:
ChambersOnTheProfession.org

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Assignment Completion



An “Assignment Completion Checklist” should be used to assist the audit team in ensuring that the objectives and scope of the audit as established in the audit plan have been met. ***Matters to consider in completing the Audit Assignment Completion***

Checklist include:

- ✓ *Document the follow-up of any third-party reports (e.g., external auditor’s reports, consultant’s systems reviews, etc.);*
- ✓ *Document the follow-up of the comments in the most recent prior internal audit report. Ensure any unresolved issues have been included in the current review;*
- ✓ *Ensure all Internal Audit programme steps are performed. Include cross-references to supporting work papers;*
- ✓ *Ensure all review notes have been cleared:*

Assignment Completion



- ✓ *Ensure findings/exceptions have been documented and adequately disposed of;*
- ✓ *Ensure all work papers have been signed-off by the preparer and reviewed by the relevant supervisor;*
- ✓ *Complete staff performance evaluation forms (this process should be used to evaluate the performance of Internal Auditors);*
- ✓ *Conduct an Exit Meeting with audit client.*
- ✓ *Document the items discussed at the meeting.*

Exit Meeting



- ❑ A formal exit meeting concludes the audit fieldwork. The purpose of the exit meeting is to outline the Internal Auditor's opinions and provisional recommendations, ensure factual accuracy and clear any misconceptions that may have arisen during the audit.
- ❑ The opportunity should be taken to ensure that the proposed recommendations are a practical solution to identified weaknesses within the system.

Exit Meeting Agenda



- All comments & recommendations not resolved prior to the exit conference should be included in the final report and be discussed.
- Presentation of the overall opinion of the operation based upon the engagement.
- Results of the engagement or other activities conducted at their request.
- Audit client must express its agreement or disagreement to the findings/recommendations.
- Presentation of the remedial action Mgt proposes to take and the planned timing for the action.
- Audit client should be informed of the final audit report procedures to include report distribution.

Exit Meeting



- ☐ The views of the audit client obtained at this meeting should be taken into account when writing the final internal audit report.
- ☐ **A designated team member should take note of the points discussed and comments made during the exit meeting minutes. The exit meeting notes should be filed in the current audit file.**



Sample Exit Meeting Form

AUDIT REPORTING



AUDIT REPORT



IIA Standards-Communicating Audit Results



➤ **IIA Standard 2400 - Communicating Results**

Internal auditors must communicate the engagement results.

➤ **IIA Standard 2410 - Criteria for Communicating**

➤ Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.

➤ **IIA Standard 2410.A1** Final communication of engagement results must, where appropriate, contain the internal auditors' opinion and/or conclusions.

➤ **IIA Standard 2410.A2** - Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

IIA Standards-Communicating Audit Results



- **IIA Standard 2410.A3.** When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.
- **IIA Standard 2420 – Quality of Communications.** Communications must be accurate, objective, clear, concise, constructive, complete, and timely.
- **IIA Standard 2421 – Errors & Omissions.** If a final communication contains a significant error or omission, the CAE must communicate corrected information to all parties who received the original communication.

IIA Standards-Communicating Audit Results



IIA Standard 2430 – Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing”

Internal auditors may report that their engagements are “conducted in conformance with the International Standards for the Professional Practice of Internal Auditing”, only if the results of the quality assurance and improvement program support the statement.

2440 – Disseminating Results

The CAE must communicate results to the appropriate parties.

The CAE is responsible for reviewing and approving the final engagement communication before issuance and for deciding to whom and how it will be disseminated. When the CAE delegates these duties, he or she retains overall responsibility.

IIA Standards-Communicating Audit Results



The **communication will identify:**

- *The scope, including the time period to which the opinion pertains;*
- *Scope limitations;*
- *Consideration of all related projects including the reliance on other assurance providers;*
- *The risk or control framework or other criteria used as a basis for the overall opinion; and*
- *The overall opinion, judgment, or conclusion reached.*
- *The reasons for an unfavorable overall opinion must be stated.*

IIA Standards-Communicating Audit Results



2600 – Communicating the Acceptance of Risks

- When the CAE concludes that management has accepted a level of risk that may be unacceptable to the organization, the CAE must discuss the matter with senior management.
- If the CAE determines that the matter has not been resolved, the CAE must communicate the matter to the Board.



Internal audit report: What it does?

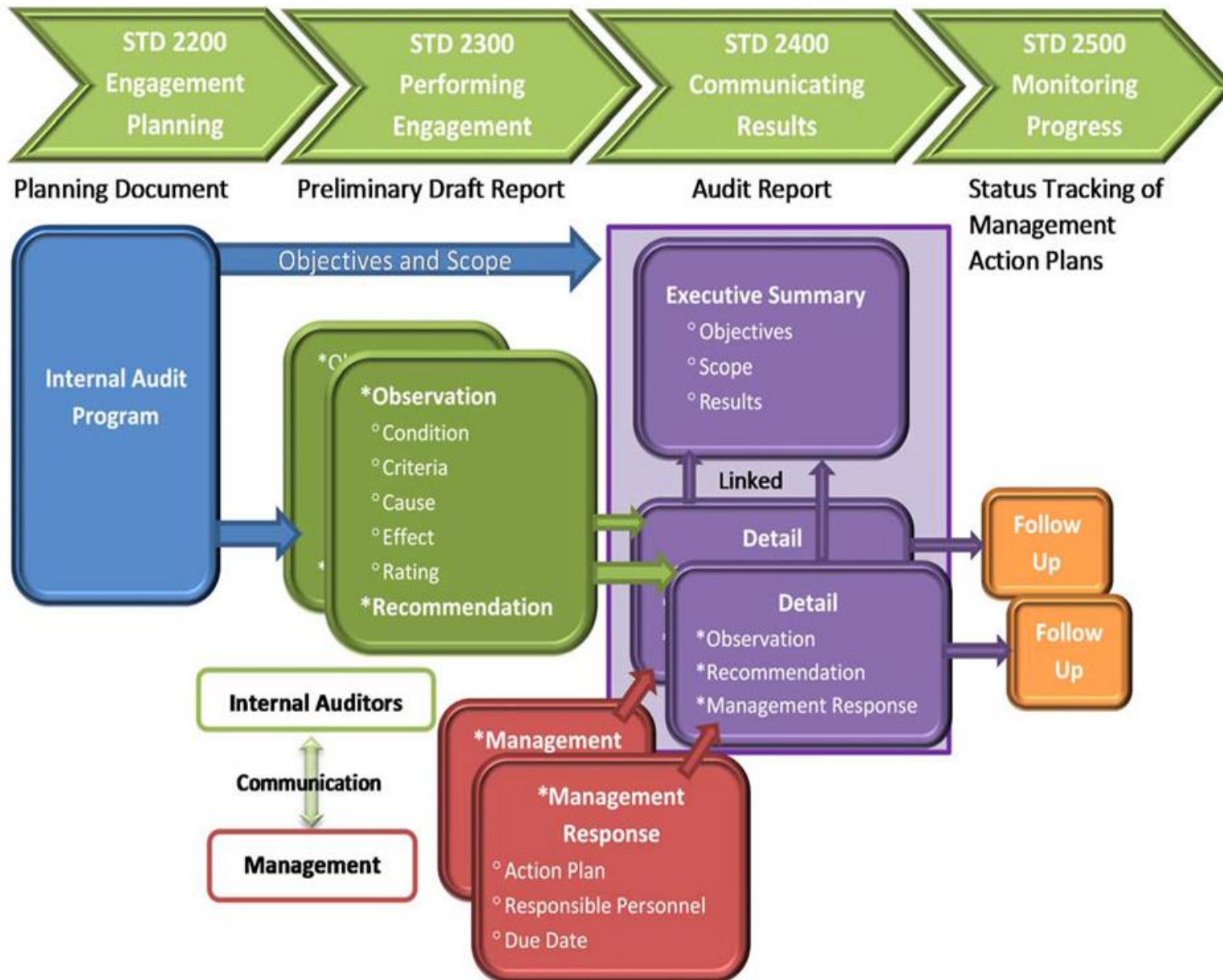


❑ Alert management to matters needing correction or improvement by:

- Communicating – create awareness
- Explaining – obtain acceptance
- Persuading – implementation (consulting engagements)

If the report fails to deliver these purposes, whatever skillful, constructive and value adding our report is, fails to get the attention and buy-in of the senior management. Hence, cannot be implemented.

Process flow of audit report elements



Common feedback from audit clients who receive internal audit reports?



- ☐ “The report tells us what we already know.”
- ☐ “The report makes it sound worse than it is.”
- ☐ “There is no recognition of good work in the report; only negative by exception commentary.”
- ☐ “The report is too long & too wordy.”
- ☐ “The report does not give an overall conclusion or opinion; what am I to make of that?”



Typical Reporting Issues



- ☐ Ineffective communication of results!
- ☐ Delays in writing draft audit report!
- ☐ Management does not accept findings!
- ☐ Quality control during editing process!
- ☐ Delays in receiving management responses!
- ☐ Reports not factually correct & issued late!
- ☐ Focus only on negative aspects or mistakes
- ☐ Lack of practical recommendations



How should we address these issues going forward?

Steps in the preparation of audit report

The preparation of audit reports requires considerable care and thought. ***Therefore, the following steps are suggested:***

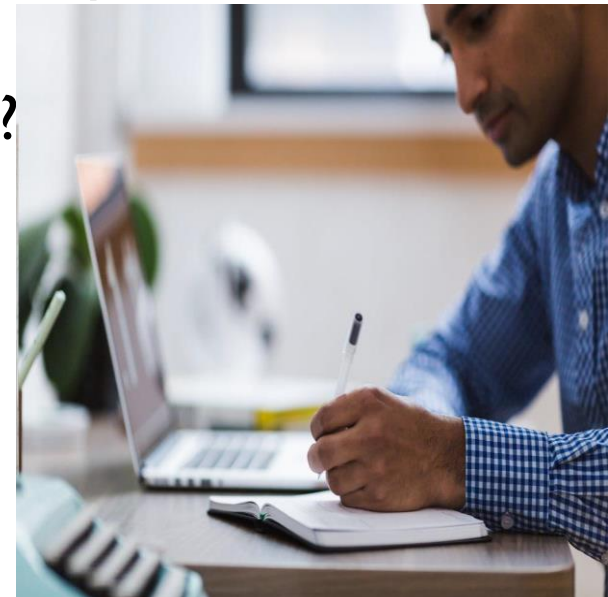
- Knowing the purpose/ objectives of the report;
- Knowing who is the reader?
- Planning the report (prepare an outline);
- Gathering data to be included in the report including evidences supported by working papers;
- Sorting the data to fit in the outline;
- Writing the first draft;
- Discussion with the audit client so that issues considered not important can be dropped and the report concentrates on significant matters;
- Editing the final report.

Report Content & Structure



The style and structure of audit reports varies across organizations.
Consider these questions about the audience (s) when customizing reports;

- Who are the most important readers of the report?
- How much do they know about the audited activity?
- How do they plan to use the report?
- How do the identified issues impact the reader?



Communicating Internal Audit Results



- **Oral Reports:** Only supplement but not a substitute to written reports. Used for reporting findings requiring urgent action;
- **Interim (Draft) Reports:** Issued when the Management has to be **informed of significant issues that require prompt action**. The contents of interim reports are eventually included in the final report. A draft report will be provided to the audit client in advance of the closing meeting.
- **Final Reports:** This is a detailed regular report issued at the conclusion of an audit. The form and content may vary with different type of assignments.....

Typical Structure of an Internal Audit Report



- **Transmittal/Forwarding Cover Memo.**
- **Audit Report Title/Heading-** name of org, name and location of unit audited, date of the report is issued, Reports No, Process audited, dates of fieldwork.
- **Table of Content**
- **Executive Summary-**Report Rating, audit Issues & status of management remediation planning
- **Objective** (purpose of engagement) **& scope** (audited activities, nature & extent of work , scope limitations).
- **Business context-background** (brief synopsis of the activity being audited or an explanation of the process).

Typical Structure of the Audit Report



- **Audit Issue**-Issue Owner, Issue severity (measure of risk significance (i.e., high, medium, low, critical, significant), issue/condition and root cause, risk, supporting observation, recommendation, management agreement and due date. Recognition of Satisfactory performance (positive aspects of area or activity audited or appreciated of co-operation).
- **Audit Report Rating** (ranking outcome i.e., satisfactory, marginal, unsatisfactory , pass, fail).
- **Conclusions/Opinion/Acknowledgement** (summary opinion/assessment of the engagement).
- **Appendices, Header & Footer**- Additional information, audited entity, location of audited entity, title of audit, audit number and report issue date.



Other sections may include;.....

Other sections may include;

- Release & Confidentiality Notifications (*Limitation on the use of report by parties outside the entity*).
- Distribution list.
- Auditors who did the audit
- Management responses
- Local issues- *“Less significant issues have been discussed with management and appropriate actions are planned”*
- Audit Methodology
- Auditing Standards Compliance

Other issues with Audit Reports



- The HIA shall be responsible for reviewing and approving the draft and final audit reports before they are issued to the audit client or any other appropriate recipient.
- Engagement results are disseminated based on the communication plan i.e., why we are communicating, to whom to communicate, what to communicate, how to communication and when to communicate.
- The HIA should ensure a distribution list is maintained for the recipients of the Internal Audit reports.

Other issues with Audit Reports



- The HIA should establish a system that enables recipients of Internal Audit reports to confirm receipt of the same. Such information is key where: the HIA is to issue a corrected or revised report or where the audit client or any other officer who was supposed to receive the report claims that the same was not received by them.
- Confidentiality of the Internal Audit reports is critical and HIA should ensure that all reports are handled and distributed under confidential cover.
- Where the Internal Audit report is disseminated in soft copy, a signed hard copy of the final report shall be maintained by the HIA.

Executive Summary (ES)

- An executive summary is a brief section before the commencement of detailed audit report. It is part of the report that is read first.
- Provides a **high-level overview** of the audit and provides a summary of the audit activity.
- Included are the **Introduction, the objective and scope, observations and recommendations, summary, and conclusion**
- It summarizes the audit findings and action plan in minimal text. People who read only the ES should get the essence of the document.
- It provides conclusion/auditors opinion on the area under audit.



Components of the Executive Summary

- ✓ Heading
- ✓ Introduction, objectives, scope and engagement results
- ✓ Opinion/conclusions for the audited activity/processes
- ✓ Rating (or Assessment, Evaluation)
- ✓ Release and confidentiality notifications
- ✓ A summaries of significant/key observations or key messages including any management request/concern.
- ✓ Summaries of Correction Action (action plans)
- ✓ Concerns encountered with management, relating to establishing corrective actions, deadlines and or situations where the CAE concludes that management has accepted a level of risk that may be unacceptable to the organization.
- ✓ Standard Compliance Statement

Tips for writing An Effective Executive Summary

- ✓ Clear and concise, correct and simple. The ES should be 1-2 pages at the max.
- ✓ Stay away from long sentences and big words in the ES.
- ✓ Verify that the headings used in the ES match the body copy of the document.
- ✓ Present the sections of the ES in the same order as in the main report.
- ✓ Include all the must-know information in the ES and remove unnecessary phrases or unclear content.
- ✓ Format for readability with plenty of space between points and clear headings that guide the reader.
- ✓ Verify that the ES stands alone and supports the objective if it is the only portion of the document that will be read.

Qualities of a Good Audit Report



- ❑ **Accurate:** reported observations should be factual and free from errors and distortions. Reports should only include information, findings and conclusions supported by sufficient and appropriate evidence.
- ❑ **Objective:** findings should be conveyed with the correct tone that demonstrates objectivity and reasoning. Readers should be left with an impression that the entity was treated fairly. Language that generates defensiveness or opposition should be avoided.
- ❑ **Credibility:** reports presented in an unbiased manner will give readers confidence that the observations are objective and that audit results are presented completely and without exaggeration.
- ❑ **Concise:** reports should be to the point and avoid unnecessary detail.

Qualities of a Good Audit Report



- ❑ **Clear:** reports should be easily understood and logical. Clarity can be improved by avoiding unnecessary technical language or jargon, and by providing sufficient supporting information.
- ❑ **Constructive:** constructive reports help organizations improve. The report should be useful, positive, and aligned to the objectives of the organization.
- ❑ **Complete:** complete reports contain all significant audit results and fully address the objectives. Reports contain all relevant information needed to support conclusions and facilitate an adequate and correct understanding of matters reported.
- ❑ **Timely:** reports should be issued without undue delay, permitting prompt action. Opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

Common Mistakes in Internal Audit Reports

Flow of Report

- ✓ More focus on the transaction rather than the process or system failure
- ✓ Lack of pattern or flow in the report – this confuses the reader
- ✓ Starts with the most-low risk points – can lead to loss of interest of the reader.
- ✓ Important point gets lost in the volume of pages.

Common Mistakes In Internal Audit Reports

Incomplete Information

- Does not contain proper examples, sample size, extent of problem, root cause
- Not quantified for business impact or risk of the observations
- Recommendations (or poorly drafted recommendation)

Common Mistakes In Internal Audit Reports

Drafting Errors

- Spelling mistakes
- Wrong English
- Incomplete sentences
- Long sentences
- Incorrect use of punctuations



Common Mistakes In Internal Audit Reports

Use of Technical Jargons

- Confuses the reader
- Makes report reading more painful

5 CS In Report Writing



Observations & 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**).

5 CS In Report Writing



- **Causes**

The reasons for difference between expected & 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.

Deadly Sins of Audit Report Writing

- ☐ Not understanding the Readers-writing with internal auditor in mind!
- ☐ Not creating easy to read sentences
- ☐ Putting everything in the audit report
- ☐ Not trying to identify the main issues as you conduct the audit
- ☐ Not organizing & presenting information clearly
- ☐ Dumping data on the reader-writing overly detailed, uninspiring reports
- ☐ Not considering all the elements of an audit finding (5Cs).

Deadly Sins of Audit Report Writing

- ☐ Routinization!
- ☐ Pointing Out Problems only!
- ☐ Observation is not categorized based on its risk and root cause is not defined than resulting to inappropriate recommendation.
- ☐ Assuming the readers will read the entire report.
- ☐ Providing lengthy background information....Less is more.
- ☐ Skimming the surface.....No root cause identified...ask “WHY” three times.
- ☐ Using insider language....Ramifications vs Results?

When you correct the above deadly audit report mistakes/sins, your writing will come alive and audit clients and stakeholders will be more receptive and read your audit reports with heightened interest and act sooner to mitigate the reported risks.

Summary



- Internal Audit Report is the end result of an internal auditors' hard work. It takes a lot of practice to write clear, concise and actionable audit reports. As it is said "Practice makes a man more perfect".
- Thus, taking every opportunity in writing the audit reports, reading other audit reports and reading and understanding the relevant Internal Audit Standards and Practice Advisories will help in improving the skills of drafting and producing useful and effective audit reports.
- 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 additions by way of style and presentation can mask the inadequacy of the auditor's performance.

Summary



- 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.**
- 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 process has far reaching consequences in changing the way 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 **internalize that he is part of management, and his audit objective is aligned to the business objective and goals.**

Things to Remember



- **Remember** – the report is the output most people will see.
- **Explain** – need to explain context of audit and testing undertaken.
- **Phrasing** – make sure the report is clear and easy to understand.
- **Ordered** – is the report written in a logical way?
- **Read through** – make sure you read through the report thoroughly.
- **Think** – would I understand this audit if I was only reading the report?
- **Stand-alone** – the exec. summary should be stand-alone.

References



- **IPPF By IIA Standards, The Red Book**
- **Report Writing for Internal Auditors by Angela J. Maniak**

Participants to share lessons:

1. **New ideas** you picked up.
2. **How will you** use what you learned in your role as an Internal Auditor?

**Questions &
Answers**

The End!



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