"Optimizing your Audit Report"

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Agenda

- **Streamlining** the report preparation process
- **Targeting audit reports** to the proper audience
- **How to get your reports read** and your message understood
- **Audit report branding**: using audit report as a marketing tool

Streamlining the report preparation process

- **Write Audit Reports That Bring the Results You Want:** Persuade decision makers to act on your recommendations. Minimize rejection of your findings. Impress readers executives, and other readers with your auditing and writing skills
- **Eliminate Drudgery and Frustration of Report Writing**
- **Increase Acceptance of Your Reports**
- **Minimize Annoying Rewrites**
- **Produce Results-Driven Audit Reports:** Give your auditors the skills they need to write audit reports that convince readers, persuade decision makers, and effect positive changes.
- **Communicate Visually**
- **Ensure Your Quality**

Streamlining the report preparation process – TIPS!

- **Determining the objectives**: -Planning, Gathering, drafting, editing, formatting and communicating the information about the activity.

- **Integrity of the report**:- establishes trust and thus provides the basis for reliance on their judgment.

- **Confidentiality**: - respecting the value and ownership of information received. Not disclosing the information without appropriate authority unless there is a legal or professional obligation to do so.

- **Use team writing or report conferencing.**

- **Streamline the report format** — the shorter an audit report is, the less time it typically takes to read and understand.

Targeting audit reports to the proper audience -Many people in the business world write solely from their own point of view. Such a singular perspective results in a narrow focus.

- Consider the subject from the audience's perspective

- Offer clarity about the purpose or intended outcome

- Explain terminology or jargon that is unfamiliar to the reader

- Take the reader's knowledge of the subject limited or otherwise) into account.

Targeting audit reports to the proper audience

- Is the report's central message clear?
- Is it the appropriate length (too short or too long)?
- Does it have suitable graphics (e.g., pictures, tables, graphs)?
- "Never use a long word where a short one will do."
- Avoid biased language
- Be conscious about whether you want to take a positive or negative tone.
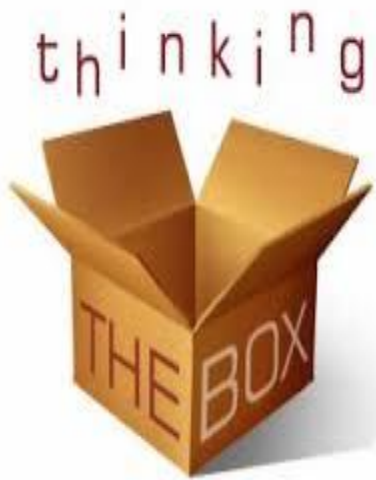- Always bear the brief in mind while you are writing

How to get your reports read and your message understood

Devices for Easier Reading

- Summaries
- Headings
- Topic sentences
- Graphics

Audit report branding

Audit report Branding is also a way to build an important company asset, which is a good reputation. Whether a company has no reputation, or a less than stellar reputation, branding can help change that.

Audit report branding can build an expectation about upcoming audit reports bringing better improvements.

A good audit report branding achieves the following:

- Delivers the message clearly
- Confirms the credibility
- Stake holders look forward to IA reports

Branding Techniques

- **Set and stick to a clear scope for the audit.** For unclear or new areas, slate a specific amount of time for survey

- **Tell the reader about all the work you did**
  › Interviewed officials, reviewed data, analyzed information, compared/evaluated, reached conclusions – using your work to boost yield in the audit report.
  › This builds credibility and confidence in the report by users because they can "see inside" your work

- **More "Contacts" = More Results:** Extended to auditing, it's a good goal to have more contacts with decision-makers, the public, and the media. Audit reports are the perfect vehicle to do this, but we need more reports to have more contacts.

Branding Techniques

- **Tell the reader about all the work you did**

  Interviewed officials, reviewed data, analyzed information, compared/evaluated, reached conclusions – using your work to boost yield in the audit report.

- **Clear Reporting Helps Prompt Review :** The more focused the report is, the easier and faster it is to review

- **Responsibility Clearance:**-Try placing responsibility on management, rather than on the auditor.

- **Use visuals –** Photos, charts, maps, sketches to explain

- **Inspiring Action with Auditing-** Audits help change happen through well-supported, published recommendations.

- **Audit readers tend to be busy.** State main point in title, in summary, and throughout the report

Sample Reports

❑ Cover pages of Audit Reports

❑ Risk Rating Samples

RISK RATING

A risk rating has been assigned to each finding and also an indication for findings where action is required with immediate effect to enable the management to identify the most important issues raised and to prioritize their action and response accordingly.

Significance of the risk is defined as follows.

Risk	Definition	Symbols
High	Issues that are critical and require immediate action.	H
Moderate	Issues that denotes significant control weaknesses and required to be avoided in the future.	M
Low	Issues that highlight errors/ lapses in controls and required to be improved upon in order to ensure the quality, efficiency, effectiveness and administration of the Company.	L

Definitions of Risk rating High, Medium, Low

Risk rating is based on the combinations of ratings for significance and likelihood.

Likelihood / Significance	High	Medium	Low
High	High	High	Medium
Medium	High	Medium	Low
Low	Medium	Low	Low

Definitions of likelihood and Significance (High, Medium, Low)

	Significance		Likelihood
High	Serious impact on operation, reputation, earnings or shareholder value	High	Conditions within the environment indicate that an event could occur in the immediate future
Medium	Significant impact on operation, reputation, earnings or shareholder value	Medium	Conditions within the environment indicate that an event could occur in the short term future
Low	Less significant impact on operation, reputation, earnings or shareholder value	Low	Conditions within the environment indicate that an event could occur in the long term future

Definitions of control environment grading

Evaluation Grading (based on process control and sample tested)	
High	Very good/no deviancies found
Medium	Satisfactory/ Requires improvement
Low	Unsatisfactory/ Presence of weaknesses in the controls

1. INTRODUCTION

As requested by the Chairman of the Audit Comm... audit covering the significant areas of operations ... Digana Milk Factory, Ambewela Milk Factory and ... carried out by us on a monthly basis.

We consider internal auditing to be an independen... the review of accounting, financial and other op... Management. The objective of internal auditin... Organization in the effective discharge of their ... control, measuring and evaluating the effectiven... Management with analysis, appraisal, recomm... concerning the activities reviewed.

This report is intended solely for the information ... and Management of the Company, and is not inte... anyone other than these specified parties.

Our observations and recommendations in relatio... 2012 are set out in this report.

Root Cause		
D	Design Deficiency	
O	Operating Ineffectiveness	
S	System Deficiency	

Occurrence	
N	New
R	Recurring

Overall Issue Rating Rationale

		LIKELIHOOD		
SIGNIFICANCE		1-5	6-15	16-25
	1-5	Low	Medium	Medium
	6-15	Medium	Medium	High
	16-25	Medium	High	High

Rating Description

Issue Rating	Rating Guideline
High	A significant risk which is not adequately addressed by the controls in place and should be addressed immediately.
Medium	A risk which is not adequately addressed by the controls in place.
Low	A minor risk or lapse in controls which should be addressed.
Not Rated	Grading is irrelevant

Root Cause	
D	Design Deficiency
O	Operating Ineffectiveness
S	System Deficiency

Occurrence	
N	New
R	Recurring

It indicates the minor control lapses which need to be improved.

Moderate issues which need to be adequately controlled.

Critical issues which should be rectified immediately.

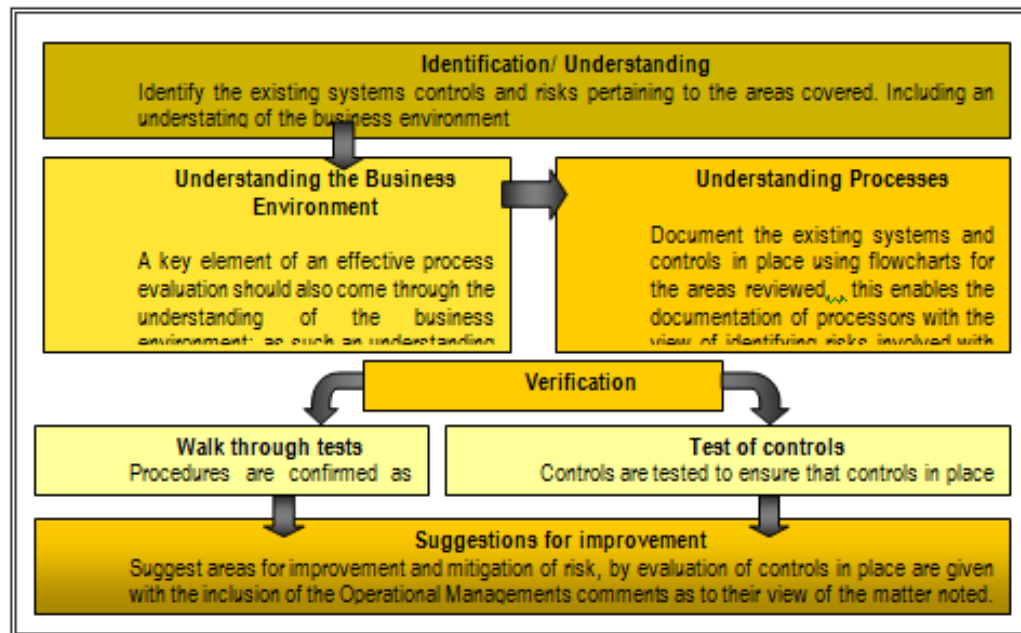**N:- It refers to the new findings /Observations**

R:- It denotes the issues which were highlighted in the previous audits and not yet rectified

Risk Assessment Methodology

3 METHODOLOGY

In carrying out assignments of reviewing system and financial compliance aspects of existing systems, we have adopted the following techniques and methodology, our concerns have been mainly to identify the risks & control weaknesses involved within the described Process.

RISK ASSESMENT METHODOLOGY

Identification/ Understanding
Identify the existing systems controls and risks pertaining to the areas covered. Including an understating of the business environment

Understanding the Business Environment
A key element of an effective process evaluation should also come through the understanding of the business environment; as such an understanding

Understanding Processes
Document the existing systems and controls in place using flowcharts for the areas reviewed,,, this enables the documentation of processors with the view of identifying risks involved with

Verification

Walk through tests
Procedures are confirmed as

Test of controls
Controls are tested to ensure that controls in place

Suggestions for improvement
Suggest areas for improvement and mitigation of risk, by evaluation of controls in place are given with the inclusion of the Operational Managements comments as to their view of the matter noted.

TECHNIQUES USED

We have adopted the following techniques and work steps in the application of the above methodology,

- Conducting interviews with all levels of staff involved in the processes under review.

- Documenting processes based on discussions held.

- Carrying out "walkthrough procedures" of the process documented to confirm our understanding. Walkthrough procedures refer to tracing a single transaction from the start of process to its end in order to confirm our understanding.

- Trace flow of processes amongst staff to check adequate Segregation of duties.

- Identify risks to the process and the controls that exist to mitigate these risks.

- Suggest improvements to strengthen controls and improve efficiency of process.

❑ Executive Summary of the Audit Findings

2   EXECUTIVE SUMMARY

The following is an executive summary of the observation made during our audit.

Observation Noted (Under each Company)	Recommended Action		Risk / Current Status	Management comment / time frame for Action
PRIME MOVER OPERATIONS				
Significant deviations in the Actual distance travelled by Prime Movers when compared to the standard kilometers distances set by the organization.	We strongly recommend the management to look into this matter immediately.	3.1	H	Agreed
No contracts established between current prime mover drivers resulting prime mover drivers not keeping proper co drivers	It is suggested that the management to look into possibilities of developing the agreement and signing with the drivers as soon as possible.	3.2	H	Agreed
Trip targets set from the Prime Mover Department can be improved significantly considering the recent improvement of the roads all around Sri Lanka.	We suggest the management to review all current trip targets and revision necessarily.	3.3	M	Agreed
Several new Prime Mover spare parts are not included in the inventory system.	We recommend the management to look into this matter and take corrective action to include these items in the system.	3.4	L	Agreed
No standard logistic per kilometer cost for Prime Movers and No regular daily/ hourly monitoring of the Prime Movers to minimize unwanted lead time.	"Prime Mover Department" should calculate per kilometer cost for Prime Movers and ensure the other operational aspects are in line with the standards.	3.5	M	Agreed
Ineffective and biased 'EXCRO' commission system.	Management should look into the possibility of adopting a different rate for the EXCRO commission based on the distance of the transport.	3.6	M	Disagree. Noted will see on slight changes.

Critical issues which should be rectified immediately.

Moderate issues which need to be adequately controlled .

minor control lapses which need to be improved.

Template 1

XYZ (Pvt) Ltd

Internal Audit Report

Area of work	Revenue	Section reference number	2.1
Assessment of control environment			
Control Measure	Grading		
Adequacy of policies, rules & procedures	High		
Documentation of policies and procedures	Medium		
Timeliness	Medium		
Compliance to policies and procedures	Medium		
Summary of work performed			
Business Process	Verifications – Document Reference		
Revenue	Section 5 – work plan		
Process Flow Charts			
Business Process	Document Reference		
Revenue	None		

Template 2

XYZ (Pvt) Ltd

Internal Audit Report

Area of work	Operations and Procurement	Section reference number	2.2
Assessment of control environment			
Control Measure	Grading		
Adequacy of policies, rules & procedures	High		
Documentation of policies and procedures	Medium		
Timeliness	Medium		
Compliance to policies and procedures	Medium		
Summary of work performed			
Business Process	Verifications – Document Reference		
Procurement	Section 5 – work plan		
Process Flow Charts			
Business Process	Document Reference		
Revenue	None		

Template 3

Area of Work	e.g. Cash & Bank Operation	Section Reference Number	
Period of Review			
Process/Business cycle	e.g. Receipts, Petty cash and bank Reconciliations		
Objective			

Control environment assessment

Control Measure	Grading	Evaluation Grading (based on process controls and sample tested)	
Adequacy of rules & procedures		*Presence of strong internal controls, procedures, monitoring, compliance as applicable to the audit scope*	
Segregation and supervision		**Good**	Very strong/ No deficiencies found
Documentation		**Satisfactory**	Adequate/Requires minor improvements
Timeliness		**Unsatisfactory**	Presence of weaknesses in internal controls, systems and procedures
Compliance		**Not rated**	Grading is irrelevant
Process Flow Diagrams completed	Yes/No		

Sample selected	

Risk Observation

Process/Business Cycle	Observation
Receipts	*Comment here if "No weaknesses were observed"*
	OR
Petty Cash	*Where weaknesses have been observed, **give <u>section reference</u> here** and detail findings in Template 8*
Bank reconciliations	

❑ Detail Audit findings

Template 4

Area of Work	e.g. Cash & Bank Operation	Section Reference Number	
Period of Review			
Process/Business cycle	e.g. Receipts		

Audit findings						
Section Serial Number		Annexure Reference		New		Recurrent

Risk Observation	Risk Rating for Area of focus	
		Tick one
	High	
	Medium	
	Low	
	Not rated	

Related risk and benefit of mitigating the risk

Proposed risk mitigation action plan

Management comment (agreed corrective action)

Comment responded by (name and designation)	
Responsibility (Name and designation)	
Implementation response time	

❑ Detail Audit findings

Template 5

Location	Head Office	Observation Reference Number		3.1.1
Department	Transport	Month of Review		July2012
AUDIT FINDING				

Issue Title- DISCREPANCIES IN COMPUTATIONS OF TRAVELLING AND SUBSISTENCE ALLOWANCES	New	
	Recurring	✓

Rating

High	
Medium	✓
Low	
Not Rated	

Observation

We observed calculation errors in relation to Subsistence Allowance computations due to errors in the attendance records generated through the System.

Details are as follows.

EPF No.	Name of the Employee	Departure		Arrival		Description	Amount Rs.Cts.
		Date	Time	Date	Time		
1175	Mr.K.P. Weeraratne	05.06.12	23.20Hrs	06.06.12	20.20Hrs	Palawatte	435.00
		06.06.12	11.45Hrs	08.06.12	13.36Hrs	Ampeweb/ Polgasweb/ Wickramasekiliya	870.00
0868	Mr.I.R. Ariyapala	05.06.12	23.20Hrs	06.06.12	20.20Hrs	Palawatte	360.00
		06.06.12	11.45Hrs	08.06.12	13.36Hrs	Ampeweb/ Polgasweb/ Wickramasekiliya	720.00

Root Cause

D	
O	✓
S	✓

*The same officer has arrived on 06.06.2012 at 20.20Hrs. and left the factory on the same day at 11.45Hrs. on another journey.

Implication

Inability to rely on the accuracy of the System generated attendance records for computations.

Recommendation

A responsible officer should be assigned with the task of identifying the System bugs in the Attendance System and necessary action taken to rectify the same. Further, attendance records generated from the System for the purpose of computations should be checked for accuracy prior to performing the computations.

Management Comment

| Officer Responsible	Manager - Transport
Date of Response	
Implementation Response Time	

4   INTRODUCTION

Prima Management Services (Pvt) Ltd is the IT services providing company for Prima Group Sri Lanka. After its establishment in 2006, company has proven its ability in many ways, continuously supporting the Group achieve corporate objectives.

There are 23 employees currently employed at PMS, and the company opetares with the following main functional units.

- Software Development Team
- Network& IT Infrastructure DevelopmentTeam
- IT Support Team
- MIS Engineering Team

Shown below is a yearly comparison of the Sales, Cost of sales and Overheads of Prima Management Services.
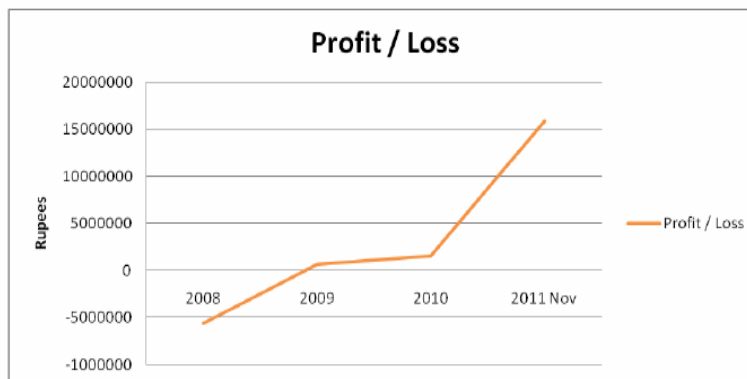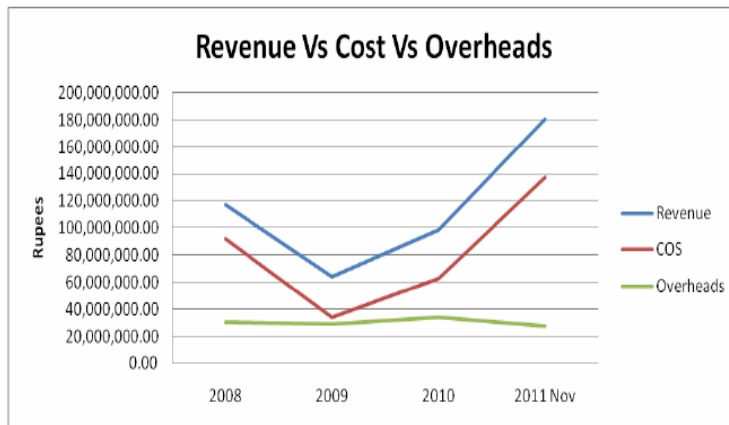
Indicating Data /Comparisons through graphs makes readers easy to understand

Internal Audit Plan Status

Project	Planning	Fieldwork	Report Drafting / Socialization	Report with Management	Report Issued	Report Number
Project A						07-01
Project B						07-02
Project C						07-03
Project D						Expected Issue Date
Project E						
Project F						
Project G						
Project L						
Project M						
Project N						
Project O						
Project P						
Project Q						
Project R						
Project S						
Project T						
Project U						