Internal Audit Report Writing

CA Ravi Harihara Iyer

Writing a Childhood Joy

Now a Workplace Trauma

"The most brilliant of analyses and the most productive of audit findings seem to be forgotten during the trauma of report writing."

Larry Sawyer

Internal Audit Engagement Lifecycle

Plan

Execute

Communicate Results

★ **SIA – 4**
Reporting

Quality : SIAs & Project Management

Time Vs Cost

Can **MAGIC** happen at the Report Writing stage **?**

Report Writing

ART or SCIENCE ?

Art & Science in Report Writing

Black Forest Cake

Drona's Teachings

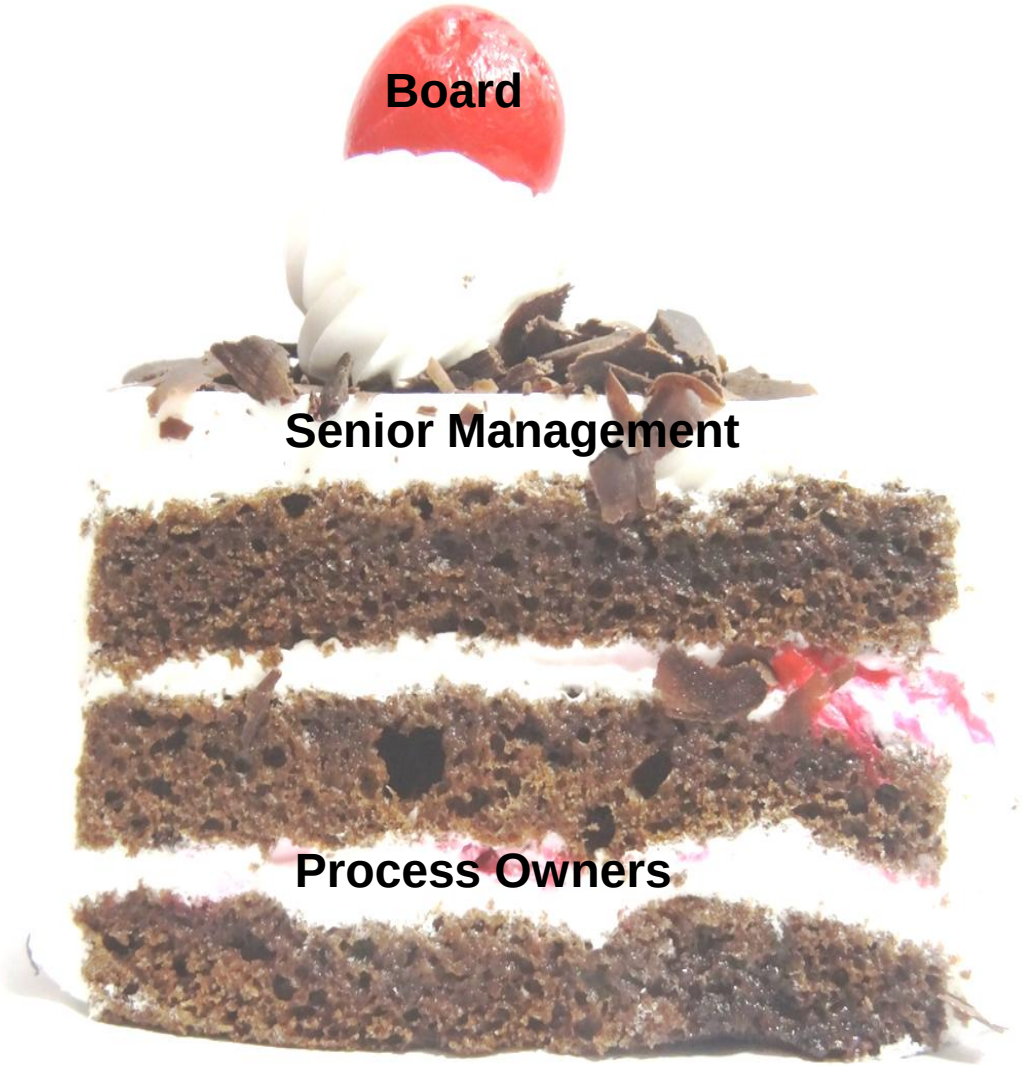
Black Forest Cake – A Framework for Report Writing

- **Write for your Readers**
- **Develop a Report Structure**
- **Freeze your Report Format**
- **Approval on Risk Rating**
- **Clarity of Audit Components**

Writing for Whom?

Key Readers

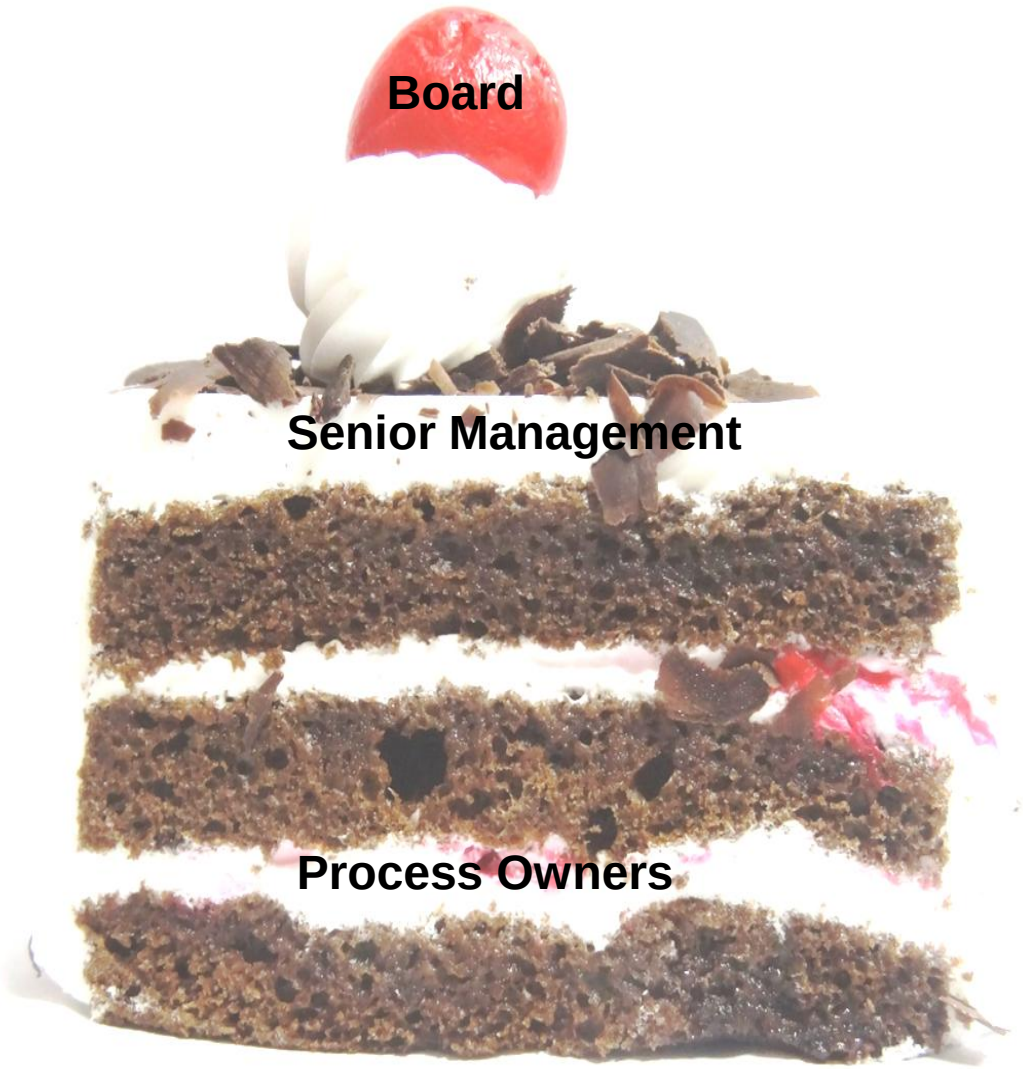
- Board / Audit Committee
- Senior Management
- Process Owners
- Statutory Auditors
- Regulators
- Investors
- Internal Audit Team



Audit Report Structure

- **Cover Page with Heading**
- **Table of Contents**
- **Executive Summary**
- **Detailed Audit Observations**
- **Appendices / Annexure**

Audit Report Structure – Focus on Reader's Needs

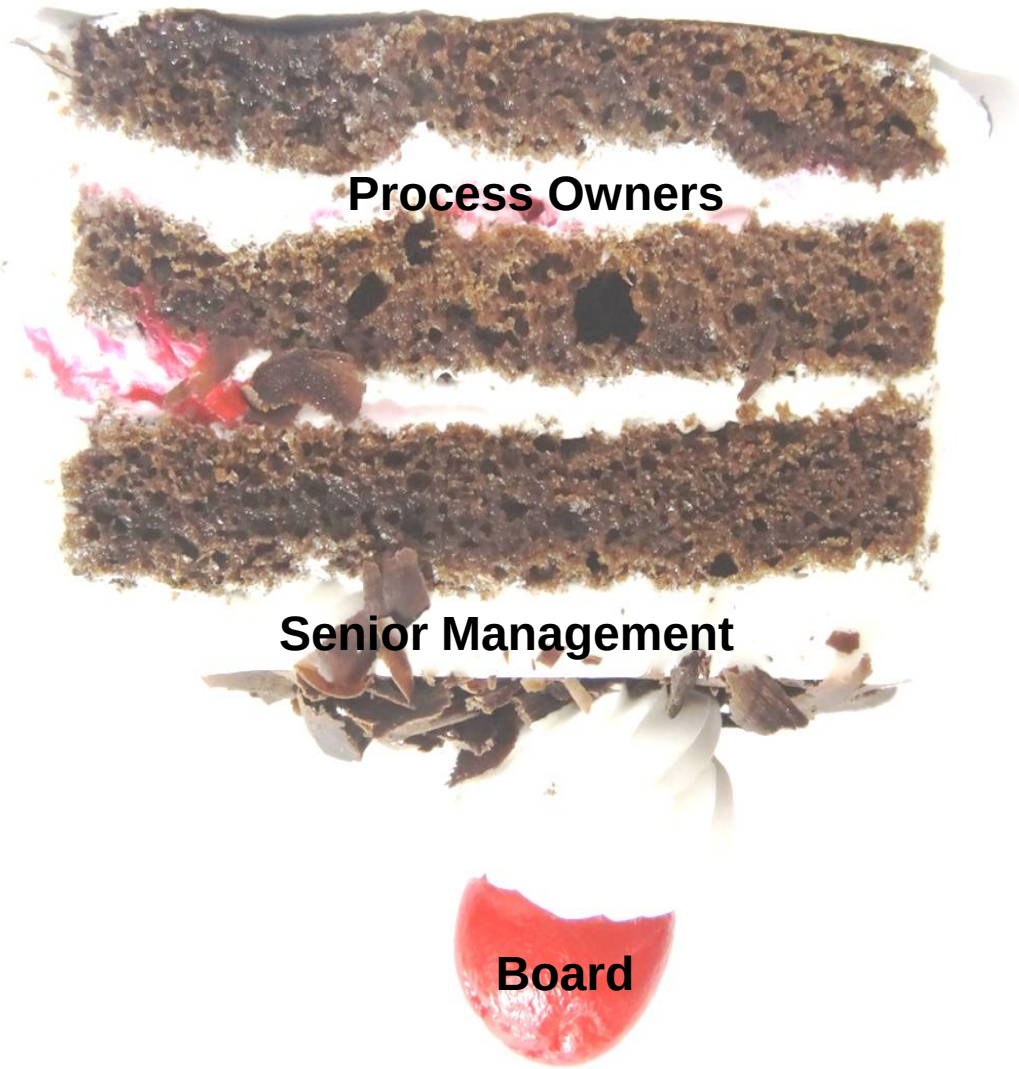


Executive Summary

Key Observations

Detailed Report & Annexures

Audit Report Structure – Writer's Approach



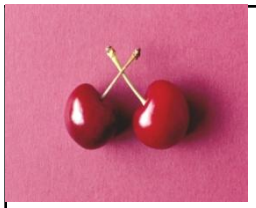
Detailed Report & Annexures

Key Observations

Executive Summary

Components of an Audit Report

Executive Summary



Executive Summary

Purpose To review the efficiency & effectiveness of the Procurement Process.

Scope Procure to Pay Business Cycle for the Financial Year 2013 -14

Findings

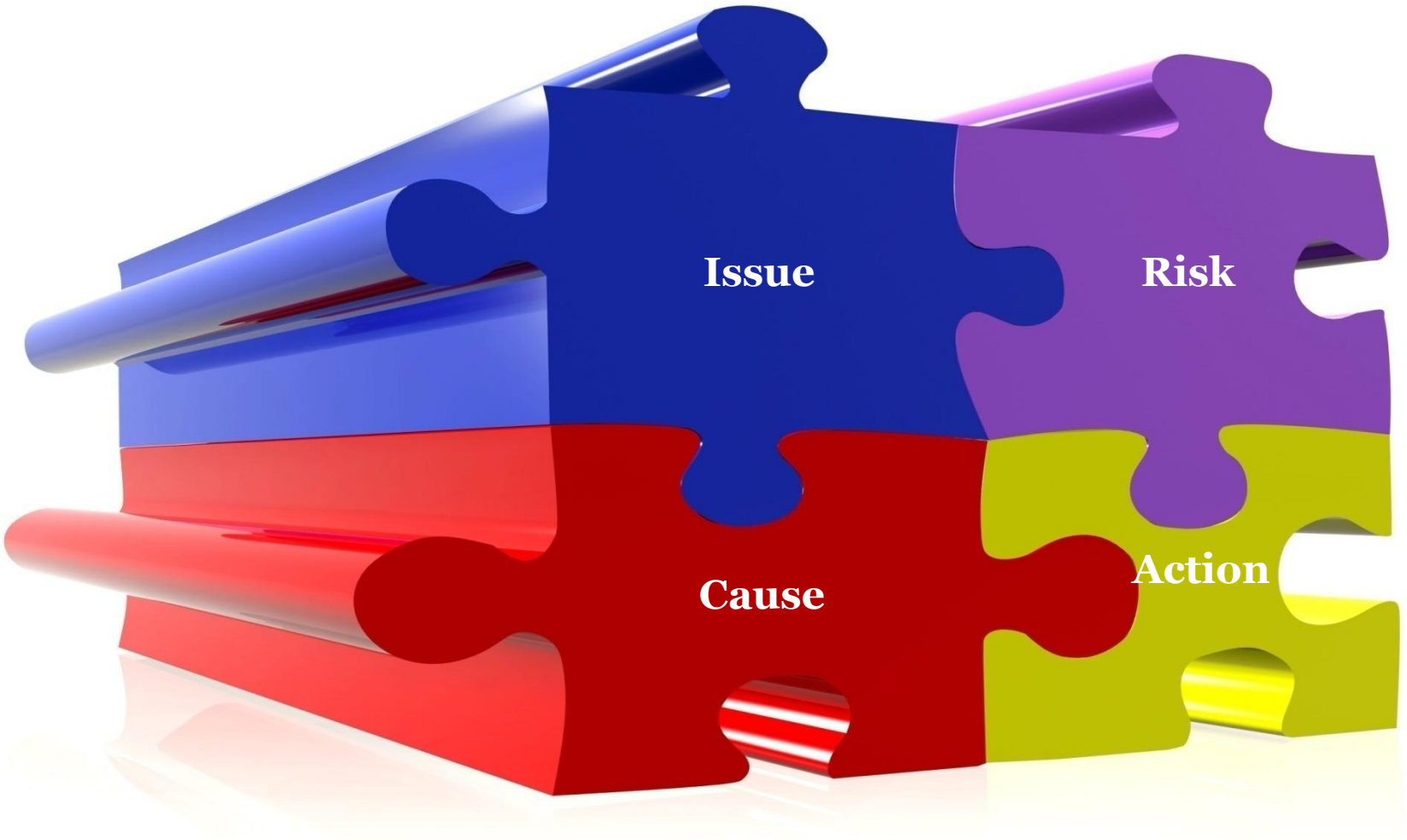
1. No prior approval for material procurement worth Rs. 45 Crs, out of the annual procurement of Rs. 270 Crs.

2. Significant delays in releasing Purchase Orders (POs) to vendors

Conclusion Needs Improvement

Action Plan Enable ERP system to track aging of Open POs.
Auto mailer to concerned personnel as per escalation matrix.

Audit Observation Components – Basic Building Blocks



iCRA – The North Star

ISSUE	RISK
CAUSE	**ACTION PLAN**

Grid Format

Observation: ……

Issue	**Risk**
Cause	**Action**

Marked Format

Particulars	Text
Issue	
Cause	
Risk	
Action	

Tabular / Columnar Format

S.No.	Issue	Cause	Risk	Action

Risk Rating Criteria

Risk Heat Map is diagrammatical presentation of category of risks identified as a result of audit

Risk Heat Map (Scoring)

Impact		1 Rare	2 Possible	3 Almost Certain
Severe	3	3 x 1 = 3 Medium	3 x 2 = 6 High	3 x 3 = 9 High
Moderate	2	2 x 1 = 2 Low	2 x 2 = 4 Medium	2 x 3 = 6 High
Negligible	1	1 x 1 = 1 Low	1 x 2 = 2 Low	1 x 3 = 3 Medium

Likelihood

Risk Rating

Scoring	Risk Rating
6 - 9	High
3 - 5	Medium
1 - 2	Low

The Risk Heat Map presents the business risk arising from an audit observation on a 3 x 3 scale.

- **Vertical Axis (Impact):** It depicts impact that the risk will have on the company
- **Horizontal Axis (Likelihood):** It depicts likelihood of a given risk occurrence

Guideline for Risk Impact Assessment

Criteria	Financial	Procedural / Operational Controls	Brand / Reputation	Regulatory	Score
Severe	• > Rs 50 Lakhs enterprise wide impact on Financial Statement • Significant impact on business / financial reporting	• Significant process or controls do not exist which may have major impact on operations or financial reporting. • Major control weakness & high possibility of fraud. • Absence of a documented and approved policies/ procedures • Repeated deviation from designed controls • Non implementation of previously reported major audit issues	• Impacts going concern/ serious diminution in reputation and brand value (National or International Coverage) • Permanent loss of stakeholder confidence • Repeated customer / Legal complaints / litigation cases filed	• Repeated Regulatory non-compliance • Penalty paid or payable amounting to Rs > 5 Lakh due to non-compliance • Non-payment of legal dues or penalty • Non compliance leading to imprisonment	3
Moderate	• > 5 Lakhs to 50 Lakhs enterprise wide impact on Financial Statement • Moderate impact on business / financial reporting	• Significant process(es) / controls exist but are not working on ground level • Significant processes exist but not revised with the changes happened which may have moderate financial impact on business or on financial reporting • Partial implementation of previously reported major audit issues	• Moderate impact assessment over business due to ongoing litigations/ customer complaints • Internal to the company which are to be managed by top management.	• Penalty paid / payable amounting to Rs > 2 Lakhs to 5 Lakhs due to non-compliance	2
Negligible	• < Rs 5 Lakhs enterprise wide impact on Financial Statement • Minimal impact on business / financial reporting	• Controls are preventive, detective and monitored but scope for improvements in the process • Minimal deviations from designed controls	• No press coverage or insignificant internal news to the company	• Penalty paid / payable amounting to Rs > 2 Lakhs due to non-compliance • Negligible legal consequence.	1

Sample

Guideline for Likelihood Assessment

Risk Parameter	Event	Frequency of occurrences	Score
Almost Certain	Event is expected to occur anytime	Multiple times per day	3
Possible	Event could occur at some time	Quarterly to Annually	2
Rare	Event may only occur in exceptional circumstances	May take more than 3 yrs or may not occur at all	1

How to Get Started ?

Internal Audit Engagement Lifecycle

Plan

★ **Audit Objective & Scope**

Clarity

Execute

★ **Audit Program**

Flawless

Reporting

★ **Final Report**

Value Delivered

Dumping Ideas – Starts from Planning Phase

Idea Sheet :

Procurement

Vendor Identification

Audit Area : Procurement

Observation: Vendor Selection	
Heading: **Single suppliers for critical raw materials** Text …….. Text …….. Text …….. Text ……	**Risk**
Cause	**Action** Owner: Target Completion Date:

Drona’s Mantras

Drona's Report Writing Mantras

1. Purpose

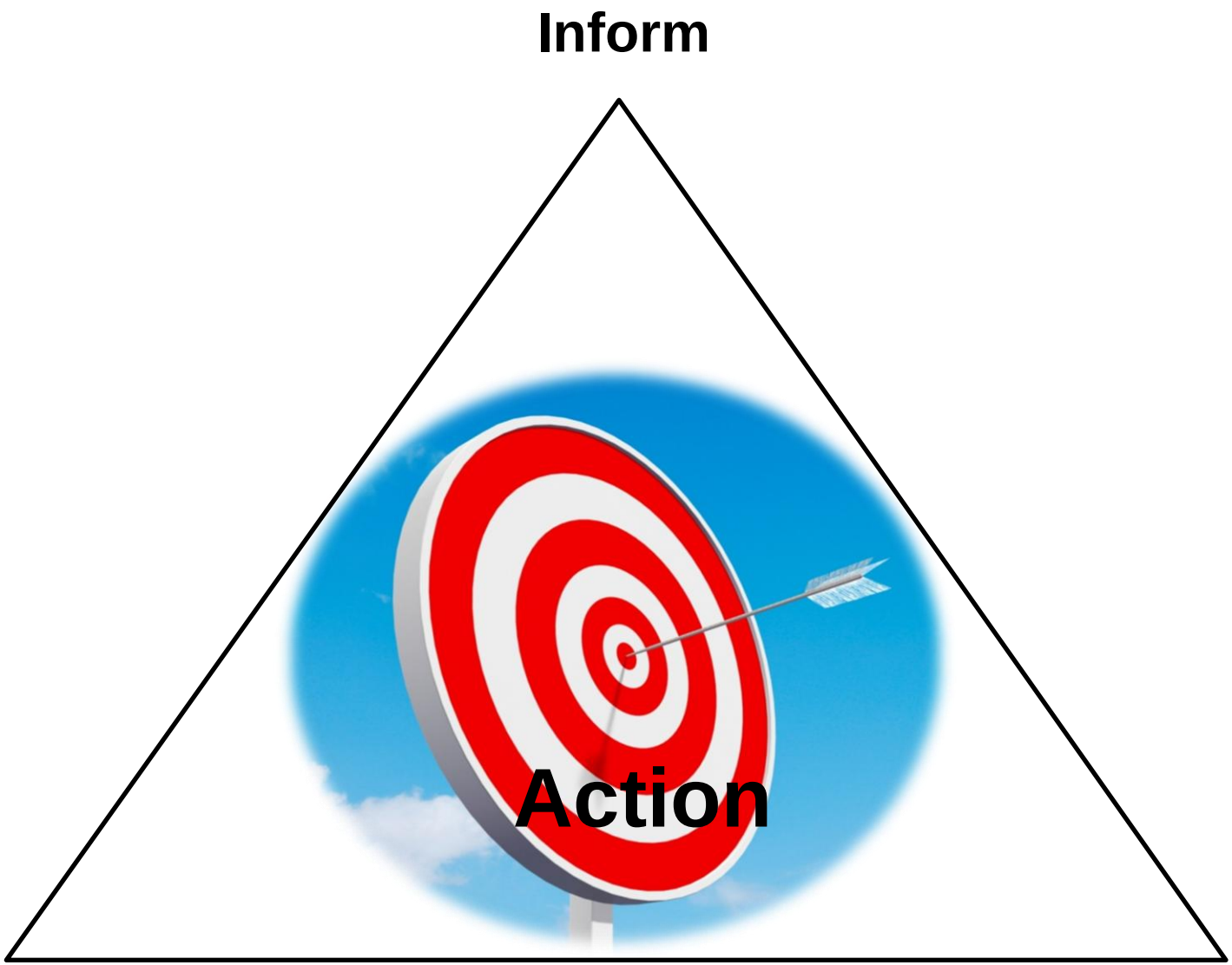
2. Audience

3.Topic

4. Simple

5. Economy

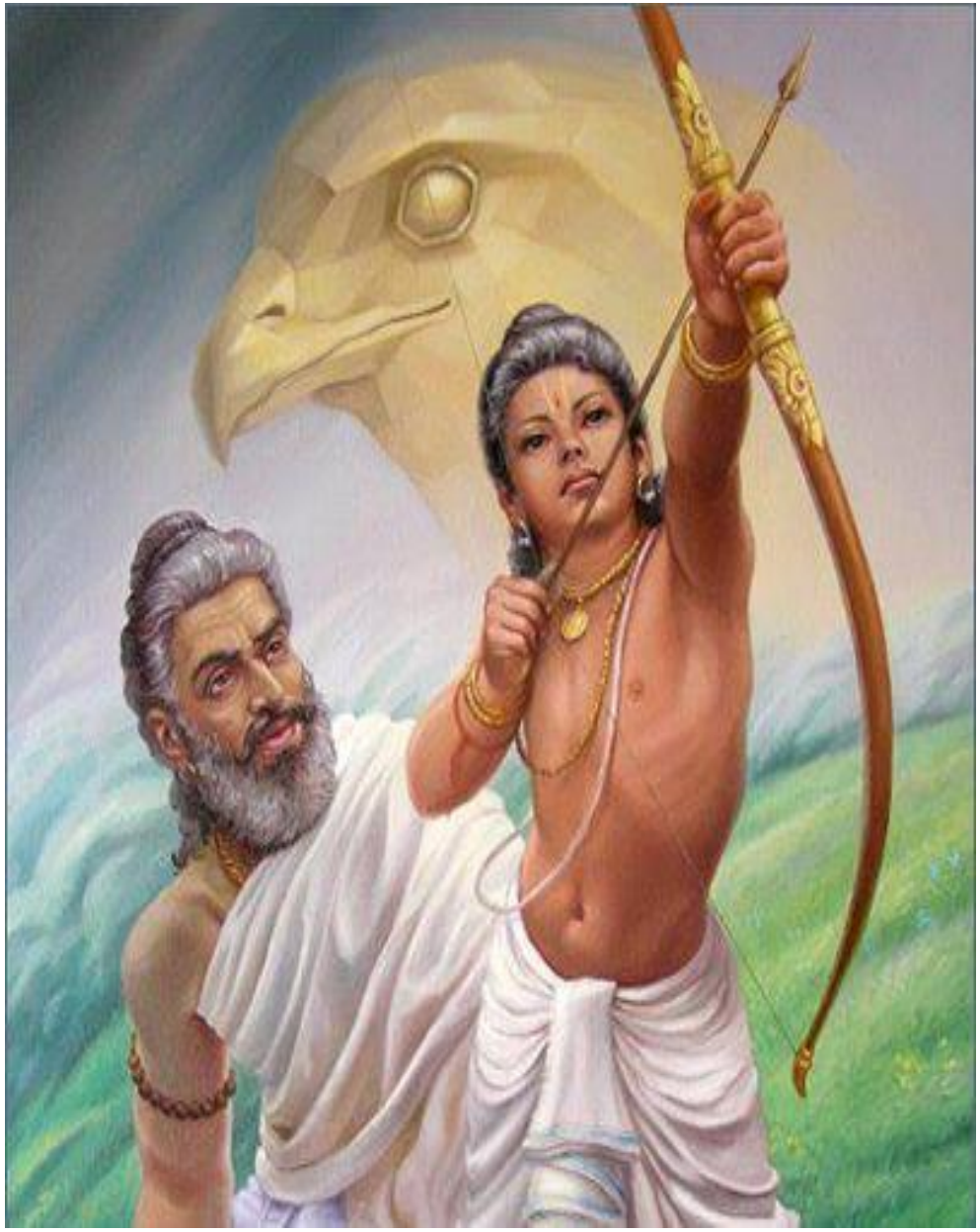
Mantra # 1 - Purpose



Mantra # 2 - Audience

- **Identify your Readers**
- **Understand their needs**
- **Develop a Template**
- **What's in it for me ?**

Mantra # 3 - Topic



- **Focus, Focus, Focus**

- **Logical grouping of issues**

Don’t give Pineapple, Readers’ want only Juice

Mantra # 4 – Simple

A B C D E..

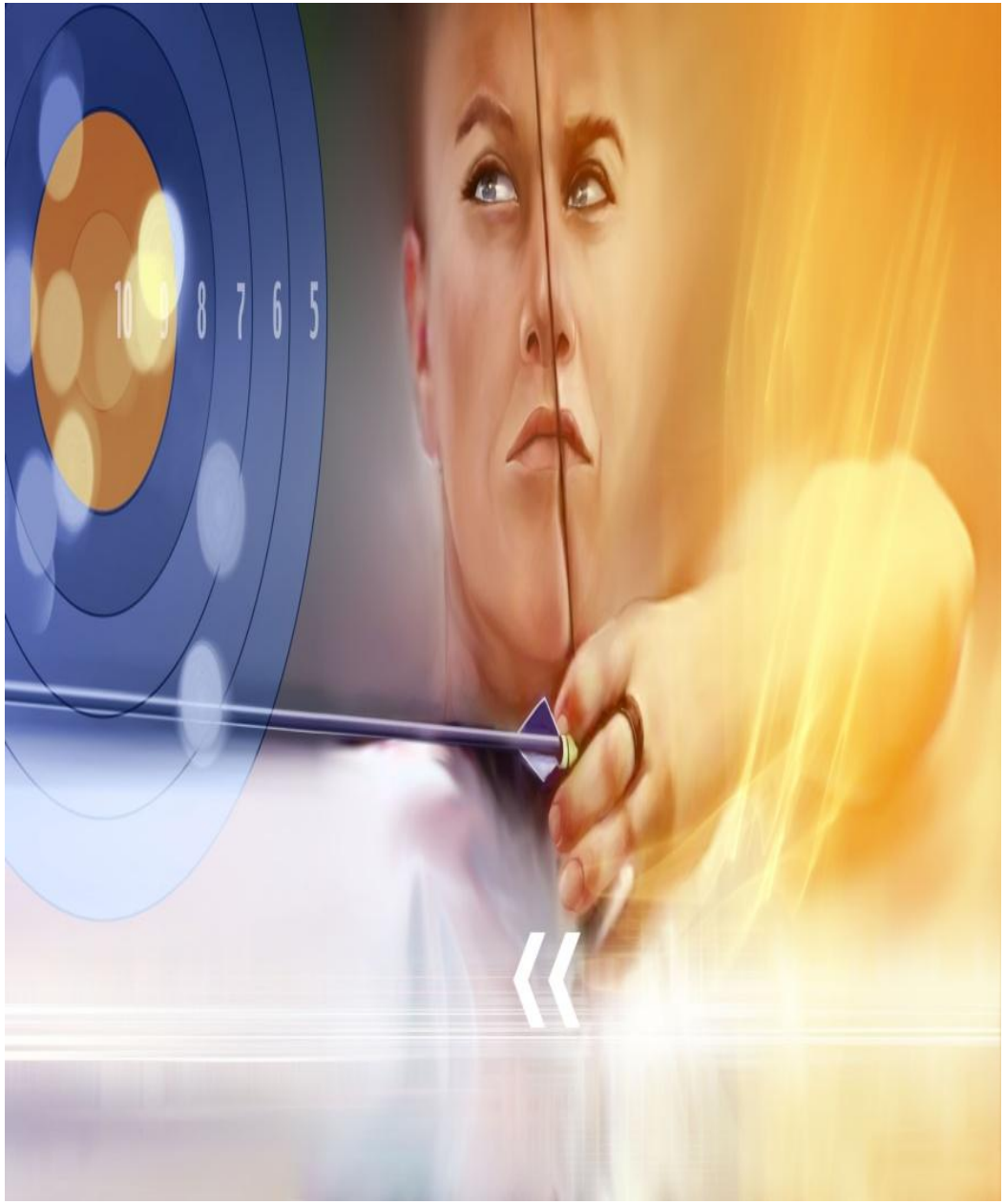
- **Readability**
- **Positive**
- **Grammar**

Keep It Short & Simple

Mantra # 5 - Economy

- **Concise**
- **Active**
- **Cohesive**

Drona's Mantra – Success Defined



"PATSE"

OH! Vs So What?

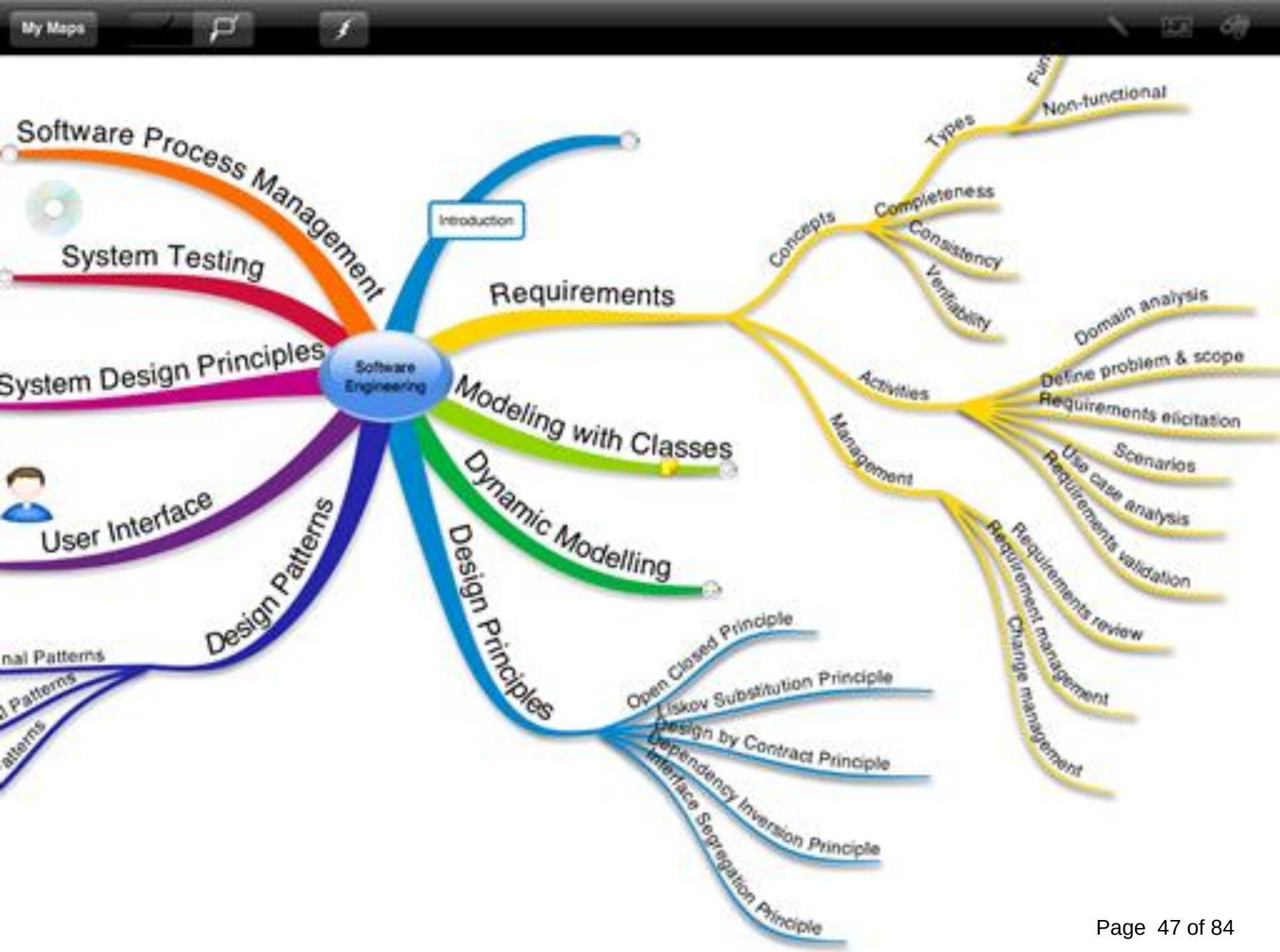
Observation: Vendor Selection

Issue ★	Risk
Heading: **Single suppliers for critical raw materials** Text …….. Text …….. Text …….. Text ……..	
Cause	**Action** Owner: Target Completion Date:

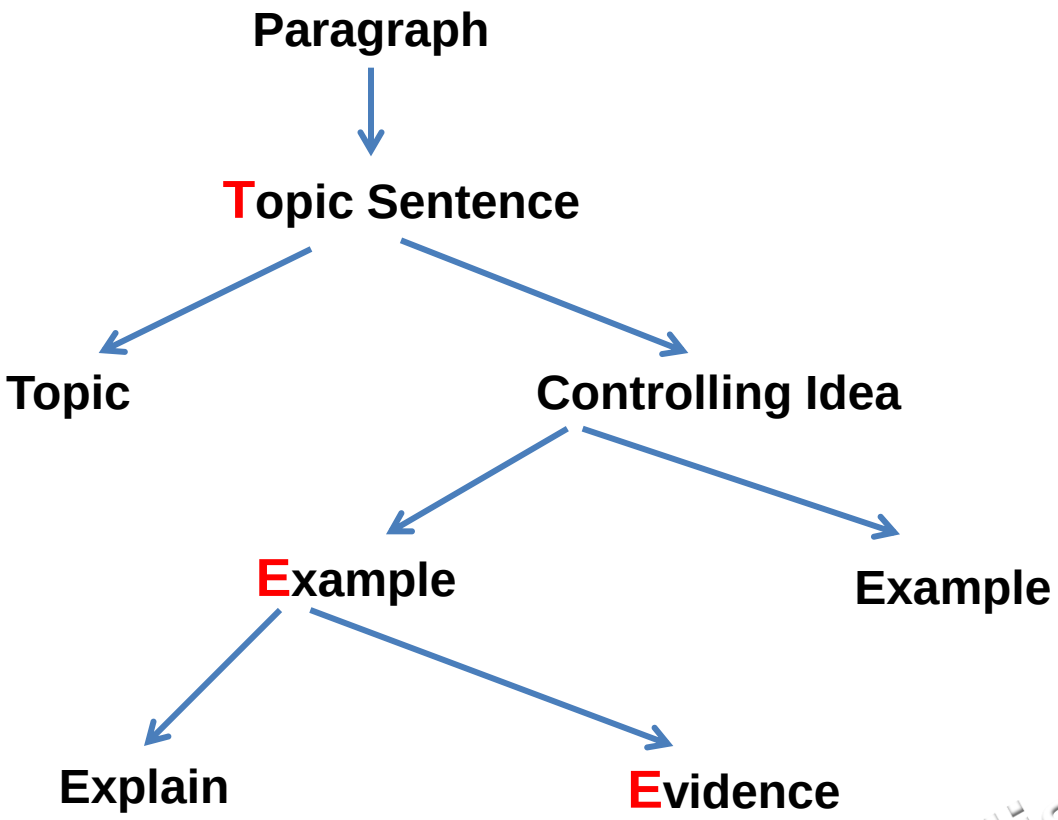
Mantra # 3 – 5 W & H

- **W**hat ?
- **W**here**?**
- **W**hy**?**
- **W**hen**?**
- **W**ho?
- **H**ow**?**

Mantra # 3 – Mind Map


My Maps
Software Process Management
System Testing
System Design Principles
User Interface
Design Patterns
Software Engineering
Introduction
Requirements
Modeling with Classes
Dynamic Modelling
Design Principles
Concepts
Types
Non-functional
Completeness
Consistency
Verifiability
Activities
Domain analysis
Define problem & scope
Requirements elicitation
Scenarios
Use case analysis
Requirements validation
Requirements review
Management
Requirement management
Change management
Open Closed Principle
Liskov Substitution Principle
Design by Contract Principle
Dependency Inversion Principle
Interface Segregation Principle

Mantra # 3 – Layering & TEE Rule



Journalist's Trick

Mantra # 3 – TEE Rule

Topic Sentence

Gold, a precious metal, is prized for three Important characteristics

Explain

Beauty

Durability

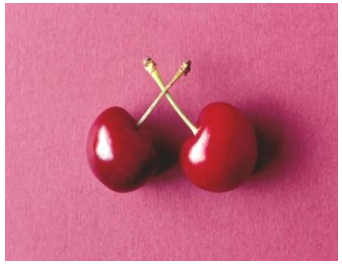
Utility

Example

Jewellery

Roman Coins

Mantra # 3 - Get to the Bottom Line



Present most important information first

then spend the rest of the time supporting it.

Journalist's Trick

Tips to Writing Headings

A Bland Title	**An Enticing Heading** HOT
Introduction	Identification of Revenue Leakage Areas
Section A	Improper Control over Manual Billing
Report from Valuation Team	Inventory Valuation & Recommendation for liquidation
Material Quality	Need for Improvement in Material Quality inspection
Pricing Analysis	Unexceptional Increase in Price of Services
Account Receivables	72% of Account Receivable from Top 5 Accounts

Sample

More Examples of Headings

Use of Number	7 ways of reducing monthly Admin Overheads
Seeking Ideas	How to reduce monthly Admin Overheads
Signifying Need	Need to reduce monthly Admin Overheads
Using verb	Reducing monthly admin overheads effortlessly
Negative	Impact of high monthly admin overheads
Interrogative	How can our company reduce monthly admin overheads

Sample

US regulator probes Wipro's audits

SEC To Ascertain Independence Of KPMG, Look Into Accounting Practices

Shilpa Phadnis | TNN

Bangalore: The US Securities and Exchange Commission (SEC) has launched a private investigation against Wipro to ascertain the independence of its auditor — KPMG India — and the appropriateness of certain accounting entries pertaining to exchange rate fluctuation and outstanding liability accounts.

The investigation is part of an enquiry that has been going on since 2010, when a junior level employee of Wipro was found to be embezzling company funds, engaging in a number of personal financial transactions of relatively small value (the 26-year-old employee committed suicide when the crime was discovered). It was also alleged that a junior member of KPMG India's audit team was assigned to the Wipro audit engagement.

Premji's pay doubles to $1.7m

Bangalore: Wipro chairman Azim Premji's compensation more than doubled to $1.7 million in 2013-14, compared to $733,827 in the previous year, the company's latest annual report says.

Premji's biggest increase was in the variable pay component, which rose to $1.1 million, from $518,660 previously. The annual compensation includes salary and allowances, commission/variable pay, long-term compensation and other benefits.

CEO T K Kurien's compensation grew 23% to $1.09 million, from $888,228, while CFO Suresh Senapaty's overall pay package rose 11% to $521,820, from $469,202. TNN

"In January 2014, the staff of the SEC advised us that the SEC has issued a formal order directing private investigation in connection with this matter, which we believe to be a common step in the process in such matters. We continue to fully cooperate with the SEC's investigation. The outcome of the SEC's review of this matter is uncertain," Wipro said in an SEC filing on Tuesday.

Wipro, which is listed on the New York Stock Exchange (NYSE), said if the outcome of the investigation was adverse, it could have a material impact on the company. It could also face the risk of its financial statements being re-audited by a new independent public accounting firm, and a restatement of its accounts for some years.

The US market regulator's division of enforcement, which has issued the investigation order, conducts investigations into possible violations of the federal securities laws, and prosecutes the Commission's civil suits in the federal courts as well as its administrative proceedings.

The Wipro employee involved in embezzling funds was working in the finance department and was given powers to authorize payments. The embezzlement, disclosed in March 2010, happened between November 2006 and December 2009. Wipro's audit committee launched a probe following which there was an overhaul of the finance controller division.

A 2013 filing with the SEC said Wipro's audit committee and KPMG India conducted an investigation to ascertain if there were financial relationships, business transactions or loans that existed between any members of KPMG India's audit engagement team and had dealings with any Wipro employees that would compromise KPMG India's independence from Wipro. "KPMG India concluded that it did not lack independence with respect to Wipro. Based on its review of the facts from KMPG India's investigation and discussions with its external advisors, our audit committee concurred with KPMG India's conclusion," the filing said.

When **TOI** contacted KPMG, the company's spokesperson said, "We are not in a position to comment on issues pertaining to clients due to confidentiality obligations."

Modi effect: PSU stocks surge to record highs

State-Owned Guj Cos Gain From BJP Win

M Allirajan | TNN

Stocks of public sector units (PSUs) and state-owned companies from Gujarat are surging on the bourses, courtesy the Modi effect. Shares of more than a dozen Central government PSUs and companies promoted by the Gujarat government hit their 52-week highs on Tuesday. The BSE PSU index has soared 13.7% in the past week alone — the best performance among sectoral and benchmark indices.

Shares of PSU behemoth BHEL have jumped 27% in the last one week. PSUs such as NTPC, NMDC and Power Grid Corporation have also seen a sharp increase in their share prices. Shares of Gujarat PSUs rallied sharply in the run-up to the general elections after opinion polls predicted the BJP is within striking distance of capturing power. With Narendra Modi all set to take over as Prime Minister, the rally in PSU stocks has gathered further momentum.

"Most of the PSU stocks have been quoting at discounted valuations," said Deven R Choksey, managing director, KR Choksey Shares and Securities. Vikram Dhawan, director, Equentis Capital, said, "Markets usually give a discount to PSU stocks. This is more of a management discount." PSUs are perceived to have management teams that are not considered to be in the same league as their private sector peers, he added.

The deterioration in the business environment also impacted the sector. For instance, NTPC's valuation was lower than the capacities it created as power plants were remaining idle due to lack of coal, Choksey said.

With a stable government, these companies would get back to normal business, which has led to the re-rating, say market observers.

VOTE FOR STABILITY

Company	Stock price (₹)		Growth (%)
	5/13/2014	5/20/2014	
BHEL*	219	278	27.1
NMDC*	152	178	17.4
NTPC	123	143	16.2
Coal India	332	367	10.5
Power Grid *	113	125	10.6
GSFC *	62	74	19.1
GMDC *	131	146	11

*52-week high intra-day

Source: BSE

Will Scorpio drive into PMO on Modi wave?

M&M Aspires To Replace BMW As PM's Car

Pankaj Doval | TNN

New Delhi: Will it be a 'swadeshi' run on the home-made Mahindra Scorpio for Prime Minister-designate Narendra Modi or will he switch over to the German BMWs, designated vehicles for the country's top leader? Scorpio, long used by Modi as his official vehicle including during his victory laps post the election results, now wants to follow him into the coveted 7 Race Course Road address, or the PM House.

Anand Mahindra, chairman of the Mahindra Group, has expressed his desire that the bonding continues. "It will be a matter of pride for us and for the whole nation if our new PM continues to make the India-made Scorpio his vehicle of choice," Mahindra told TOI as the company looks to make the required security upgrades to Scorpio to meet the PM's security cover.

Thrilled at the possibility, the company says that it would make suitable upgrades to the vehicle in line with the stringent requirements of the security apparatus mandated for the Prime Minister. "We would like to see him continue on a Scorpio. We need to have a dialogue with the SPG to understand the security apparatus and requirements," says Pawan Goenka, president of Mahindra & Mahindra's automotive division.

While the Ambassador had been the official car for the Prime Minister for a long time, the switch-over to BMW happened around 2003 during the tenure of Atal Bihari Vajpayee. Increased threat perception from terrorist organizations and availability of highly-specialized armoured vehicles prompted the establishment to opt for the German brand, with each of the vehicle costing several crores of rupees. The current fleet of the Prime Minister is understood to have more than half-a-dozen BMW 760Li high-security limousines (some are used as decoy vehicles), while having around a dozen BMW X5 SUVs that are used by the SPG.

MADE-IN-INDIA WHEELS: Mahindra Group chairman Anand Mahindra has said "it will be a matter of pride for us" if Modi continues to use the Scorpio as his official vehicle even as the PM

These vehicles offer high-level of sophistication and guard against attacks from heavy-calibre ammunition and explosives. The optimized armour plates are made from an incredibly strong special steel, and fit the bodywork of the car like a second skin. The entire interior is sheathed in an innovative combination of materials that forms an impenetrable second skin. Among the numerous safety features are run-flat tyres, a self-sealing fuel tank, an attack alarm and an intercom system, which enables the occupants to communicate with the outside world without leaving the vehicle or opening the doors or windows.

Modi's current fleet comprises a number of bullet-proof Scorpio vehicles, and these too carry an elaborate security apparatus in line with the threat perception and his high-profile status. "We are capable of upgrading the vehicle to whatever standards that may be sought, including having a more powerful engine on board as well as other security needs," Goenka says.

▶ PSU stocks surge, P28

Mantra # 4 & 5

Writing Constructively, Not Critically

Avoid Judgmental / Opinionated Sentence

Example:

With significant increase in the number of accounts during last 6 months, we ***feel*** that the problems with account reconciliation will be compounded.

The complexity of reconciling will become greater as the number of accounts increases.

Avoid Judgmental Sentences

Believe	To ensure compliance with legal & regulatory requirements, we ***believe*** it is essential to coordinate with Corporate Compliance function.
Knew	Since we ***knew*** problems would be found, we decided to study the internal processes of this particular office.
Concern	Our area of ***concern*** is that majority of previous audit observations have not been addressed & implemented.
View	In our ***view***, all the previous attempts made to correct the situation have been unsuccessful.
Opinion	In our ***opinion***, value of open PO's and non-moving inventory should be made part of monthly financial reporting format.

Sample

Tone

Avoid Accusatory Tone / Connotations

Example:

Incorrect provisions were created in the books of accounts due to inability of person handling this position.

Excess / Short provisions created in the books of account for the month of April’14.

Examples of Accusatory Connotations

Failure

Deviations

Violations

Discrepancies

Significant

Inability

Deficient

Deteriorations

Insufficient

Inadequate

Sample

Keep Sentences Short

Average Length	Readability Rating	Readers Reached
Up to 8 words	Very easy	90%
11 words	Fairly easy	86%
17 words	Standard	75%
21 words	Fairly difficult	40%
25 words	Difficult	24%
29 words and up	Very Difficult	4.5%

★ Fog Test

Sentence Structure

Traditional

It is imperative that our current cost overruns be addressed by responsible parties, namely, the project manager

(18 words)

Contemporary

Project Managers should explain the reasons for cost overruns

(9 words)

Insofar as the submission of time cards is concerned, it is of the essence that all employees be punctual

(19 words)

Please submit your time cards, on time

(7 words)

Short, Direct and Clear approach

Active versus Passive Voice

Passive	Active
The book was declared out of print by the editorial director	The editorial director declared the book out of print
It was not long before the new assembly line was mastered by her	She quickly mastered the new assembly line
Price changes are disliked by customers	Customers dislike price changes

Writing Constructively, Not Critically

Don’t use unsupported words, use absolute numbers

Example: **‘Numerous’, ‘Substantial’, ‘Excessive’, ‘Significant’**

A ***substantial*** number of sales order were processed during last month.

1800 sales order were processed during April’2014.

Write Positive

Negative Language	Positive Language
None of mobile handset failed to pass the unit working test.	All mobile handset were found working under testing stage.
Cash-in-hand was not found short during cash verification.	Physical cash-in-hand reconciled with books of accounts.
No exceptions were noticed in stock verification process.	Book Stock & Physical stock reconciled.
Let us know, if there is any problem in responding by tomorrow.	We look forward to receiving your response by tomorrow.

Weak Words

Actually	Given	Kind of
Basically	Individual	Particular
Certain	Quite	Really
Definitely	Any	Various
Different	Rather	Very
Generally	Virtually	Just

No meaning, just add to sentence length

Writing Lean and Strong

In the event of	If
Subsequent to	After
The possibility exists for	Might
Prior to	Before
In order to	To
In the neighborhood of	Around, About
From time to time	Occasionally
In reference to	About
It is necessary that	Must
Due to the fact that	Because
In the amount of	For

Little words with BIG IMPACT

Administer	Give
Aggregate	Total
Alternative	Choice
Anticipate	Expect
Fundamental	Basic
Ineffective	Weak
Majority	Most
Possibility	Chance
Similar	Alike
Subsequent	Later
Utilize	Use

Phases to AVOID

Needless to Say

Enclosed herewith, please find

If you should have any further questions, please do not hesitate to call

For your perusal, review and

We deem it advisable

It has come to my attention

To be perfectly honest

Pursuant to your request

Transparent to the user

The undersigned

Use your best judgment and make appropriate choices

Use Jargon with Caution

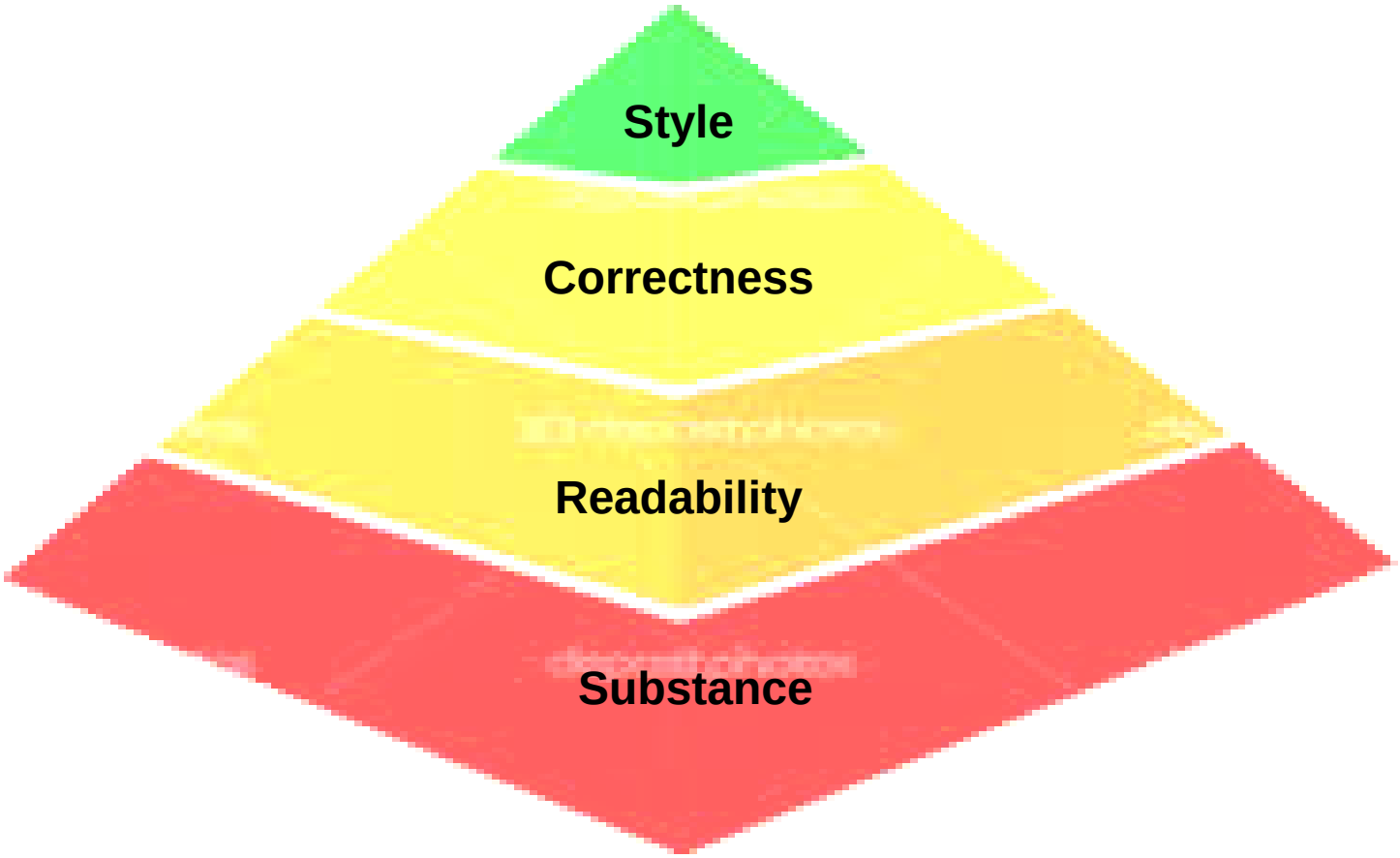
Instead of	Write
Remuneration	Payment
Pending assessment of	Until
In consequence of	As a result
Henceforth and hereafter	Starting today
Prioritize	Rank
Optimal	Best

Gender Alternatives

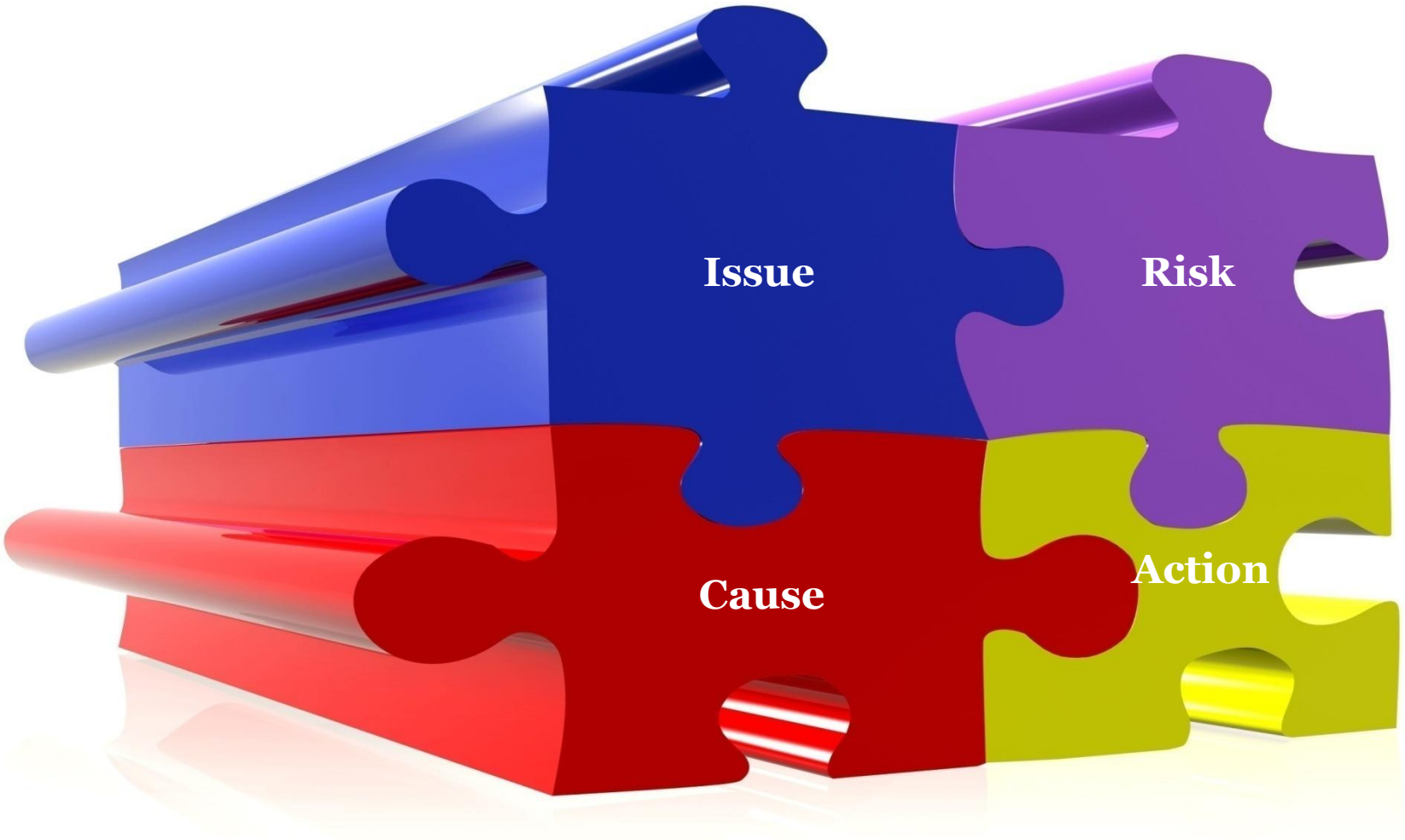
Gender Sensitive	Gender Neutral
Chairman	Chairperson
Spokesman	Spokesperson
Layman	Layperson
Salesman	Salesperson
Manpower	Workforce
Mankind	Humanity, Society, Humankind
Manmade	Manufactured, Artificial
Man-hours	Work hours
Foreman	Supervisor

Avoid words which would make people feel excluded, bad or uncomfortable

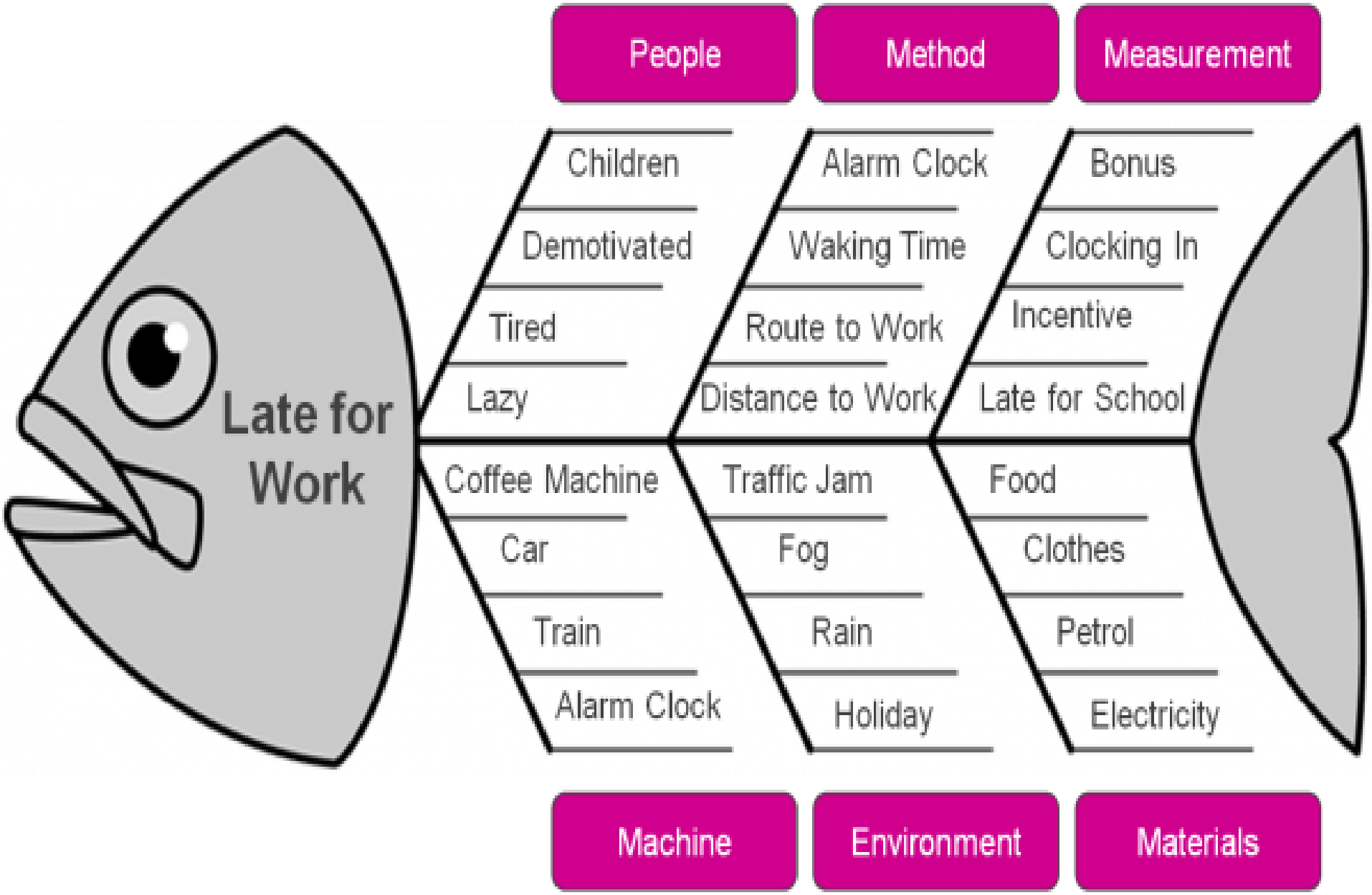
Drona's Test – Managers & Reviewers



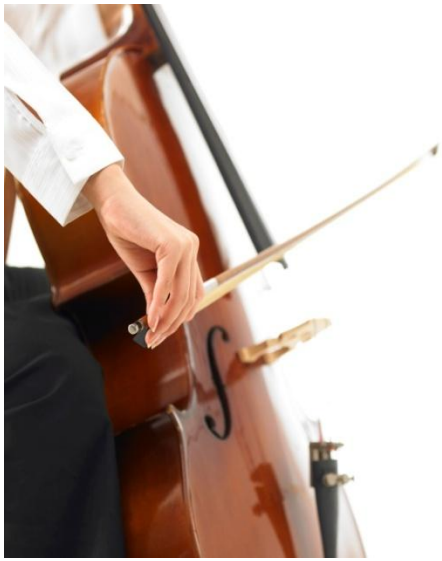
Audit Observation Components – Root Cause

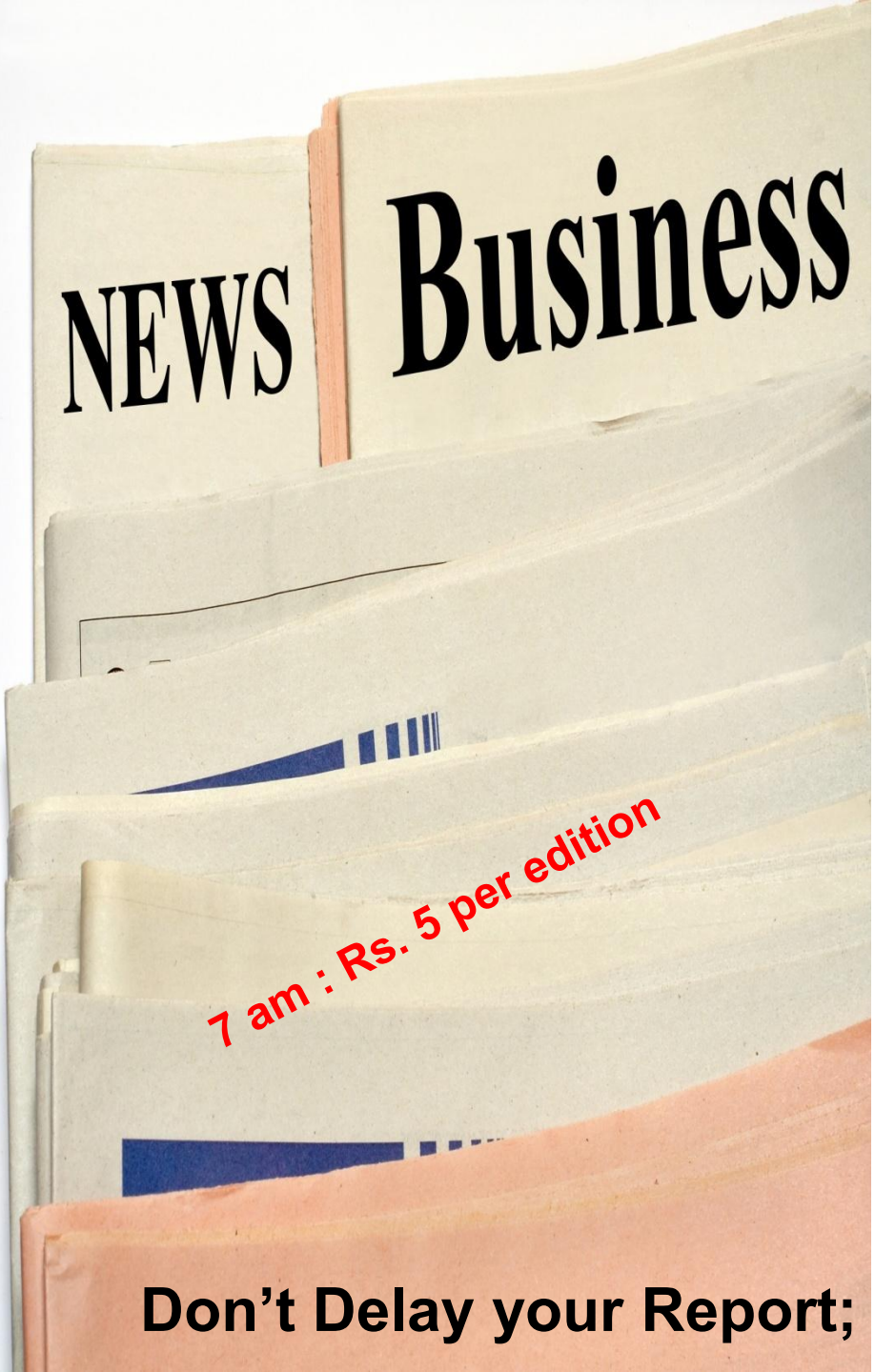


Root Cause Analysis – Fish Bone Diagram



Mantras for the Digital Age – Appealing to the Senses





7 pm : Rs. 10 per Kg

Don’t Delay your Report; Value erodes with TIME

Drona's Ultimate Mantra

Keep Writing

Always

Proof Read

Send | Options... | Help

To... mpualin@greenwoodsch.edu

Cc...

Bcc...

Subject: Introduction - Susan Sharp

Attachments:

Normal | Arial | 10

Dear Mr. Paulin,

Independent schools such as Greenwood Elementary require a hardworking, organized administrative staff to ensure that the school runs successfully and efficiently. My administrative experience and organizational skills would help contribute to the long history of success at Greenwood School.

I have extensive administrative experience in an academic setting. For the past two years I have worked at the Early Childhood Center at XYZ College, where I alternated between running activities for the children and answering phones, scheduling parent-teacher meetings, and performing other organizational tasks.

I have attached my resume, and would love to speak with you regarding how I could make a significant contribution to Greenwood School's daily operations. I will call you within the next week to discuss arranging an interview.

Thank you for your time and consideration.

Sincerely,

Susan Sharp

Susan Sharp
123 Main Street
XYZ Town, NY 11111
Email: susan.sharp@mail.com
Cell: 555-555-5555

MESSAGE

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