



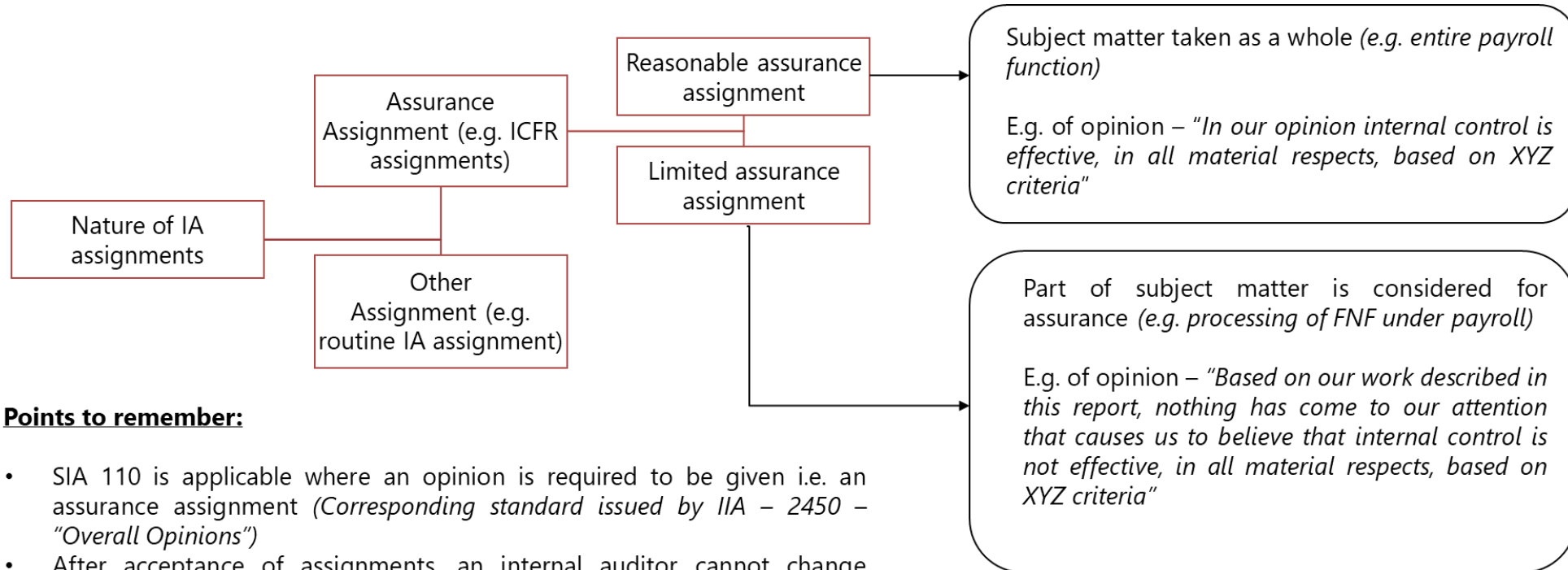
## Internal Audit Report Writing

“Great work shines brightest when shared  
effectively and promptly”

# Standards & Framework – SIA & IIA

Standards	Governing body	Applicable framework	Applicability in India	Key standards relevant to reporting
Standards on Internal audit (SIAs)	ICAI	Framework governing Internal audit (issued in Nov-18)	To be made mandatory in a phased manner (dates to be notified by ICAI)	<ul style="list-style-type: none"> <li>• SIA 110 – Nature of Assurance</li> <li>• SIA 370 – Reporting results</li> <li>• SIA 390 – Monitoring &amp; reporting of prior audit issues</li> </ul>
International Standards for the Professional Practice of Internal Auditing	IIA	International Professional Practices Framework	Recommendatory in nature	<ul style="list-style-type: none"> <li>• 2200 – Engagement Planning</li> <li>• 2300- Performing engagements</li> <li>• 2400 – Communicating Results</li> <li>• 2410 – Criteria for Communicating</li> <li>• 2420 – Quality of Communications</li> <li>• 2440 – Disseminating Results</li> <li>• 2500 – Monitoring Progress</li> </ul>

# Nature of Assurance



## Points to remember:

- SIA 110 is applicable where an opinion is required to be given i.e. an assurance assignment (*Corresponding standard issued by IIA – 2450 – "Overall Opinions"*)
- After acceptance of assignments, an internal auditor cannot change assignment to a non-assurance assignment or from reasonable assurance to limited assurance without reasonable justification
- A change is justifiable when there is (a) Change in Assurance user's requirements or (b) Misunderstanding on nature of assignment

# Significance of reporting in Internal Audit



Highlights effectiveness of governance, risk management & control processes (\*)

Allows management to understand the issues and take corrective actions on a timely basis (#)

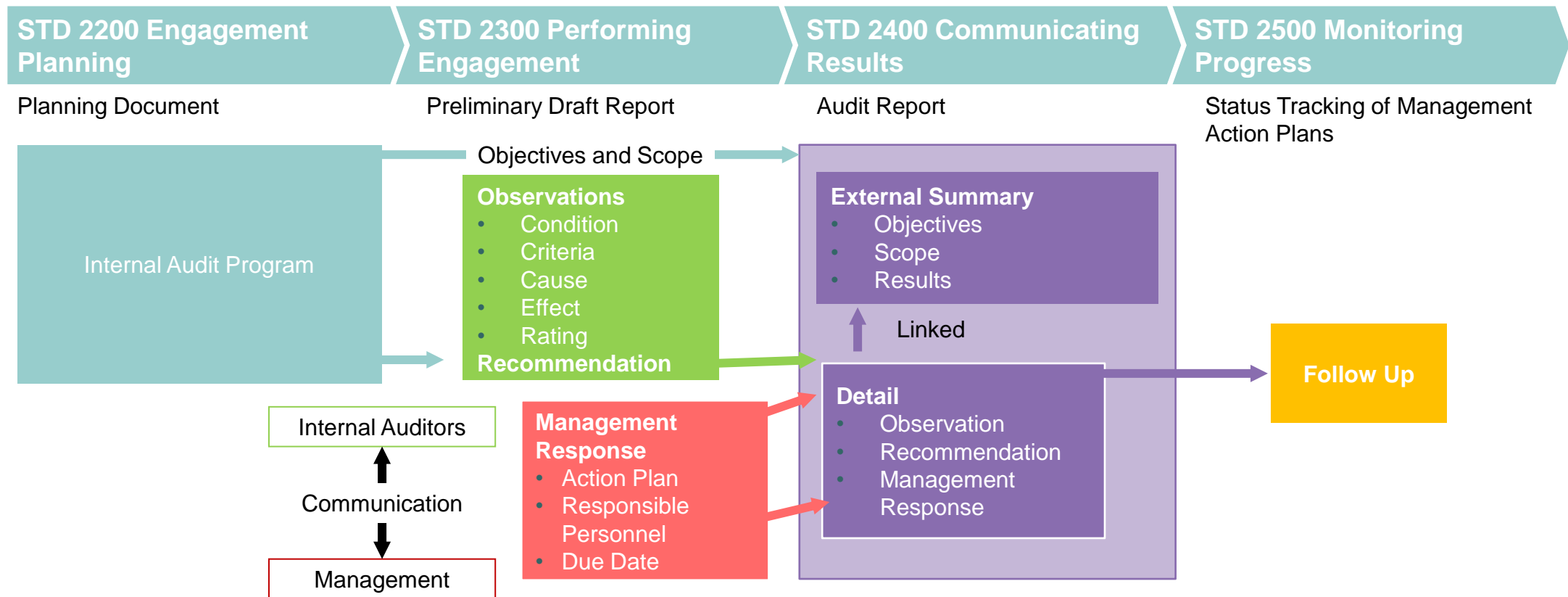
Demonstrates that planned audit objectives were achieved (#)

Well-written IA report showcases auditor's in-depth knowledge and willingness to partner with management for improvements (\*)

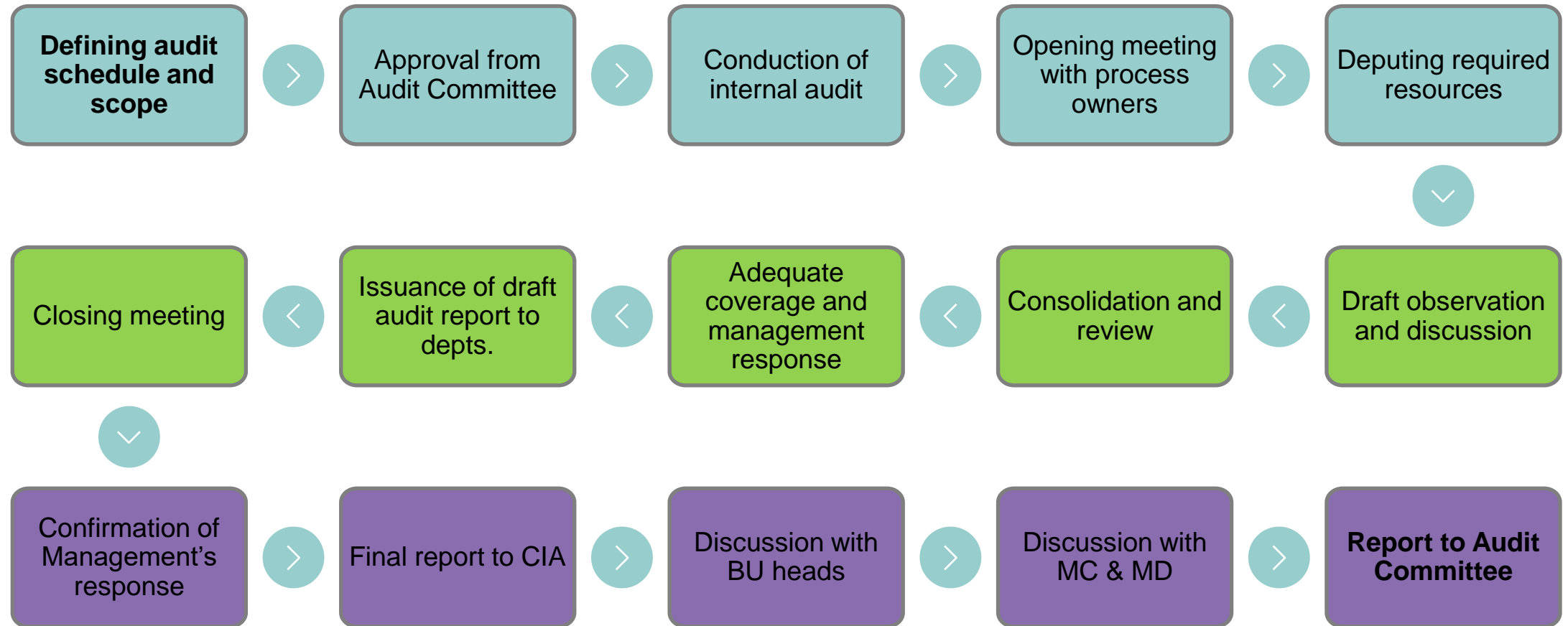
Provides sound basis for any assurance given by Internal auditor (#)

# Process flow for audit assignment

**Figure 1.** Information Flow of Audit Report Elements



# Sample process flow for internal audit assignment



# Internal audit report

An internal audit report is a structured document summarizing an audit's findings, highlighting strengths and weaknesses, and recommending an action plan with the following objectives:

- ☐ Assurance on the organization system & process
- ☐ Strengthened internal control & governance.
- ☐ Adherence to relevant law, regulation & internal policies
- ☐ Enhancing risk management
- ☐ Improved accountability & Decision-Making
- ☐ Fraud prevention & detection



# Types of Internal Audit Report

Major types of Internal Audit Reports are summarized below:

- ☐ Risk Management,
- ☐ Governance & Control Process
- ☐ Operational & Performance Audit
- ☐ Compliance
- ☐ Financial Audit
- ☐ Environmental Audit
- ☐ Information Technology Report
- ☐ Forensic Audit
- ☐ Special Investigation Report





# Objectives and Scope

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**Standard 2410 – Criteria for Communicating states, “Communications must include the engagement's objectives, scope, and results.”**

To define **suitable criteria** for internal audit, it is important to consider the engagement objectives, which are established by internal audit based on a **risk assessment of the activity under review**.

Choosing the appropriate criteria enables the internal audit to reach suitable conclusions, providing meaningful assurance to senior management and the board.

## Examples of appropriate criteria

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- ☐ Internal (e.g., policies and procedures).
- ☐ External (e.g., laws and regulatory requirements).
- ☐ Leading practices (e.g., industry best practices, professional guidance, key performance measures).

# Essentials for good Internal Audit Report



## Accurate

Free from errors and distortions and faithful to the underlying facts



## Objective

Fair, impartial, and unbiased and is a result of a fair-minded and Balanced assessment of all relevant facts and circumstances



## Clear

Easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information



## Concise

To the point, avoid unnecessary elaboration, superfluous detail, redundancy, repetitiveness and wordiness



## Constructive

Helpful to the auditee /client and the organization and leads to Improvements where needed



## Complete

Lacking nothing that is essential to the target audience and includes all significant and relevant Information and observations to support recommendations and conclusions



## Timely

Opportune\ and expedient, depending on The significance of the issue, allowing management to take appropriate corrective action

# Best practices for report writing

S.No.	Particulars
1	Clear thought of what to be reported with appropriate expressive vocabulary
2	Use figures, visuals, and text stylization
3	Contextualize the audit
4	Include a reference section
5	Include positive and negative findings
6	Ensure every issue incorporates the five C's of observations
7	Include detailed observations
8	Always perform a quality assurance check
9	Avoid blame and state the facts
10	Be as direct as possible
11	Report should be non-technical and understandable to a Layman

# Key questions to ask about audiences when customizing reports

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- ☐ 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?

# Expectations of different stakeholders

## Process Owner

- Process understanding
- Genuine observations
- Listen to their point of view
- Practical suggestions / recommendations
- Cost-effective solution

## Audit Committee

- Overall coverage and risk assessment
- Statutory non-compliances
- The summarized findings of key issues
- Preventive controls / automated controls
- Management comments, agreed action plan
- Person responsible for Implementation and target date
- Providing assurance/comment on improvement
- Value addition

## HOD/ CFO/ CEO/ COD/ MD

- Overall risk assessment
- Categorization based on risk
- Summarized findings
- Root cause analysis
- Recommendations
- Process owners' acceptance, agreed action plan
- Person responsible for implementation and target date
- Value addition

## Statutory Auditor

- Overall coverage
- Issues that affect the true and fair view of the accounts
- financial reporting
- Statutory non-compliances
- Assurance that they can rely on
- Comfort, which would help them make a proper assessment and save their time

# Key components

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- ☐ Audit report title
- ☐ Objective
- ☐ Scope
- ☐ Background
- ☐ Recognition
- ☐ Engagement rating
- ☐ Conclusions
- ☐ Observations
- ☐ Distribution list

# Users of Internal Audit Reports (1/2)

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- Identify the stakeholder
  - Process owners,
  - Senior Management,
  - Board Members
  - Other stakeholders





## Users of Internal Audit Reports (2/2)

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According to Standard 2440 – Disseminating Results, “The chief audit executive must communicate results to the appropriate parties.” A standard distribution list often exists and should be adjusted based on the particular internal audit engagement.

Standard 2440.A2 states, “If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the chief audit executive must: assess the potential risk to the organization; consult with senior management and/or legal counsel as appropriate; and control dissemination by restricting the use of the results.”


# Prior period issues and action taken reports




Track issues raised during previous audits → assess corrective actions taken → report open or pending items (#)




Audit evidence should be obtained to support closure of prior period issues / actions taken by the management (#)



If corrective actions are not implemented due to reasons beyond management's control (e.g. lockdown), the said fact should be mentioned in audit report & new time-bound action plan may be agreed upon (#)



While tracking prior period issues, Internal auditor should ensure that underlying conditions leading to the risk still exist as on date



If issues have not been addressed for a substantial period, written representations should be obtained from the management for acceptance of risk (#) and same should be communicated to the board (\*)

# Challenges in reporting internal audit findings

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- ❑ Reporting issues that don't matter to the board and top executives
- ❑ Failing to communicate what matters when it matters
- ❑ Lengthy cycle times - time taken for formal report writing
- ❑ Consequences of lengthy audit cycles are
  - Audit results are not timely
  - Stakeholders' dissatisfaction
  - Inefficient use of internal auditors' time
- ❑ Factually incorrect reports
- ❑ Size of the report and maintaining balance
- ❑ Implications or risks not being brought out clearly
- ❑ Focus only on negative aspects or mistakes
- ❑ Projecting process owners as villains or blowing things out of proportion
- ❑ Lack of practical recommendations
- ❑ The reader cannot connect with the report

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# **Question and Answers**