

REPORT STRUCTURE

By

Kastuv Ray

Introduction

To some individuals, internal audit is just a job whilst to others it is an art or “a way of life.”

Auditees or the clients do not usually see the working papers (unless you are working in partnership with the Internal Audit Department and are from an outsourced provider); therefore it is imperative that the audit report captures everything (like a snapshot of say the sun setting over Table Bay in South Africa).

Writing a report can be compared to painting a masterpiece where the artist paints on canvas (the audit) and finally frames his/her work (the audit report).

I was always taught by one of my previous mentors that if a system is good, you should say it is good and if it is not, you should tell the client what is wrong and explain to them how they can put the problem right. Unfortunately, nowadays there are some reports out there, which can be perceived to be robotic.

Rules for Writing Reports

Ridley and Chambers in their book “Leading Edge Internal Auditing” have listed rules for writing reports:

- Write in the way you talk
- Say exactly what you mean
- Put words in their best order
- Don't lose the subject
- Try to avoid splitting long phrases, and avoid subordinate clauses
- Put the weight of a sentence at the start or end of the sentence – the main points of impact. Try to avoid transitional words, but place them in the middle of a sentence if they have to be used.
- Don't use the same word in 2 or more senses
- Be positive
- Avoid too much of the passive
- Action words should act rather than be nouns
- Avoid meaningless “it's”
- Avoid redundant words – use as few as necessary
- Don't repeat yourself

- Avoid jargon
- Avoid posh language – keep it simple – use a short word rather than a long word
- Avoid emotive language
- Avoid gender – specific language

Example Report Structure

The report structure attached detailed below is a possible report structure approach. This is especially effective if the department has not been subject to internal audit before or the organization is new to the whole concept of internal audit. It could be used in an organization, which has just created a risk register and has used this to drive the Strategic Internal Audit Plan. This approach examines the risks to the system, the controls in place to manage the risks and the action plan in place to deal with these risks.

The matrix key definitions and some of the types of recommendations used in the example are taken from The Corporate Governance Handbook by Andrew Chambers of Management Audit Ltd (published by LexisNexis Butterworths Tolley).

The Appendix attached at the end may be thought to be “overkill” but sometimes Management may pose the following question to Internal Audit:

“What type of recommendation are you making?”

I should reiterate that the structure below is an approach that could be adopted or even excerpts taken from it to add to an effective internal audit report. At the end of the day, it is up to the leading minds in the Internal Audit Department to decide what type of report they think “fit” for their organization.

**KHALLAS
DRAFT INTERNAL AUDIT REPORT**

**REVIEW OF:
BUDGETARY CONTROL
MAY 2003**

AUDITORS: William Styker

DISTRIBUTION: Name of Director of Finance
Chief Accountant
Audit Manager
Audit Committee

AUDIT REFERENCE: KH101/03

Disclaimer: This report is a purely fictitious example and does not relate to any organizations. The risks identified and recommendations made are what occur day-in-day out in many organizations.

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APPENDIX

Summary of Recommendations and Management Action Plan

1 INTRODUCTION

- 1.1 Internal Audit were commissioned to undertake a review of the controls established within the system for Budgetary Control.
- 1.2 The terms of reference for the review were agreed with the Director of Finance (Audit Client) and Chief Accountant (System Owner).
- 1.3 We would like to thank staff for their assistance during the course of this review.

2 EXECUTIVE SUMMARY

- 2.1 Our review of budgetary control highlighted that although Khallas has made progress towards implementing Zero Based Budgeting, there is considerable room for improvement with regard to the control environment for budget setting and controlling income and expenditure against budget.
- 2.2 To improve controls and mitigate against risks, four recommendations have been made:
- **Introduction of a formal “budget challenge” process at senior management level prior to submission of the draft budget to the Board for approval.**
 - **Introduction of a formal reporting procedure for budget holders who experienced significant adverse variances.**
 - **Inclusion of Cashflow Forecasts and Balance Sheets in the information submitted to the Committee for consideration.**
 - **Budgetary training to be provided by the Finance Department for new budget holders (who have come to post as a result of the restructuring of the organization) to explain the concept of budgeting and budgetary control.**
- 2.3 Details relating to audit recommendations is included in the main body of the report.
- 2.4 The audit recommendations are also summarized within the “Summary of Recommendations and Management Action Plan”

3 SYSTEM RISK IDENTIFICATION

3.1 This section of the report provides:

- A general assessment of consequences to Khallas, if key risks occur.

3.2 An assessment of how risks are being managed within Khallas is provided within the main body and executive summary of the report.

3.3 The key risk associated with the system is non-compliance.

3.4 In our view, failure to comply with the Financial Regulations and Budgetary Control procedures can be categorized as having some form of impact on the organization. A scale of 4 risk categories is used i.e. Showstopper, Primary, Contingency and Housekeeping where Showstopper equates to large losses with a devastating effect on the organization and Housekeeping equates to risk that has little or no impact on the organization.

4 AUDIT FINDINGS

4.1 This section of the report details the risks to the system and how they are being managed.

4.2 *Risk 1: Failure to set accurate budgets which represent the true picture with respect to an organization will result in budget monitoring becoming irrelevant and may lead to business failure.*

4.3 *Risk 2: Failure to monitor budget performance may result in deviations from projected performance not being identified promptly to ensure that action can be taken to correct the deviation.*

4.4 *Risk 3: Inadequate control of budgetary information may cause fraudulent expenditure or theft of income to occur.*

KHALLAS
SUMMARY OF RECOMMENDATIONS AND MANAGEMENT ACTION PLAN

Date work commenced: May 2003: _____ **Date report finalised:** _____

Key risks to the system:

- Failure to set accurate budgets which represent the true picture with respect to an organization will result in budget monitoring becoming irrelevant and may lead to business failure.
- Failure to monitor budget performance may result in deviations from projected performance not being identified promptly to ensure that action can be taken to correct the deviation.
- Inadequate control of budgetary information may cause fraudulent expenditure or theft of income to occur.

Audit Client and System Owner: Director of Finance and Chief Accountant

Main findings and conclusions:
Insert opinion and evaluation of controls here

No.	Type	Recommendations	Risk Rating	Management Comments	Responsible Officer/ Proposed Implementation Date
1	S	The budget setting process should be developed to include a more stringent "budget challenging" process at Senior Manager/Director Level prior to being submitted to the Board for approval.	P		

2	P	A procedure should be produced and followed which enforces the need for Budget Holders to formally report to the Management Accounting Unit reasons for variances of +/-15%, as detailed in the quarterly income and expenditure accounts. Reports should be of a standardized nature and should indicate what corrective action is being taken to address the situation.	S		
3	F	The quarterly Income and Expenditure accounts submitted to the Finance Committee should be supported by commentary on each of the variances of +/-15%.	P		
4	TD	The Finance Department should consider running Budgetary Control workshops for new non-financial Budget Holders, which seeks to explain the concept of budgeting.	H		
Findings and Recommendations Discussed with: Director of Finance and Chief Accountant					

Risk Rating Key:

S - Showstopper – Red – Risk requiring continuous focus, which is supplemented by regular attention of the Board.

P – Primary – Orange – Risk which must be focussed upon continuously by top management to minimise the likelihood of it occurring and the impact of it if it does occur.

C – Contingency – Green – Risk which requires carefully pre-designed and tested contingency plans to be in place to cater for the eventuality if it occurs.

H – Housekeeping – Blue – Risk which requires regular and careful attention by way of effective internal control to minimise the likelihood of an unwanted outcome.

Type of Recommendation Key

S – Strategic

P – Procedural

F – Financial

TD – Training and Development

BP – Best Practice

AV – Added Value

STR – Structural

HR – People Related

GS – General Systems

R – Regulatory

L - Legal