

Wake Up Call

A satisfying internal audit report

With new shareholder in place, there has been new board member as well as audit committee member on board my organization. As leader of the internal audit function, I am eager to know what kind of reporting might be considered as satisfying to stakeholders within an organization?

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Some auditors argued that the audit report is the fundamental end product of any audit. Indeed internal audit (IA) reports are the auditor's opportunity to get management undivided attention. So, reporting is really an opportunity rather than chores for auditors.

There are several objectives of an internal audit report. First is to recommend change for improvement and shows how problems may be solved, second is to provide an insight for management into risk and control issues (including raising problems to management's attention), third is to secure needed remediation action, and lastly is to provide assurance to management on their activities.

Many auditors want to create an all-inclusive final document that would make sense to all users, from operating level to the C-level. Long narratives with detailed analysis of the audit findings. As a result, completing and distributing the final report usually takes ages. By this, internal audit has failed in delivering the purpose of an internal audit report.

Minimum Reporting

There are several types of internal audit reporting, but this should be adjusted to the unique needs of your organization, but at minimum you should be ready to prepare these 3 types of reports.

Individual Assignment. This is what should be prepared for each audit assignment. Information presented in the report should be accurate, objective, clear, concise, constructive, complete and human—meaning it should be balanced to also comment on the achievement of auditee; and avoid using jargon. There should be a section within the report that addresses each audit finding and concerns, which covers observation, risk, recommendation, implementation date, management response, department responsible. The report should also be complemented with an executive summary that provides a concise set of objectives, main conclusions and improvement steps management need to take. Make the summary no longer than 2 or 3 pages.

Annual (and Quarterly) Audit Report. This report is to be presented to the Board and Audit Committee, and it should have two components. It should provide a summary of key areas dealt with and any material issues related to the adequacy of the organization's system of risk management. This will become a valuable source of control on the performance of organization wide. The annual report should also include audit achievements according to the annual plan. For the quarterly report, it could be more detailed than the annual version with some statistics on resources deployment, and how audit progresses compares to the quarterly plan. The

quarterly plan serve more as a control on the performance of internal audit function. That is to ensure that the function is still on track.

Understand Your Stakeholders

To be able to prepare a satisfying report, you need to understand the characteristics of your stakeholders, what kind and type of information they need and by when — which might vary among organizations.

There are actually many things to consider in producing a satisfying internal audit reports, communication style differ between advisory and assurance work, some stakeholders need information on the cost of audit as well as cost savings identified, but some doesn't. Let's talk on an aspect that is applicable to all types of work—the length of the report.

For board level and C level executives, your report should be concise — meaning that as they have limited time, they might prefer that the report is shorter but contain sufficient detail to be useful. It might create dissatisfaction if the report is too long.

For operational managers, your report should be balanced by not only showing findings but also their achievements and improvement measures that they have undertaken with respect to the findings that internal auditors found.



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KEY POINTS

- IA report is an opportunity to get management attention
- Understand the characteristics and needs of your stakeholders
- On top of individual audit assignment report, there should also be a quarterly and annual IA report
- Be true, accurate, concise and human in drafting IA report



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