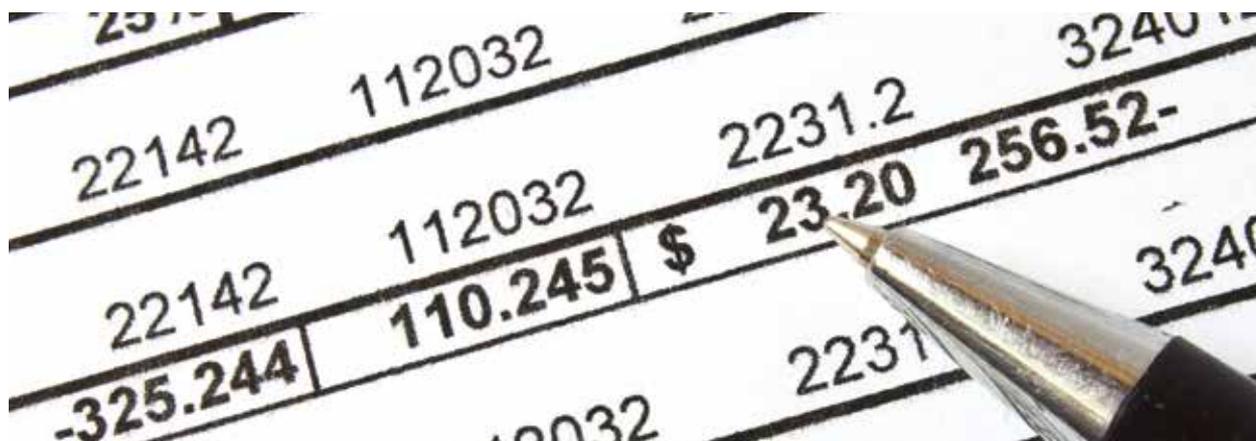


Essentials of Report Writing



Audit report is a vehicle of communication of audit results to its immediate stakeholders. If it is not written effectively, it fails to achieve its objectives, and loses its value, inviting criticism from audience. In fact, report writing is not simply stating the facts. It needs a great deal of analytical and presentation skills. Particularly, when nobody wants to listen to what auditors say, it becomes a challenge for auditors. There is little wonder, then, that becoming effective in communicating our value proposition to our immediate stakeholders has been identified by the IIA president Richard Chambers as one of the five additional imperatives in the coming decade. Primarily, senior executives are immediate audience of auditing who look at audit reports, typically, for what is going wrong, how is it impacting, how to fix it, or what will be the suggested change value- addition to their organisations? Auditors, while writing the reports, should check whether their reports answer all these questions. However, with the deployment of right approach and skills, audit reports can make positive changes. This article attempts to suggest few essentials of report writing- written around ABCD (Arranged, Brief, Concrete, and Discussed) - that could help auditors - external *vis-a-vis* internal -and fashion their approach while writing audit reports:



CA. Ishwar Chandra

(The author is a member of the Institute. He can be reached at ishwar_c1002@rediffmail.com)

Arranged

As per prevailing professional practices, leading with the issue is one of the preferred approaches for arranging the audit results. And, issue writing is a systematic process consisting of steps such as:

Analyse the Issue: First, analyse the audit issue into cause and effect relationship-drilling down on the facts and sequence of events. As the report readers look for permanent-not one time- solution of the issue, this analysis helps reaching the root cause of the issue suggesting permanent solution to the issue. Also, this would help answer several other questions of readers such as how is the issue impacting their organisations and how it could be fixed? For example, *“A borrower enjoying credit limit of ₹100 crore from a bank, diverted the entire funds to another group concern*

— —

Reports well-discussed are reports well-received. And, if not appropriately discussed, readers may not apprehend the loss/ risks associated with the issues and the benefits of changes suggested. Report discussion is a unique opportunity answering several questions of auditors- such as what is readers' understanding of the issues, whether readers' perception of risk is in consonance with enterprise risk management framework, and whether the compliance of issues is practicable and cost effective?

— —

without utilising the funds for the purpose borrowed". In this example, the issue of diversion of funds has been raised by the auditors. However, on analysis, the root cause is disbursement of entire funds in cash instead of direct payment to borrower's suppliers, that let borrower divert the funds.

Vigour the Issue: Next, having analysed the cause(s) and effect(s) of the issue, auditors should study the significance and implications of the issue from all angles vigorously. This helps to evaluate and determine whether the issue is significant to report, and if yes, whether it is a management issue or governance issue. A careful distinction between the two is crucial, as the demarcating line between the two is so thin, and also blur sometimes that quantum of amount is not a single guiding factor, and the issue is reported for governance/regulatory reasons. For example, sanctioning advance by a bank branch manager which is in the delegated power of higher authority, and sanctioning advance which is not in the power of any authority (e.g. allowing fresh over limit without first adjusting the existing overdue advances) are two different issues. Former is a management issue of seeking ratification from higher authority, while the latter is a governance issue of unauthorised act not ratifiable by any authority.

Prioritise the Issue: Then, write the issues in order of their relative priority assessed. As all reported issues do not deserve equal attention of readers, issues written in prioritised order helps readers to focus on significant issues and also to allocate their time and resources for corrective actions. Prioritising the issues in order of loss occurred/associated risks, or benefits of change, is one such preferred way to write the issues. For example, issues of legal violations/regulatory noncompliance attracting punitive actions and reputational loss draw preferred attention of management than issues of insignificant deviations of internal procedural

guidelines. Likewise, identifying and segregating the "causing loss" issues and "exposing risk" issues would prompt readers for initiating corrective actions on preferred basis for causing loss issues, and setting proactive measures for exposing risk issues.

Vigorously analysed logically arranged audit issues, summarising the key audit issues and changes suggested in Executive Summary, help readers focus on significant audit issues, and communicate the audit results effectively.

Brief

Amidst the conflicting business priorities, senior executives often wish to know at a glance straight to the point, instead of reading long prose-type descriptive reports in full, how significant are the audit issues impacting their organisations and what they have to do to set things right? Report writing needs précis writing skills, making the message concise and clear, without affecting the intent of the message.

Avoiding, therefore, relatively less relevant information such as detailed background information on systems and procedures which is otherwise available to readers, and writing short sentences clearly makes issues concise significantly. For example, "*As per current system, all the vouchers passed for payment are first entered in the journal concerned and for the purpose of payment an authority is prepared in duplicate according to prescribed procedure. This authority contains signatures of goods receiving clerk, verifying accountant and payment approval authority. In review of compliance of laid down procedures, in 2 of 50 payment authorities, signature of approval authority not ensured before making payment by the cheque issuing clerk*". This issue narrating the current procedures in detail could be written in brief as, "*in review of payment of goods received, in 2 of 50 payments, approval of competent authority not ensured*".

Likewise, avoiding writing information on audit approach/method for each issue separately, which could be written elsewhere at one place in the report, is another such way to make sentence length short substantially. For example, "*As test-checked on random sampling basis, expenditure vouchers are not signed by two competent officers*". In the reported issue, information about sampling/audit method such as the test-month selected for review of transactions, and the method of sampling applied could be written in introduction section of the report instead of repeating with all audit issues in the entire report.

Issues written briefly enable readers to focus the significant issues quickly showing respect to readers' time, and helps make the report an interesting reading.

Concrete

Audit issues duly supported with evidences and written concretely convey the intended message clearly - in contrast to incomplete and vague issues failing to act upon. Following are few of the essentials, auditors should ensure while writing audit issues:

Complete and Correct: Audit issues requiring readers any further information or reference such as reference of laws/regulations/standards/guidelines, fail to convey the message, and do not prompt readers to act upon. For example, *“In review of compliance of know your customer (KYC) norms, address proof documents are not as per KYC norms”*. Here, the issue inviting reference of KYC norms on address proof documents, is unable to convey the message. Instead, specifying the documents required per KYC norms would make issue complete and actionable. Likewise, *“Approval of Central Government under section 297 of the Companies Act, 1956 is yet to be obtained by the company in respect of certain purchase transactions”* could be another such example of an incomplete issue requiring readers reference of Law. Besides, rechecking the correctness of all facts and figures reported helps weed out mistakes, if any, caused inadvertently avoiding embarrassing situations.

Definite and Precise: Use of descriptively qualifying words (e.g. few, some, many, large number of instances, timely, and frequently) erodes precision of the inference drawn from the audit results, and makes issues chaotic. For example, the audit issue *“Miscellaneous advances to employees is not followed-up for timely recovery/adjustment”* does not convey readers a message definite in terms of amount and time-period of delay in recovery/adjustment, not enabling readers to act upon.

Logically written brief and concrete audit reports submitted after due discussion convey the intended message clearly prompting readers to act upon, and help make visible positive change to organisations-strengthening partnership with management and boards; and eventually upholding the stature of auditing. However, of course, effective report writing needs an investment of substantial amount of time and efforts from auditors as well as commitment of vehement support from management.

Moreover, use of estimations and approximations, sometimes, makes issues vague. For example, *“Large number of contractors' bills pertaining to prior-period have been accounted for in the current year. As a result, the estimated amount of profits understated for current year is approximately ₹1 crore”*. Here, as the basis of estimates and approximations, and the underlying assumptions are not specified; hence readers are unable to apprehend the intended message of the issue in definite and precise terms.

Issues written in concrete manner convey the audit issues clearly, avoiding chaos and prompting readers to act upon, eventually enhancing the credibility of the issues raised.

Discussed

Reports well-discussed are reports well-received. And, if not appropriately discussed, readers may not apprehend the loss/risks associated with the issues and the benefits of changes suggested. Report discussion is a unique opportunity answering several questions of auditors- such as what is readers' understanding of the issues, whether readers' perception of risk is in consonance with enterprise risk management framework, and whether the compliance of issues is practicable and cost effective? To answer all these questions and to ensure an effective and amicable discussion, below are items auditors should consider in their discussion agendas:

Seeking Agreement on Facts and on Evaluations: Typically in most instances, very common disagreements between auditors and management are on facts and on audit evaluations. Distinguishing between the two clearly is crucial as most disagreements on facts occurred erroneously or mainly due to information-gap, could be weeded out in first-round of discussion itself. While, for disagreements on audit evaluations, one of the typical reasons may include interpretation-gap. For example, an audit issue of diversion of funds committed by the borrower company by diverting funds to group company by debiting ₹100 crore on 1st April 2011 and crediting ₹100 crore on 31st March 2012 is not an issue of diversion of funds in evaluation of management, as the full amount has been recovered at year-end, regardless of whether the funds were used for the purpose borrowed. Auditors, showing respect to management's views should take note of such evaluations/interpretation-gaps, in their audit reports.

Seeking Agreement on Corrective Actions/Changes Suggested: Essentially to make reports put into action, auditors and management both should have the same

understanding on the issues as well as the changes suggested. It is not uncommon, sometimes, that the management's understanding of corrective actions/changes suggested, may not be in consensus with the auditors. And discussion sessions are excellent opportunities for auditors to explain the issues and the changes suggested in the overall interest of the organisation demonstrating auditors' partnership in management's risk management efforts; and also to take note of such gaps in understanding, if any. For example, an audit issue of disbursing funds in cash, instead of directly to borrower's suppliers, was corrected by the management by obtaining certificates of valuers and chartered accountants - as a substitute of direct disbursement to borrower's suppliers. While as per bank's guidelines, funds should have been disbursed directly to suppliers, later corroborating with valuers' and chartered accountants' certificates in evidence of end-use of funds. Discussion helps weed out differences and disagreements, resolving conflicts and seeking concurrence on issues and changes suggested. Especially, discussion sessions help maintain an environment of mutual trust and respect,

However, as a word of caution, auditors should ensure audit issues highlight the processes/procedures and the risks only, and not the person/position, avoiding personal attack- like confronting situations.

Mastering Basics is Key

Logically written brief and concrete audit reports submitted after due discussion convey the intended message clearly, prompting readers to act upon, and help make visible positive change to organisations-strengthening partnership with management and boards; and eventually upholding the stature of auditing. However, of course, effective report writing needs an investment of substantial amount of time and efforts from auditors as well as commitment of vehement support from management. Yet it is a value adding imperative to communicate the audit results-value proposition- to the stakeholders effectively. This article, talking of a few essentials in report writing, is an effort to demonstrate how mastering the basics can help to write an effective audit report, and could work as a beginners' guide. ■

