Session 8.0
Preparing Audit Report

Overview

At the end of each audit the auditor should prepare a written report to communicate the audit result to the stakeholders. There is no specific rule for performance audit report, it's varies depend on its scope and nature. This session will discuss the performance audit report as per INTOSAI guidelines which applied to the forest audit. The discussion will cover the importance, characteristics of good performance audit report, process, format and content and distribution of audit report.

Learning Objective

Given the brainstorming, lecture, exercise and group discussion participants will be able to explain the importance, characteristics of audit report and element of the report.

Importance of Audit Report

The audit report can be used as a mean of communication to the auditee and provide well-founded, objective and complete information, analysis and assessments that add value for decision-makers and other stakeholders.

The performance audit report should state clearly the objectives and scope of the audit. The report might include criticism or do not contain significant criticism but it still provide independent information, advice or assurance as to whether and to what extent economy; efficiency and effectiveness are being or have been achieved.

The auditor is not normally expected to provide an overall opinion on the achievement of economy, efficiency and effectiveness by an audited entity in the same way as the opinion on financial statements. Where the nature of the audit allows this to be carried out in relation to specific areas of an entity's activities, the auditor should provide a report which describes the circumstances and arrives at a specific conclusion rather than a standardized statement. Where the audit is confined to consideration of whether sufficient controls exist to secure economy, efficiency or effectiveness, the auditor may provide a more general opinion.

By stating clearly the scope, objectives and findings of the audit, the report demonstrates to the reader that the auditor is being fair. Fairness also implies the presentation of weakness or critical findings in such a way as to encourage correction, and to improve systems and guidance within the audited entity. Accordingly the facts are generally agreed with the audited entity in order to ensure that they are complete, accurate and fairly presented in the audit report. There might also be a need to include the audited entity's responses to the matters raised, either verbatim or in summary, especially where the SAI presents its own views or recommendations.

The auditor's conclusions and recommendations are an important aspect of the audit and, where appropriate, are written as a guide for action. Generally these recommendations suggest what improvements are needed rather than how

DRAFT

to achieve them, though circumstances sometimes arise which warrant a specific recommendation, for example to correct a defect in the law in order to bring about an administrative improvement.

An audit report should provide information that is important for an effective, efficient, and legitimate approach to a certain policy problem. In practical terms, the report should contain explicit references to the need for information to be satisfied by the research, to a problem in policy practice, to the research objectives associated with policy practice, and etc.

The performance audit report should be drafted to minimize the use of technical terminology with a view to making it easily understandable to management, members of the legislature and the public. When the use of technical terms is inescapable, they should be explained.

The performance audit report should be accurate where the evidence presented should be true and comprehensive and that all findings are correctly portrayed. The need for accuracy is based on the need to assure the readers the report is credible and reliable. One inaccuracy in a report could cause doubt on the validity of an entire report and distract substance of the report. In addition, it might ruin the credibility of the SAI. In other words, a high standard of accuracy requires an effective system of quality assurance. Reported evidence should demonstrate the correctness and reasonableness of the matters reported.

Characteristics of a Good and Usable Audit Report

Good performance audit reports should add value to the stakeholders and meet the audit objectives. They should provide accessible, concise, and up-to-date information, which the government, parliament, audited entity, and other stakeholders might utilize to improve the economy, efficiency, and effectiveness of the public sector: i.e. The report should contribute to a better knowledge and adequate improvements. Good performance audit reports should be reader-based and well structured, and the language should not be ambiguous. They findings should be presented objectively and fairly. This requires that:

- The presentations of findings and conclusions are separated;
- The facts are presented and interpreted in neutral terms;
- different perspectives and viewpoints are represented;
- all relevant findings, arguments, and evidence are included; and
- reports are constructive, and positive conclusions are presented.

In addition, the audit report has to fulfill the characteristics as aforementioned the auditor has to ensure that the report is reliable. Audit report is considered to be reliable if it contains objective, scope, methodology and sources used as well as audit findings, conclusions and recommendation. If the auditor found any limitation on the scope of work, the reason of this limitation has to be described. It should be easy for the reader to understand the purposes of the audit and to properly interpret the results. The report should be complete, accurate, objective, convincing,

DRAFT

and as clear and concise as the subject-matter permits.

Being ***complete*** requires, the report contains all information and arguments needed to satisfy the audit objectives, promote an adequate and correct understanding of matters and conditions reported, and meet the report content requirements. It is vital that the starting points of the audit and the methods used, as well as important source material and conclusions, are described in the final audit report. The relationship between audit objectives, criteria, findings and conclusions needs to be verifiable, complete and clearly expressed. If recommendations are to be provided, a clear link between the analysis or conclusions and the recommendations is a necessary.

Auditors should, within the audit objectives, report all significant instances of non-compliance and significant instances of abuse found during or in connection with the audit.

Accuracy requires the evidence presented should be true and comprehensive and that all findings are correctly portrayed. The need for accuracy is to assure readers that the report is credible and reliable. One inaccuracy in a report can cast doubt on the validity of an entire report and could divert attention from the substance of the report. In addition, inaccurate reports could ruin the credibility of the SAI. In other words, a high standard of accuracy requires an effective system of quality assurance. Reported evidence should demonstrate the truth and fair of the matters reported. Correct portrayal means accurately describing the audit scope and methodology, and presenting findings and conclusions in a manner consistent with the scope of audit work.

Objectivity requires, as mentioned above, that the presentation of the entire report be balanced in content and tone. A report's credibility is significantly enhanced when it presents evidence in an unbiased manner. The report should be fair and not misleading, and should place the audit results in perspective. This means presenting the audit results impartially and guarding against the tendency to exaggerate or overemphasize deficient performance. Interpretations should be based on insight and understanding of facts and conditions. One-sided presentations should be avoided. Even though auditing by its nature focus on shortcomings, the advantage of the performance audit reports are giving space for both positive and negative findings and assessments.

Being ***convincing*** requires that the audit results should be responsive to the audit objectives, the findings presented persuasively, and the conclusions and recommendations follow logically or analytically from the facts and arguments presented. Facts should be presented separately from opinions. The language used should not be tendentious or suggestive, and the information is sufficient to convince the readers to recognize the validity of the findings, the fair conclusions, and the benefit of implementing the recommendations. Different opinions and arguments should be represented.

Clear requires that the report is easy to read and understand (as clear as the subject-matter permits). Technical terms and unfamiliar abbreviations must be defined. Logical organization of material,

DRAFT

and accuracy in stating facts and in drawing conclusions, are essential to clarity and understanding. Although findings should be presented clearly, the auditors must keep in mind that one of their objectives is to be persuasive, and this might best be carried out by avoiding language that generates defensiveness and opposition.

Being ***concise*** requires that the report is no longer than needed to convey and support the message. Although audit scope might be a factor exist in determining the content of reports, those that are complete, but still concise, are likely to achieve greater results. It must be stated, however, that advanced studies often require longer reports.

One must also have in mind that the performance audit reports are not only written for those who have special knowledge; they are also written for those who need more information to understand the subjects.

Stages in Preparing Audit Report

With regard to performance audits, the report should include all significant instances of non-compliance that are pertinent to the audit objectives. Performance audit report is the auditor's conclusions that report the economy and efficiency with which resources are acquired and used, and the effectiveness with which objectives are required.

Every SAI has its own procedure of preparing the performance audit report. But in general, the process will include the discussion paper that will be discussed with the entity's management, discussion with the management, and the preparation of the final audit report.

Discussion Papers

At various stages during the course of an audit there may be a need for discussion papers to identify major issues that have emerged. They serve to confirm facts with the audited entity which lead to the development of audit findings and recommendations. It is better to detect possible weaknesses in audit findings and their supporting evidence or logic at early stage than when the management of the audited entity reviews the draft audit report.

A discussion paper brings together findings and conclusions for a specific segment or area of the audit. It is not expected to have the precision expected in the final report but is intended to be clear, concise, simple and, above all, logical. The development of each discussion paper is generally an iterative process occurring during the fieldwork phase. A discussion paper may be prepared for internal use and/or for written comment by the agency. However, when writing a discussion paper it is important to keep the final report in mind. It is desirable that these papers are in the same logical structure as will be used to develop the exit conference discussion paper.

Discussion papers are an effective means of:

- ensuring that the facts have been stated correctly
- ensuring a correct understanding of the program
- exploring significant early findings and recommendations with an audited entity and obtaining its preliminary response or reaction

DRAFT

- improving communications (however, if the findings are not well considered, it may have the reverse effect)

Discussion papers should be concise and include sufficient information to describe the issues adequately and their effects on the operations and the programs to audited entity. Suggestions for improvement might be included, if it is appropriate. This may lead to early implementation of SAI recommendations with an immediate effect on improving public administration. In such a situation, it might be appropriate to mention in the report that, during the audit, the SAI raised a specific issue and the audited entity subsequently took remedial action. The discussion paper should indicate the sources of information used in order to improve the acceptability of findings.

When presenting an audit organization with a discussion paper, it needs to be made clear that it is only a draft for comment. It is not uncommon for audit managements to overreact to a discussion paper. Some will treat the discussion paper as they would a formal proposed report. Close liaison with the audited entity on the purpose of the discussion paper, together with an appropriate introduction, should enable the agency to provide a response appropriate to that stage of report production.

Discussion with Management

Discussion with management or sometime known as a formal exit conference is held at the conclusion of the audit to ensure full understanding of the issues by both parties and assist the audited entity in providing its comments for consideration in preparing the final report. The exit conference discussion paper may contain the bulk of the information intended for the proposed report. In fact, it might differ only in the extent or nature of the agencies' responses to audit findings and conclusions.

After the exit conference, the SAI will prepare the proposed report taking into account the agency responses. The oral and written responses elicited from the agency then should be documented and sufficient to complete the preparation of the proposed report.

Final Report

The published final performance audit report is the product on which the SAI performance audit function is judged by the legislature and the public at large. Any material errors, particularly in areas contested by agencies, could potentially ruin the credibility of a particular report and the SAI. Therefore, it is crucial to give a great deal of attention for accuracy, logic and clarity of the report.

Performance audit reports should also be timely and objective, with issues expressed firmly. In dealing with significant issues, there should be a logical and compelling exposition of the issue and exposures. Accuray is needed to maximize the effect of the report on improving public administration. Precision must be taken to ensure the report is accurate, complete, defensible, understandable and balanced.

Audit Report Form and Content

The following points need to be emphasized in regard to audit report:

1. ***Title***: The report should be preceded by a suitable title or heading, helping the reader to distinguish it from statements and information issued by other.

DRAFT

2. ***Signature and Date***: The report should be properly signed. The inclusion of a date informs the reader that consideration has been given to the effect of events or transactions. The auditor should aware up to the date (in case of regular (financial) audits, or beyond the period of the financial statements).

3. ***Objective and Scope***: The report should include reference to the objectives and scope of the audit. This information establishes the purpose and boundaries of the audit.

4. ***Completeness:*** The report contains all information and arguments needed to satisfy the audit objectives, promote an adequate and correct understanding of matters and conditions reported, and meet the report content requirements. The relationship between audit objectives, criteria, findings and conclusions needs to be verifiable and clearly expressed. If recommendations are to be provided, there needs to be a clear link between the analysis or conclusions and the recommendations.

5. ***Addressee:*** The report should identify those to whom it is addressed, as required by the circumstances of the audit engagement and local regulations or practice. This may be unnecessary where formal procedures exist for its delivery.

6. ***Identification of Subject Matter***: The report should identify area to which it relates. This includes information such as the name of the audited entity, the date and period covered by the subject matter that has been audited.

7. ***Legal Basis***: Audit reports should identify the legislation or other authority providing for the audit.

8. ***Compliance with standards***: Audit reports should indicate the auditing standards or practices followed in conducting the audit, thus providing the reader with an assurance that the audit has been carried out in accordance with generally accepted procedures.

9. ***Timeliness:*** Audit report should be available promptly to be of greatest use to readers and users, particularly those who have to take necessary action.

INTOSAI Reporting Standards state that 'with regard to performance audits, the report should include all significant instances of non-compliance that are pertinent to the audit objectives.

Performance audit reports would vary according to the differences in audit mandates and the scope and complexity of the particular audit and its findings. The performance audit mandate specifies the minimum audit and reporting requirements of the performance audit. Most SAIs with long experience in performance auditing publishes individual reports for each performance audit conducted. Others may publish observations and conclusions in a summarized form in their annual audit reports.

SAIs should determine and prescribe an appropriate performance audit report structure. The structure should include an introduction to the audited activity or theme, audit objectives and scope, audit criteria, observations and findings, conclusions and recommendations and should also report responses from the

DRAFT

audited entity management. Significant issues and recommendations should be highlighted in a summary of the report.

The auditor should review and assess the conclusions drawn from the audit evidence obtained as the basis for preparing the audit report.

Executive summary is a term used for a short document that summarizes a longer report in such a way that the readers can rapidly become acquainted with a large body of materials and key messages of the report without having to read the entire report. It is intended as an aid to a decision making by high level audience or readers. In some SAIs, a small booklet is also provided to highlight important issues with a more-easy-to-understand language.

The structure of the report may vary from country to country. One possible structure would be as follows:

- Executive summary
- Introduction and audit design including background, motives for the study, objectives, scope, methods
- Description of the audit object
- Findings and analysis
- Conclusion and assessments
- Recommendation and appendix.

Distribution of Audit Report

Comprehensive reports and wide distribution of every report are keys to the credibility of the audit function. In accordance with its fundamental role, each SAI must decide on how to best serve its own and the public interest in distributing the audit reports, both in general and for each report.

If possible, audit report should be:

1. Made public for all audit findings (in individual performance reports or in the annual report (from the SAI). It is an advantage if the reports are available for public discussion and criticism.
2. Distributed to the audited entity, the government, legislative officials, the media and other interested parties. Appropriate officials who may be included in the distribution include those designated by law or regulation to receive such reports, those responsible for acting on the findings and recommendations, those of other levels of government who have provided assistance to the audited entity and legislators.
3. Provide the media with adequate and well balanced information backed by factual evidence, for instance in the form of press releases. Because publishing audit reports may cause misunderstandings. The media may misinterpret and exaggerate findings, and as a consequence frustrate the purpose of the audit.

Summary

Good performance audit reports should add value to the stakeholders and meet the objectives set, convince, and concise. The report should contribute to better knowledge and adequate improvements. The language should not be ambiguous. They should present findings objectively

DRAFT

and fairly. All relevant findings, arguments, and evidence are included.

References

1. Minister of Public Works and Government Services, 2004. *Performance Audit Manual*, Canada, 2004
2. INTOSAI, ISSAI 400, *Reporting standards in Government Auditing.*
3. INTOSAI, ISSAI 3000, *Standards and Guidelines for Performance Auditing Based on INTOSAI's Auditing Standards and Practical Experience.*

DRAFT