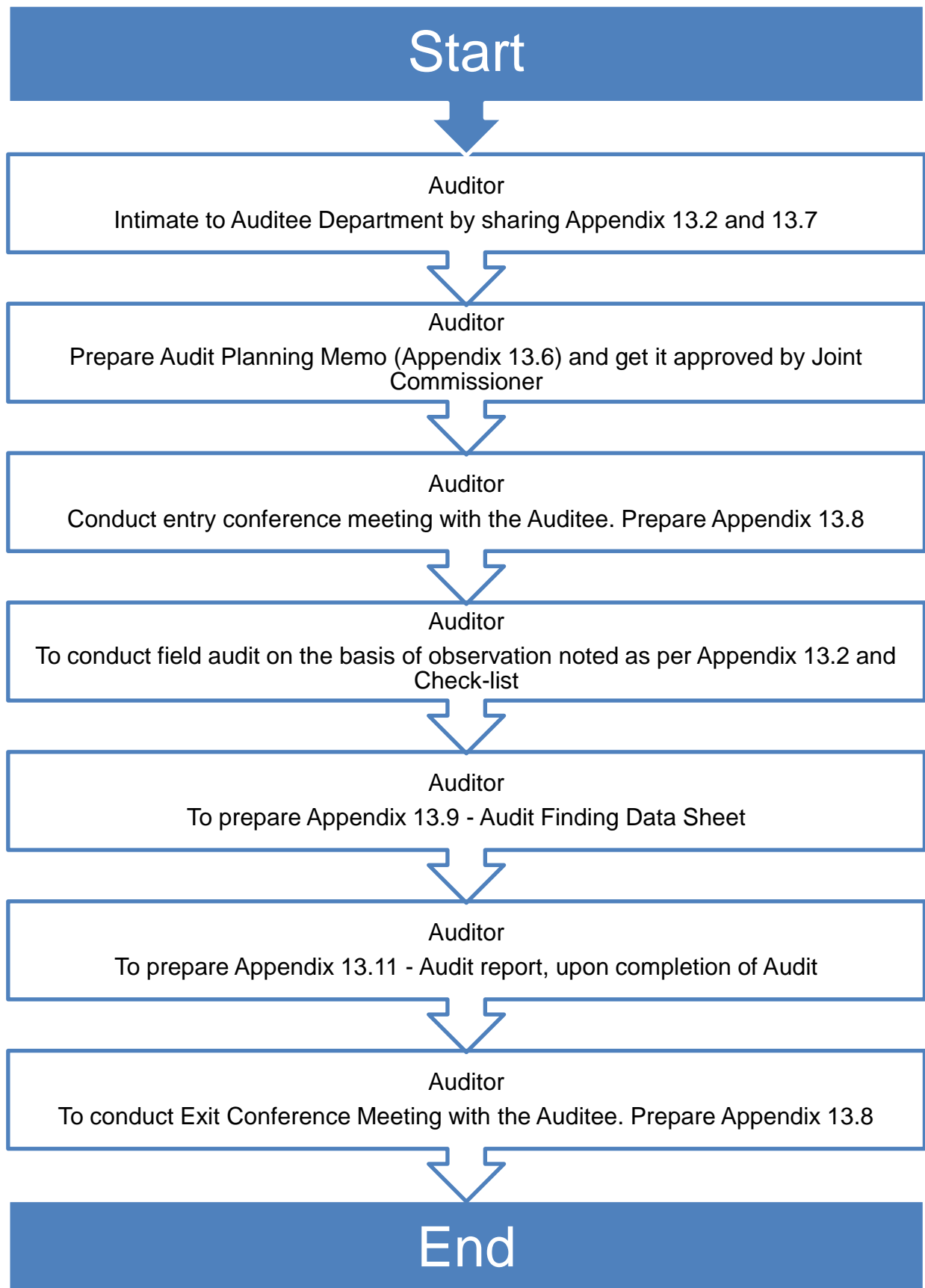


7.3 Audit Flow Chart

Flow chart on Conduct of Audit Engagement



8. Reporting of the Audit Engagement

This Chapter deals with the format and content of the Internal Audit Report. In particular, the chapter discusses the guidelines for preparation of a quality audit report, some Dos and Don'ts while writing the report, the report discussion and approval mechanism along with the timelines and its distribution to the concerned stakeholders.

8.1. Audit Report

Audit reports are the end products of the audit engagements. Hence, the Audit Team should take utmost care in drafting the report. Based on the exit meeting and outstanding observations, the team should prepare the Draft Internal Audit Report. The Audit Reports must be accurate, objective, clear, concise and complete and should be issued in a timely manner. The key steps in reporting of the audit engagement include:

i. **Preparation of the Internal Audit Report:**

The audit team should prepare the draft internal audit report considering the following guidelines:

Guidelines for Preparing a Quality Internal Audit Report	
Accuracy	Reports should be supported with facts. It is extremely important that the credibility of each auditor be maintained by factual, unbiased and objective reporting.
Clarity	Reports should be understandable and clear. Reports should not require interpretation or oral comment to fill in the gaps. The report should stand by itself.
Quantification	Comments should be quantified to the maximum extent possible to provide the Department/ Auditable Unit with a view of the significance of the findings. Examples of quantification are value, number of test exceptions and scope of testing.
Conciseness	Reports should be to the point, but this does not necessarily mean short.
Fairness	Reports should maintain a fine balance with respect to the interest of all the stakeholders. Observations should be fact-based and result in improvement recommendations, not in criticism of people, processes or systems.

Guidelines for Preparing a Quality Internal Audit Report	
Timeliness	Reports should be issued within the timeline prescribed.
Resolution	The Department/ Auditable Unit comments should indicate who in the Department/ Auditable Unit is responsible for remedial action, and when it will be complete. Without specific responses and assignment of responsibility, the effectiveness of the audit and findings will be lost. The Head of the Department/Auditable unit is responsible for providing the specific response, assignment of responsibility for implementation of response and timeline for implementation.
Miscellaneous Aspects	<ul style="list-style-type: none"> ▪ The Reports should have proper spelling, grammar, and punctuation. ▪ Fonts and formatting should be proper and consistent. ▪ Report addressee name and title should be proper and spelt correctly. ▪ Report number and subject title should be included correctly on the report. <p>Audit Reports should carry the legend “Internal Audit Report of..... (Name of the department) for the period..... ” on the cover page and should also mention the date of issue of the audit report.</p>

Content of the Audit Report:

The Draft Internal Audit Report must have the following five sections as under:

- Section 1 - Executive Summary & General Information
- Section 2 - Previous Audit Compliance
- Section 3 - Audit Objective, Scope and Methodology Followed
- Section 4 - Audit Observations & Recommendations
- Section 5 - Results of Audit
- Annexure

The above sections are briefly discussed below:

Brief Description of the Contents of the Audit Report
<p>Section 1 - Executive Summary & General Information</p> <p>It will be a summary section of the detailed audit report. This section will cover the following:</p> <ol style="list-style-type: none"> 1. General Information: <ul style="list-style-type: none"> ○ Auditee Profile: Name, Address, Head of the Auditee Office, etc. ○ Auditors Profile: Name and contact details (email and phone no.) of the Internal Audit Team who conducted the audit ○ Audit Profile: Audit Period or cycle and Duration of Audit 2. Executive Summary (introduction, Scope and Objectives, summary of Findings, major irregularities, Opinion of audit, Audit recommendation and results) – This part of the report will be of a summary nature.
<p>Section 2 - Previous Audit Compliance</p> <p>The Auditors shall mention the following details regarding previous audit status:</p> <ol style="list-style-type: none"> 1. Previous Audit Observations and Compliance: In this section, the auditors shall provide the pending status of previous audit observations and compliances. (Internal and AG Audits) 2. Persistent Irregularities: Auditors shall give details of persistent irregularities, which were identified during the past audits but are still not addressed. The Auditors shall identify the cases of non-compliance and list the same under Persistent irregularities.
<p>Section 3 - Audit Objective, Scope and Methodology Followed</p> <p>In this section, Auditors shall detail out the objectives, scope of audit to be conducted, audit techniques used, sampling techniques and sample size. A detailed list of accounts and documents verified shall be given under Annexure.</p>
<p>Section 4 - Audit Observations & Recommendations</p> <p>In this Section, Observation of Auditors shall be detailed out. This Section shall further be divided as under:</p> <ol style="list-style-type: none"> A. Assessment of Internal Controls: Internal Controls assessment results shall be mentioned in this section. B. Major Irregularities: All major irregularities noticed during the course of audit shall be mentioned separately in this section. The Auditors shall also report consequences for non-compliance of the same. Reference evidence and memos shall be attached as Annexure.

Brief Description of the Contents of the Audit Report

C. **Other Irregularities:** Here Auditor shall report the observations on irregularities noticed while conducting audit on each items of verification.

D. **Recommendations:** In this section, Auditor shall provide the necessary recommendations to compile the lapses noticed during the audit.

Section 5 - Results of Audit

This section shall be filled by the Auditors after consultation with the Auditee. The Auditor shall provide the list of the areas needing improvement and recommendations for compliance along with responsibility and proposed time line.

Annexure and Key Documents

The observations given by the Auditors in report need to be supported by relevant audit evidence. These evidences act as a reference to the Audit observations reported by the Auditor(s).

ii. Submission, Approval and Issuance of Internal Audit Report:

The draft internal audit report must be prepared within a specified period after completion of audit and conclusion of the exit meeting with the auditee. The Auditing Authority shall do the preparation, submission, approval and issuance of the draft internal audit report in the following manner:

Timelines for Preparation, Submission, Approval & Issuance of Draft Internal Audit Report	
Draft Report Preparation & Submission	The Team Leader shall prepare and submit the draft audit report.
Review of the Draft Report	The Deputy Commissioner/reviewing authority shall review the draft report and provide the comments/observations, if any. The Deputy Commissioner/reviewing authority shall submit the reviewed report to the Joint Commissioner/scrutinising authority for further scrutiny/observations, if any.
Scrutiny of the Draft Report	The Joint Commissioner/scrutinising authority shall scrutinize the draft report and provide the comments/observations, if any. The Joint Commissioner/scrutinising authority shall submit the reviewed/scrutinized

Timelines for Preparation, Submission, Approval & Issuance of Draft Internal Audit Report	
	report to the Commissioner/accepting authority for final review and comments, if any.
In Principle Approval of the Draft Report	The Commissioner/accepting authority shall finally review the draft report and provide in-principle approval on the report for onward submission to the concerned Auditee with/without any further comments/observations, if any.
Issuance of the Draft Report to the Additional Chief Secretary – finance (ACS) or Administrative head of Finance Department.	The draft report shall be submitted to the Additional Chief Secretary (ACS) or Administrative head of Finance Department .
<p><i>Note – On an overall basis, the Final Internal Audit Report must be submitted to the concerned stakeholders for further action and follow up.</i></p>	

9. Audit Quality Monitoring & Follow-up

This chapter deals with Audit Quality Monitoring through formation of a Committee.

The Auditing Authority must ensure that the audit activities are carried out in the most effective and efficient way and the final internal audit report which is submitted should meet the highest quality standards in terms of adequate facts, figures, evidences and justification for the identified audit observations. Therefore, it is imperative that there is adequate review of the audit process being followed and the audit report being drafted at the higher level to ensure quality internal audits. The following may be considered by the Department in ensuring the quality:

- i. The department is to constitute a three member “Committee for Audit Evaluation and Review” headed by Commissioner to review the audit process conducted and the audit reports. The other members of the Committee for Audit Evaluation may be Joint Commissioner.
- ii. This “Committee for Audit Evaluation and Review” will meet at least in four meetings in a year with once in a quarter and will take decisions regarding settlement and the further Action plan for the Audit Paras observed.
- iii. Minutes of the meeting of “Committee for Audit Evaluation and Review” will have to be sent to Finance Department, Government of West Bengal.
- iv. There should be a defined time-frame for submission of Action Taken Reports (ATRs) by the Auditee department on the audit observations made by the Auditing Authority. These ATRs should be examined by the “Committee for Audit Evaluation and Review” offer its comments/ recommendations to the administrative department, as may be appropriate.
- v. The monitoring of Audit Paras should also aim to resolve old Audit Paras and the progress in their settlement should be closely watched by the Committee for Audit Evaluation/IA Team.

Refer **Appendix 13.12** for the format of “Follow up status on the audit observations raised in Audit of Government Departments”