

Presentation On Internal Audit Reporting

13th September 2020



Agenda

01

Introduction

02

Standards On Internal Audit

03

Audit Report Writing

04

Stakeholders Management

05

Concluding Thoughts

INTRODUCTION

Introduction

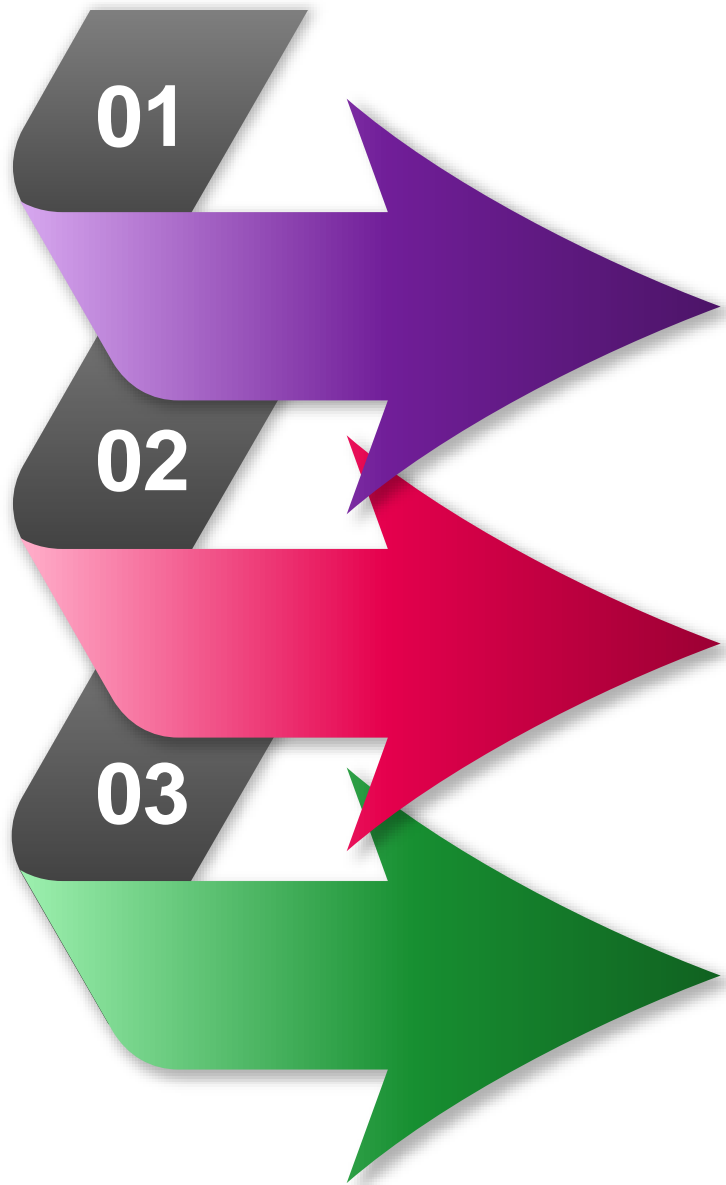
- ❑ Dissemination of the results of internal audit and reporting the findings to the management, and those charged with governance, is an essential part of any internal audit reporting.
- ❑ The internal audit report is the document prepared as an outcome of the internal audit process. It contains a clear written expression of significant findings and recommendations based on the review of the policies, processes, risks, controls and transaction processing.
- ❑ Audit findings and recommendations in the audit report are designed to facilitate organization achieve financial, management and regulatory compliance objectives.
- ❑ The internal audit report is presented to the process owners, head of the departments, senior management, audit committee, statutory auditors, and regulatory authorities (if required).
- ❑ Reporting of results needs to be done with a certain level of uniformity and, both the internal auditor and the recipient of the reports should have clarity and agreement about the nature of assurance being provided through these reports.

Key Considerations:

- ❑ The internal audit report is often the main, routine vehicle through which senior management understands the value that internal audit delivers.
- ❑ Audit report presents the results of an examination or review within the organization and is considered to be the core deliverable of internal audit services.
- ❑ Poorly communicated results may completely detract from what may be critical information for senior management and the board.
- ❑ Well-organized and communicated results are a key indicator of competency and professionalism.
- ❑ Each organization has unique reporting practices and expectations that affect the format, frequency and depth of their communications.

STANDARDS ON INTERNAL AUDIT

Standard On Internal Audit 370 (Earlier SIA 4) – Reporting Results



Objectives of issuing internal audit reports

Share with the auditee, details of all significant findings based on audit procedures undertaken

Allow management to understand the issues and take corrective actions in a methodical and comprehensive manner

Provide a sound basis for any assurance being provided by the Internal Auditor

Standard On Internal Audit 370 (Earlier SIA 4) – Reporting Results

□ Reporting of internal audit results is generally undertaken in two stages:

At the end of a particular assignment (Internal Audit Report)

- ▶ An “Internal Audit Report” covering a specific area, function or part of the entity is prepared by the Internal Auditor highlighting key observations arising from those assignments.
- ▶ This report is generally issued with details of the manner in which the assignment was conducted and the key findings from the audit procedures undertaken.
- ▶ This report is issued to the auditee, with copies shared with local and executive management, as agreed during the planning phase.

On a periodic basis, at the close of a plan period (Audit Committee Report)

- ▶ A comprehensive report of all the internal audit activities covering the entity and the plan period is prepared by the Chief Internal Auditor (or the Engagement Partner, in case of external service provider).
- ▶ Such reporting is normally done on a quarterly basis and submitted to the highest governing authority responsible for internal audits, generally the Audit Committee.
- ▶ Some part of the aforementioned Internal Audit Reports may form part of the periodic (e.g. Quarterly) report shared with the Audit Committee.

Basic Elements of
Internal Audit Report



Qualities of Good
Internal Audit Report



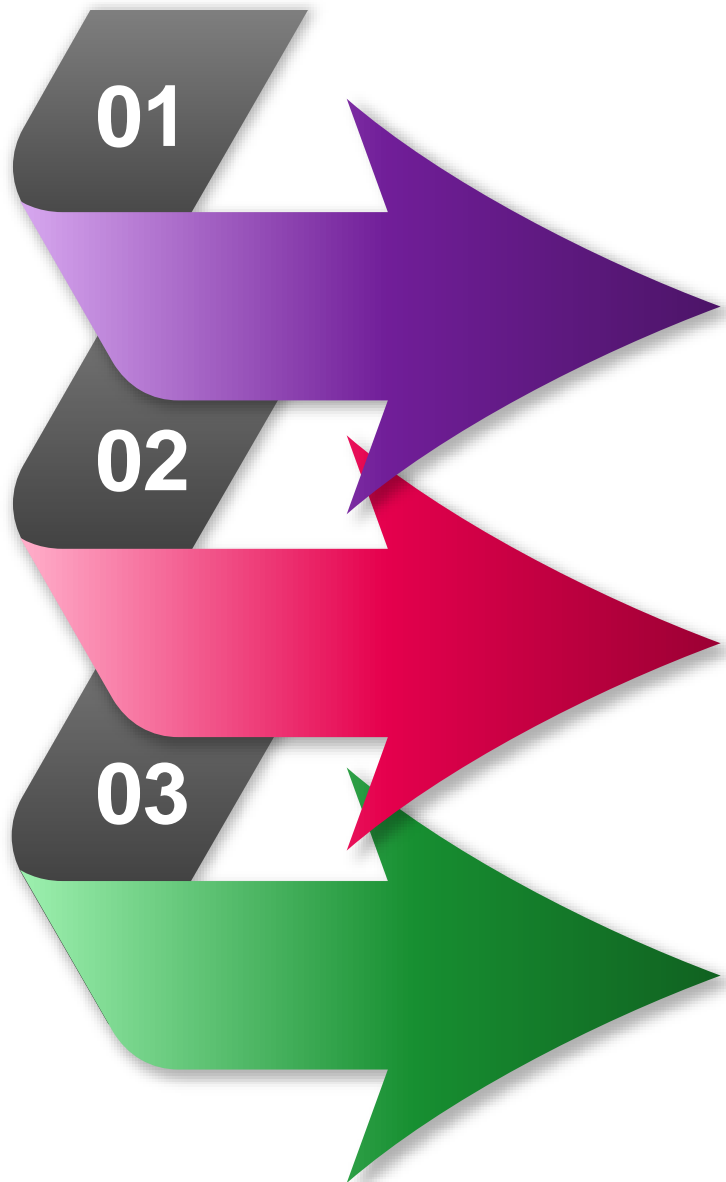
Internal Audit Report Formats



Audit Committee Report



Standard On Internal Audit 360 (Earlier SIA 9) – Communication With Management



Objectives

There is a clarity and consensus between the Internal Auditor and the management with regard to the scope, approach, objectives and timing of an internal audit

To help inform, persuade and act on matters important to the conduct of an internal audit by promoting a continuous dialogue and free flow of information between the Internal Auditor and management

To help resolve any conflicts in a timely manner

Standard On Internal Audit 360 (Earlier SIA 9) – Communication With Management

- ❑ The Internal Auditor is required to have an effective two-way communication with the management, both while managing the internal audit function, and also while conducting an internal audit assignment.
- ❑ A continuous dialogue with management, at various stages of the internal audit process, is essential to the achievement of internal audit objectives.

Discussion Draft

At the conclusion of the fieldwork, the internal auditor should share the discussion draft.

Final Report

The internal auditor should submit the final internal audit report to the appointing authority or management, as directed.



Exit Meeting

The internal auditor should discuss with the management regarding the findings, observations recommendations, and text of the discussion draft.

Formal Draft

The internal auditor should then prepare a format draft report, taking into account any revision or modification resulting from the exit meeting and other discussions.

STAKEHOLDERS MANAGEMENT

Stakeholders Management

01 Identify your stakeholders (who / to whom)

02 Identify stakeholders expectation (why)

03 Identify how the message will be communicated (the stakeholder's preferred method)

04 Identify communication necessary to satisfy stakeholders expectation and keep them informed (what)

05 Identify and finalize how the report will be communicated (this should be finalized at the design stage itself)

06 Identify time frame / frequency of communication

07 Adherence to time frame i.e. avoid last minute rush

Who Are The Stakeholders Of Internal Audit



What Are The Stakeholders Expectations

Process Owner

- ▶ Process understanding
- ▶ Genuine observations
- ▶ Listen to their point of view
- ▶ Practical suggestions / recommendations
- ▶ Cost-effective solution

HOD / CFO / CEO / COO / MD

- ▶ Overall risk assessment
- ▶ Categorization based on risk
- ▶ Summarized findings
- ▶ Root cause analysis
- ▶ Recommendations
- ▶ Process owner's acceptance, agreed action plan, first-person responsible for implementation and target date
- ▶ Value addition

Audit Committee

- ▶ Overall coverage and risk assessment
- ▶ Statutory non-compliances
- ▶ The Summarized finding of key issues
- ▶ Preventive controls / automated controls
- ▶ Management comments, agreed action plan, first-person responsible for implementation and target date
- ▶ Providing assurance / comment on improvement
- ▶ Value addition

Statutory Auditor

- ▶ Overall coverage
- ▶ Issues which affects the true and fair view of the accounts / financial reporting
- ▶ Statutory non-compliances
- ▶ Assurance which they can rely on
- ▶ Comfort which would help them make a proper assessment and save their time

Different Form Of Communication For Each Stakeholder

Process Owners

- Discussion of queries during audit
 - The draft internal audit report
 - Detailed annexures



HOD

- The internal audit report
- Discussion on observations at exit meeting and prima facie reply

CFO / CEO / MD / ACM

- Executive summary
- Dashboard presentation
- Final Internal audit report

Statutory Auditor

- Detailed audit report with annexures providing instances

What The Stakeholders Likes To See.....

Value-Adding Processes	Fraud Risks	Compliances
<ul style="list-style-type: none">▶ Revenue / Costs / Savings▶ Efficiency improvement (Rework, Complaints, Rejections, Returns, Inspections, Discounts, etc.)▶ Supply chain / procurement▶ Benchmarking▶ Analytics / Dashboard reporting	<ul style="list-style-type: none">▶ Fraud scenarios▶ Late adjustments▶ Related parties▶ Exceptions▶ Journal entries▶ New transactions / regions / products▶ Whistleblowing events▶ Delays▶ Continuing control deficiencies	<ul style="list-style-type: none">▶ Comprehensive compliance tracking and monitoring▶ Self-assessments▶ Independent reviews▶ Compliance history and assessments▶ Board certifications

Organizational Pressure – Pervasive Threat To The Internal Audit Objectivity/Reporting

- ❑ The situation in which individuals in leadership positions exercise their authority to achieve a personal benefit, or to protect an organization, attempt to manipulate the internal audit activity or internal audit reports.
- ❑ Such manipulation may result in actions to restrict the scope of audit activities, suppress audit findings, or undermine the credibility of the Chief Internal Auditor or the Internal Audit personnel's activity.

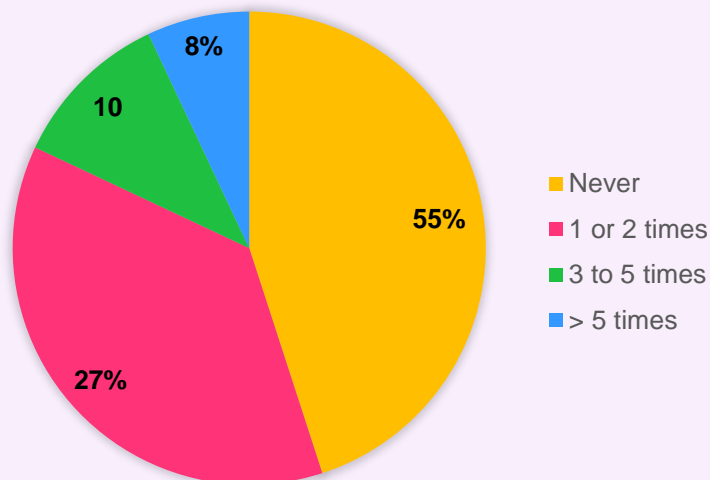
Situations Affecting Internal Auditing:

- ❑ Chief Internal Auditor threatened with the loss of future job opportunities if they continued audit (examples include stagnation when peers upgraded, re-structured out of the company, negotiated package to leave the company, eventual termination & personal threats).
- ❑ Chief Internal Auditor who ignored executive and reported the issue to the Board, subsequently excluded from key executive meetings (examples include access to restricted information, treated as not part of the team, not a team player, silent treatment given).
- ❑ CEO who refused to meet with the Chief Internal Audit to avoid having direct knowledge of the issue at hand.

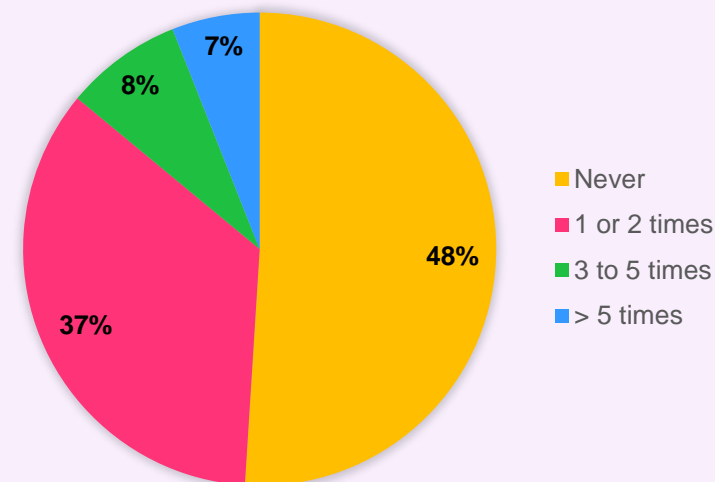
Organizational Pressure – Pervasive Threat To The Internal Audit Objectivity /Reporting

Illustration – Extent of Pressure

Number of times asked to suppress a finding



Number of times requested not to audit high-risk area



Aggravating Factors:

- Lack of strong ethical culture from top-down
- Lack of strong, independent and supportive audit committee
- The culture that embraces risk and not controls
- Weak relationship between Chief Internal Audit and Audit Committee Chairperson or Chief Internal Auditor and Key Executives
- Chief Internal Auditor who lacks objectivity, integrity, courage, or sound judgment
- Internal audit function in an organization that lacks competence

Implications on Reporting

Should Make Foundation Strong	CIA 's Desired Attributes	CIA Should Build Relationship
▶ Strong governance, knowledgeable board	▶ Integrity and courage – Know your internal 'Limitations' – Stand firm on important issues	▶ Meet outside of scheduled, formal meetings
▶ Strong reporting relationship and position – Direct reporting relationship –CIA and board/audit committee – Chief Internal Audit – Recognised senior independent position	▶ Objective and fair	▶ Learn about Executives– objectives, accomplishments, interests
▶ Clear and supportive charter – Documents showing with clarity-unique role of Internal Auditor – Specifies authority and unrestricted scope	▶ Relationship builder – with the board, executives and management – “We are all after the same objectives.”	▶ Lead outside of Internal Audit role; be visible
▶ Decision framework – when to take a stand – Identify alternatives, consequences	▶ Judgement to know what is an important issue and when to take a stand, How to take a stand?	▶ Educate on emerging topics/Risks
▶ Strong business knowledge	▶ Anticipates and proactively addresses issues – Discuss protocols in advance – Know key parties and motivations	▶ Find mutual areas of interest; do not take meetings casually but prepare in detail to be effective

Reporting of CIA – Lack of Independence Could Have Impact On Internal Audit Reporting

Ideally, the Internal Audit function should report

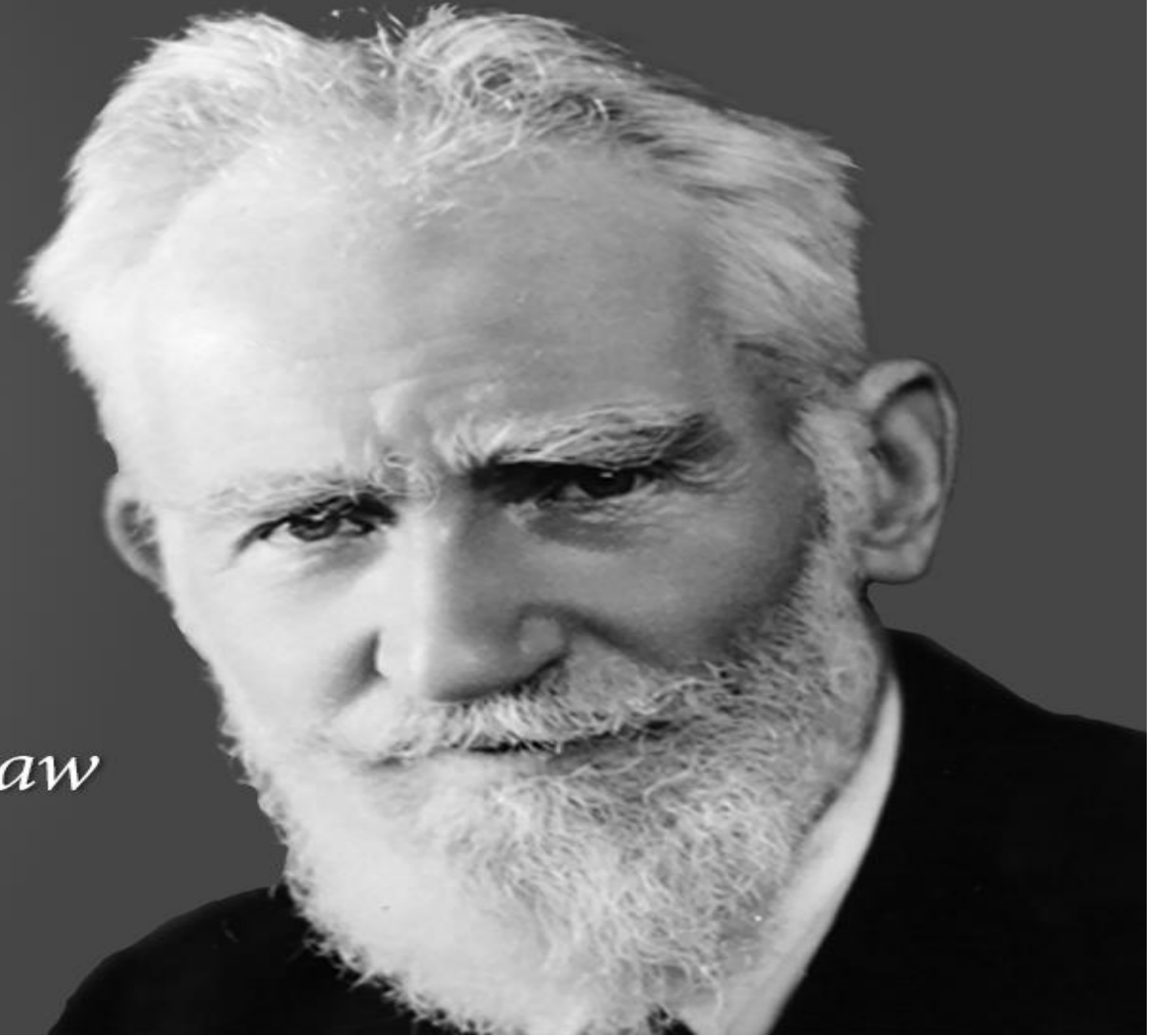
- Functionally to the Audit Committee Chairperson
- Administratively to the CEO/Executive director of the organization

Key measures to ensure the independence of the Internal Audit department:

- The Chief Internal Audit should meet privately with the Board/Audit Committee without the presence of the management.
- The Audit Committee should have final authority to review and approve the annual audit plan and all major changes to the Audit plan.
- The Audit Committee should review the performance of the Chief Internal Auditor and overall Internal Audit function at least once a year, as well approve the compensation levels for the Chief Internal Audit.
- The Internal Audit charter should clearly articulate both functional and administrative reporting lines for the function as well as its principal activities.
- The reporting line should facilitate open and direct communications with CEO, senior executive group and line management.
- The Internal Audit should have unrestricted access to information flows so that it receives adequate and timely information concerning the activities, plans and business initiatives of the organization.
- Budgetary controls and considerations imposed by the administrative reporting line should not impede internal audit in accomplishing its objective.

“The single biggest
problem in
communication is
the illusion that
it has taken place.”

~ *George Bernard Shaw*



“If you talk to a man in a language he understands, that goes to his head. If you talk to him in his language, that goes to his heart.”

Nelson Mandela



CONCLUDING THOUGHTS

Concluding Thoughts

- ❑ The people who receive internal audit services (audit clients) are becoming more seeking greater value-add from audits. They are seeking insights gathered from operational audits, rather than a narrow compliance audit approach.
- ❑ Internal audit is not an isolated technical exercise but it is an integral part of the corporate governance process and the report which is the culmination of the audit process has far-reaching consequences in changing the way the business is done and risks are managed.
- ❑ A report is a reflection of the auditor's mindset and is only as good as the approach with which the audit has been done. No amount of add on by way of style and presentation can mask the inadequacy of the auditor's performance.
- ❑ The internal auditor has to not only possess adequate knowledge of the business he is auditing but also internalize that he is part of the management and his audit objective is aligned to the business enterprise objective and goals.
- ❑ Management is seeking internal audit reports that are easy to read, 'tell a story', and get to the point.
- ❑ Management values internal audit reports that provide a conclusion or opinion on the activity audited.
- ❑ The success of audit reporting is determined largely by the attitude and approach with which internal auditor carries out his duties. As auditors, we should aspire to be the agents of positive change in the organization, and strive to be viewed and accepted as valued insiders.



***“ You never
have a second
chance to
make a first
impression ”***

People begin
forming an opinion
within seconds

Difficult to reverse
first opinion



REFERENCE MATERIAL

Typical Elements In An Internal Audit Report

01

- ▶ Title Page
- ▶ Addressee
- ▶ Report Distribution List
- ▶ Period of Audit Covered

02

- ▶ Table Of Contents

03

Executive Summary:

- ▶ Report Rating
- ▶ Audit Issues
- ▶ Status of Management Remediation Plan

04

Audit Issues Highlighting:

- ▶ Key Finding
- ▶ Root Cause of Issue
- ▶ Business Impact/Risk
- ▶ Issue Severity - Risk Rating
- ▶ Recommendation
- ▶ Management Comments
- ▶ Issue Owner
- ▶ Target Date of Action

05

- ▶ Assurance Limitation Disclaimer
- ▶ Annexures

Opening / Introductory Paragraph And Scope Paragraph



Opening / introductory paragraph should comprise of the following:

- Background of the company / entity
- Identification of process and items of financial statements audited
- Statement of responsibility of the entity's management and responsibility of the internal auditor

Scope Paragraph should comprise of the following:

- Reference to the generally accepted audit procedures in India / overseas as applicable
- Description of the audit engagement background and the methodology of the internal audit
- Description of the population and the sampling technique used
- Limitation in scope / exclusions, if any



Detailed Report – Features Of The Observation

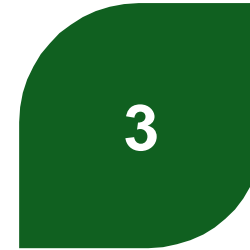
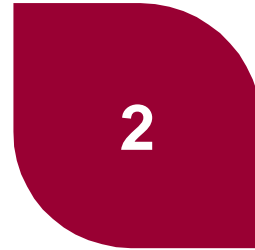
Criteria

What is the standard that was not met?

The standard may be a company policy or other regulatory guideline. expectations used in making an evaluation

Condition

The factual evidence as to what was found

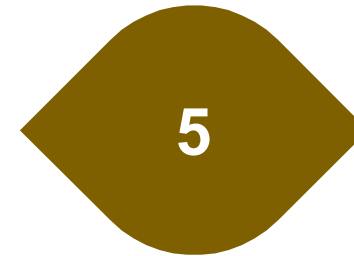
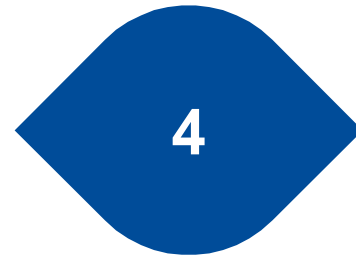


Cause

Reason for difference between criteria & condition [lack of controls, circumvention of controls or external influences]

Consequences

Difference between condition and criteria [impact on the individual, business unit and company as a whole, quantify the impact]



Corrective Action

Action that must be taken to correct the cause

5 Cs In Report Writing – Case Study

Observation To Contain 5Cs	Observation To Answer The Following	Example
Criteria	What is the standard?	Variation in stock on physical verification with the balance as reflected in the stock register should be NIL.
Condition	What is wrong?	The stock physically verified was short by 5045 units as against the balance shown in the stock register.
Cause	Why is it wrong?	Issues made during the night shift were not recorded.
Consequences	What is the risk / impact?	The stock position in the books is overstated and the possibility of stock pilferage is high due to lack of control.
Corrective Action	What should be done? / How to correct?	<p>Night shift stock keeper needs to be appointed.</p> <p>Alternatively, the requirement of stock for the night shift should be issued at day end as per the requisition of the production in charge for the night shift.</p> <p>The consumption during night shift is verified by counting in the morning the balance stock left out of the lot issued to the floor during the previous days close.</p>

Risk Rating / Risk Category / Controls Rating – Legends

RISK RATING	
High (H)	Represents critical control weaknesses requiring prompt action to mitigate information systems or business process vulnerabilities. Adequate compensating controls do not exist to mitigate risk exposure, or may not be sufficient given the impact of a risk occurrence should it occur. Regulatory non-compliances involving penalties/prosecutions are also included in this category and having financial impact exceeding say USD 250K.
Medium (M)	Represents moderate control weaknesses requiring near-term management focus to strengthen existing controls. Some compensating controls are present, but additional controls are necessary to further mitigate risk exposure and having financial impact between say USD 100K to 250K.
Low (L)	Represents minor control weaknesses requiring management focus to enhance existing controls. Compensating controls are present to mitigate exposure (or if not, the impact of a risk occurrence is minor), but opportunities exist to enhance controls or improve operating efficiency and having financial impact say below USD 100K.

RISK CATEGORY	
Operational (O)	Effectiveness and efficiency of operations.
Financial (F)	Reliability of financial reporting / financial impact.
Compliance (C)	Compliance with applicable laws and regulations.
Process Improvement (PI)	Scope of improvement in the business process.

CONTROLS RATING	
Moderate (M)	Controls are present to mitigate most process/business risk, but management should evaluate opportunities to enhance existing controls.
Limited (L)	Existing controls may not mitigate process/business risk and management should consider implementing a stronger control structure.

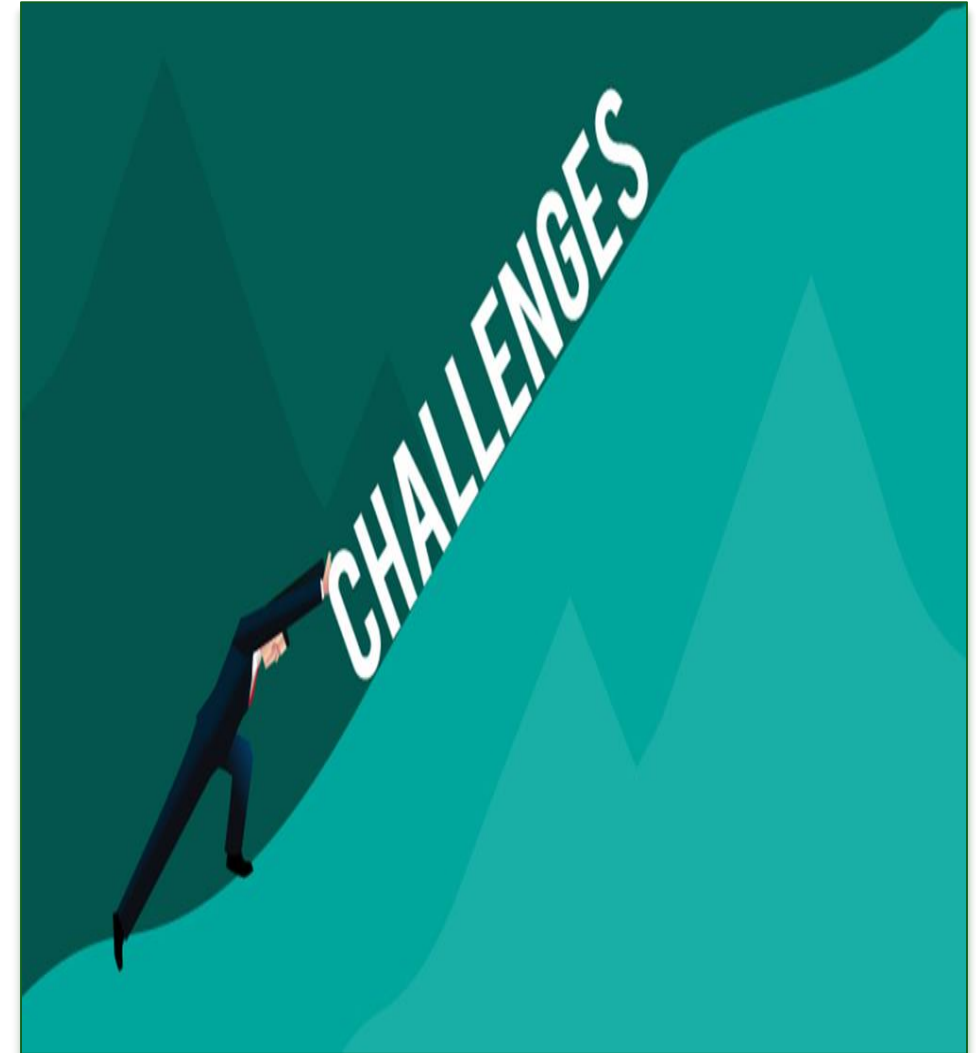
Management Response

- ❑ Management response should be SMART (Specific, Measurable, Achievable, Reliable, Time-bound).
- ❑ Management response should contain the following:
 - ▶ Specific reply to the observation (to the point and not a general reply)
 - ▶ Action verbs like Define, Develop, Implement, Review, Approve, Perform, Generate, Set-up, etc.
 - ▶ The time frame for taking appropriate corrective action
 - ▶ Personnel responsible for taking action
 - ▶ Resource requirements, if any, for ensuring such compliance



Audit Reporting Challenges

- ▶ Reporting issues that don't matter to the board and top executives
 - ▶ Failing to communicate what matters when it matters
 - ▶ Lengthy cycle times – time taken for formal report writing
- Consequences of lengthy audit cycles are
- Audit results are not timely
 - Stakeholders dissatisfaction
 - Inefficient use of internal auditors time
- ▶ Factually incorrect reports
 - ▶ Size of the report and maintaining balance
 - ▶ Implications or risk not being brought out clearly
 - ▶ Focus only on negative aspects or mistakes
 - ▶ Projecting process owners as villains or blowing up things out of proportion
 - ▶ Lack of practical recommendations
 - ▶ The reader cannot connect with the report



Common Mistakes In Internal Audit Reports

Flow of Report

- ▶ More focus on the transaction rather than the process or system failure
- ▶ Lack of pattern or flow in the report – this confuses the reader
- ▶ Starts with the most low risk points – can lead to loss of interest of the reader
- ▶ Important point gets lost in the volume of pages

Incomplete Information

- ▶ Does not contain proper examples, sample size, extent of problem, root cause
- ▶ Not quantified for business impact or risk of the observations
- ▶ Recommendations (or poorly drafted recommendation)

Drafting Errors

- ▶ Spelling mistakes
- ▶ Wrong English
- ▶ Incomplete sentences
- ▶ Long sentences
- ▶ Incorrect use of punctuations

Use of Technical Jargons

- ▶ Confuses the reader
- ▶ Makes report reading more painful

Essentials Of A Good Internal Audit Report

Accurate	Objective	Clear	Concise	Constructive	Complete	Timely
Free from errors and distortions and faithful to the underlying facts	Fair, impartial, and unbiased and is a result of a fair-minded and balanced assessment of all relevant facts and circumstances	Easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information	To the point, avoid unnecessary elaboration, superfluous detail, redundancy, repetitiveness and wordiness	Helpful to the auditee /client and the organization and leads to improvements where needed	Lacking nothing that is essential to the target audience and includes all significant and relevant information and observations to support recommendations and conclusions	Opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action

Internal Audit Report Format

- ❑ Standards on internal audit do not specify any report format
- ❑ Different organizations use different report formats (Word, Excel and PowerPoint)
- ❑ The format depends on management expectation and requirements
- ❑ The appropriate format should be used with consistency
- ❑ Management will feel more comfortable if it becomes accustomed to the report format and can readily turn to whatever is of interest



Report Format	Characteristics
Word Format	<ul style="list-style-type: none">▶ Traditional form▶ Simple to use▶ Reference to report page / para
Power Point Presentation	<ul style="list-style-type: none">▶ Most commonly used▶ Facilitates use of risk indicators
Excel Sheet	<ul style="list-style-type: none">▶ Effective tool for grouping of various observations - especially annexures▶ Simple to use

Tips For Writing An Effective Executive Summary

Executive Summary:

- An executive summary is a brief section before the commencement of detailed audit report. It is part of the report that is read first.
- It summarizes the audit findings and action plan in minimal text. People who read only the executive summary should get the essence of the document.
- An executive summary provides conclusion / auditors opinion on the area under audit.



















Need For Executive Summary:

- Enables the key personnel to read the report in less time.
- Macro perspective in short form and quick reference for future use.
- Pick and choose – the reader can decide what he wants to read.
- Readers judges and decides based on the executive summary to see if the rest of the report is worth reading.

Tips For Executive Summary:

- Clear and concise, correct and simple. The executive summary should be 1-2 pages at the max.
- Stay away from long sentences and big words in the executive summary.
- Verify that the headings used in the summary match the body copy of the document.
- Present the sections of the executive summary in the same order as in the main report.
- Include all the must-know information in the executive summary and remove unnecessary phrases or unclear content.
- Format for readability with plenty of space between points and clear headings that guide the reader.
- Verify that the summary stands alone and supports the objective if it is the only portion of the document that will be read.

Executive Summary – Sample 1

Sr. No.	Audit Observation	Action Plan	Risk Category	Risk Rating	Control Rating	Slide Reference
1						
2						
3						
4						
5						
6						

Risk Category  Financial  Operational  Compliance

Risk Rating  High  Medium  Low

Control Rating  Moderate  Limited

Executive Summary – Sample 2

Issues		Business Impact	Responsible Person	Due Date
	▶			
	▶			
	▶			
	▶			
	▶			
	▶			

Detailed Observation – Sample 1

Risk Rating  High  Medium  Low

Risk Category  Financial  Operational  Compliance

Control Rating  Moderate  Limited

1) Observation Heading

<u>Issue:</u>	<u>Root Cause:</u>	<u>Recommendation:</u>
	<u>Risk & Impact:</u>	<u>Management Response:</u>
<u>Background:</u>		
<u>Person Responsible:</u>		<u>Target Date:</u>

Detailed Observation – Sample 2

Critical

Root Cause:

Design
Deficiency

System
Deficiency

Operational
Ineffectiveness

External

1. Observation Heading

Observation

Risk & Implication

Management Comments

Recommended Action

Owner and Target Date

Typical Contents Of An Audit Committee Presentation

Understanding Board Expectations

- Understanding board expectations is critical when determining content.
- By reviewing key documents such as the audit committee charter, internal audit can gain an understanding of the audit committee's risks and needs.
- It is recommended to meet separately with the audit committee (and senior management if deemed appropriate) to determine reporting framework and expectations upfront.

Content Of Audit Committee Presentation

- Dashboard report on current activities
- Critical findings or emerging trends
- Results of special investigations, status of the annual audit plan and any changes done
- Internal audit staffing, impact of resource limitations
- Department performance metrics / scores

Quarterly Audit Committee Presentation

- Summarize for the committee what they need to know about routine findings in a logical summary format and report separately on more important matters such as:
 - Matters that might affect the fairness of financial reporting.
 - Breaches of the company's ethics policies.
 - Details of any frauds discovered, financial values of such frauds.
 - Significant delays in management responding to findings and recommendations.
 - Monitoring and follow-up activities.

Yearly Audit Committee Presentation

- Annual report is typically a summary of the four quarterly reports. Additional items to cover may include:
 - Details of changes in personnel's in the internal audit department.
 - Report on the year in review to include themes or trends identified.
 - Update of the risk assessment and audit plan.
 - Report on the results of the internal quality assurance and improvement program.
 - Discuss the results of the external quality assurance review, timing / frequency of the external assessment and reviewer's background.
 - Review and approve updates to the internal audit department charter.
 - Confirmation of the independence of the internal audit activity.
 - Reporting of any impairments of independence or objectivity.

Audit Committee Dashboard – Sample 1

1) Number of Audits Completed In Q2 (2019-20): XX

Sr. No.	Audit Area / Audit Entity	Region	Audit Rating	Detailed Issue And Action Plan Reference
1		Latin America	Unsatisfactory	Slide no. xx
2		Latin America	Unsatisfactory	Slide no. xx
3		Asia	Improvement Opportunity	Slide no. xx
4		Africa	Improvement Opportunity	Slide no. xx
5		North America	Satisfactory	-
6		Europe	Satisfactory	-
7		Middle East Australia , NZ	Satisfactory	-

Entity Audit Rating / Conclusion

Unsatisfactory	<ul style="list-style-type: none"> • Financial Loss / Fraud > USD 1 million • Some key controls do not exist, or are not properly implemented, and there are high risk improvement opportunities. • Control environment is impaired.
Improvement Opportunity	<ul style="list-style-type: none"> • Financial Loss / Fraud up to USD 1 million • Adequate control environment in most areas. • Moderate risk improvement opportunities identified, which require corrective action.
Satisfactory	<ul style="list-style-type: none"> • Satisfactory overall control environment. • Small number of lower risk improvement opportunities identified, which require corrective action.

Audit Committee Dashboard – Sample 1

2) Remediation Status Of Past Quarters Key Audit Observations

Open Audit Issues (at quarter beginning)	Issue Closed during current quarter	Unresolved / pending issues above 6 months	Global CFO intervention/ support required
7 For details, please refer slide no. xx to xx	4	3 (For details, please refer slide no. xx to xx)	1 (For details, please refer slide no. xx to xx)

3) Significant Audit Issues Summary

Sr. No.	Audit Area / Audit Entity	Audit Observation	Agreed Action Plan	Risk Rating *	Risk Category *	Control Rating *
1				High	Financial	Moderate
2				Medium	Operational	Limited
3				Medium	Compliance	Limited
4				Low	Process Improvement	Limited

* Legends explained in next slide

Audit Coverage And Assurance Limitation

- ❑ The major objective of internal audit review is to understand the key activities and controls in the business processes designed, review design effectiveness of business processes and controls, assess the operating effectiveness of internal controls and provide recommendations for business process and internal control improvement.
- ❑ Internal auditors don't plan and prepare work with the objective of preventing and discovering fraud and gives no assurance that the period covered by an internal audit would be free of fraud or other irregularities. If during the course of internal audit, we come across any fraudulent activity, we carry out our review in respect of that business process in detail and report on the same to the management and audit committee.
- ❑ The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. The responsibility for a sound internal control system and the prevention and detection of fraud and other irregularities rests with management. Work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Our focus is more on walkthroughs of business processes and identification of internal control gaps so that the control environment can be strengthened further.
- ❑ Internal audit procedures are designed to focus on areas of greatest risk and significance which are identified and agreed with management in advance, internal audit scope and approved annual internal audit plan. Since the internal audit is executed by an individual internal auditor on the basis of their ability to assess risk and situation of control environment of a particular audit area/entity, audit procedures may not disclose/conduct an audit of all issues and/or other significant matters about the department/company, or reveal all errors, irregularities and frauds in the underlying information due to limitation of skill set, time spent on an entity for audit and other uncontrollable limitations.
- ❑ The approach employed during the internal audit work does not constitute a comprehensive review of all the operations and is subject to the level of bias in the method of sample selection.
- ❑ Internal auditors rely on management to provide accounting and other records for the purposes of audit work to ensure the authenticity of these records.

Thank you