How to Write an Audit Finding

The Basics of Internal Auditing
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Agenda

- Objectives and Conclusions
- Elements of a Finding
- Root Cause Analysis
- Recommendations
- Record of Findings
- Final Words
- Resources

Standard 2410
Criteria for Communicating

- Communications must include the engagement’s objectives and scope as well as applicable conclusions, recommendations, and action plans.
  - See Practice Advisory 2410-1, Communication Criteria.
Objectives and Conclusions

- Audit objectives and conclusions must be logically related.

Avoid the “I like ice cream, do you skate?” syndrome.

Objectives and Conclusions
The Logical Link

<table>
<thead>
<tr>
<th>Objective 1</th>
<th>Conclusion 1</th>
<th>Recommendation</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Objective 2</th>
<th>Conclusion 2</th>
<th>Recommendation</th>
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<table>
<thead>
<tr>
<th>Objective 3</th>
<th>Conclusion 3</th>
<th>Recommendation</th>
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Objectives and Conclusions
Example 1

- **Objective 1**: Determine whether selected internal control activities for protecting IT resources are adequate and consistently implemented.

- **Conclusion**: Control activities for managing the purchase of IT resources appear to comply with applicable regulations, policies, and procedures.
Objectives and Conclusions
Example 2

- **Objective 1:** Determine whether regulations, policies, and procedures for protecting IT resources are adequate and consistently implemented.

- **Conclusion:** Regulations, policies, and procedures for managing the purchase of IT resources are adequate, and they are consistently implemented.

Practice Advisory 2410-1
Communication Criteria (Excerpt)

- (7) Observations and recommendations are based on the following attributes:
  - Criteria
  - Condition
  - Cause
  - Effect
  - Observations and recommendations can include engagement client accomplishments, related issues, and supportive information.
- (9) The internal auditor may communicate recommendations for improvements, acknowledgements of satisfactory performance, and corrective actions.

Finding Elements

- **Criteria** (The way it should be)
- **Condition** (The way it is)
- **Cause** (The reason why)
- **Effect** (So what?)
- **Recommendation** (Addresses cause)

- **Controls**
- **Management**
  - **Plan**
  - **Organize**
  - **Staff**
  - **Direct**
  - **Monitor**
- **Cost**
- **Effectiveness**
- **Efficiency**
- **Goals**
Function of a Finding

- A finding tells the reader:
  - what occurred
  - how significant the occurrence was
  - how to avoid its reoccurrence

Characteristics of Findings

- Significant enough to deserve being reported to management.
- Documented by fact and evidence that is sufficient, competent, and relevant.
- Objectively developed without bias or preconceived ideas.
- Relevant to the issue involved.
- Convincing enough to compel action to correct the detective condition.

Criteria

- What should be
  - The yardstick—standard of measurement
  - Laws
  - Rules
  - Policies and procedures
  - Industry standards
  - Benchmarks
  - Best practices
Condition

- What is or has happened
  - Based on the facts determined by observations, interviews, analysis, verification, and testing
  - Examples:
    - Noncompliance with a law, rule, policy, or procedure
    - An important control element is lacking
    - A process is not efficient
    - A process is not effective

Cause

- Why the condition exists or occurred (or why there is a deviation from the criteria)
  - Identify the root cause(s)
    - Gather and analyze facts
    - Dig deep, not just on the surface
    - May be multiple causes
  - Examples:
    - Lack of training
    - Lack of financial resources
    - Procedures are incomplete
    - Procedures are not being enforced

Cause

Standard 2320
Analysis and Evaluation

- Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.
- See Practice Advisory 2320-2, Root Cause Analysis
We often preoccupy ourselves with the symptoms, whereas if we went to the root cause of the problems, we would be able to overcome the problems once and for all.

Wangari Maathai

Cause
Root Cause Analysis

The 5 W’s

EXAMPLE
1. Why?
2. Why?
3. Why?
4. Why?
5. Why?

Effect

- So what?
- Why management should care
- What are the consequences?
  - Harm to self or others
  - Cost - $$$$$
  - Lack of effectiveness
  - Lack of efficiency
  - Not meeting goals
  - Negative public reaction
Recommendations
- Must be convincing or it will not be implemented.
- Must address the basic/root cause
- Identify an action official
- Specific
  - BUT: Focus on what needs to be done, not how to do it
- Significant
- Feasible
- Cost Effective
- Positive Tone and Content
- Give credit for actions already taken

Record of Findings

<table>
<thead>
<tr>
<th>Engagement Name</th>
<th>Auditor Name</th>
<th>Date Submitted</th>
<th>Reviewer Name</th>
<th>Date Reviewed</th>
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</thead>
<tbody>
<tr>
<td>Objective</td>
<td>Criteria</td>
<td>Condition</td>
<td>Cause</td>
<td>Recommendation</td>
</tr>
<tr>
<td>Repeat Finding?</td>
<td>Yes</td>
<td>No</td>
<td>Auditee with Whom Discussed</td>
<td>Date of Discussion</td>
</tr>
<tr>
<td>Prior Audit Information</td>
<td>Disposition</td>
<td></td>
<td></td>
<td></td>
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</tbody>
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Final Words
- Before presenting findings to your supervisor:
  - Review them after a few days
  - Review from the recommendation back to the objective
  - Ask somebody else to review
Resources

- Sawyer’s Internal Auditing: The Practice of Modern Internal Auditing
- “Determine the Root Cause: 5 Whys”
- “Root Cause Analysis Tools”

Thank you

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