

## Chapter 12

### NATURE AND PRESENTATION OF AUDIT FINDINGS AND RECOMMENDATIONS

<u>Section</u>	<u>Contents</u>	<u>Page</u>
1200	Purpose and Background	12-1
1201	Nature of Audit Findings and Recommendations	12-1
1202	Presentation of Audit Findings and Recommendations	12-2
1203	Characteristics of Well Written Findings and Recommendations	12-6
1204	Putting the Finding on Paper	12-9
1205	Drafting and Issuing the Audit Report	12-10

## Chapter 12 - Nature and Presentation of Audit Findings and Recommendations

### 1200. Purpose and Background

1. This chapter establishes policies and procedures for audit findings.
2. Communicating the results of our audit work to University management is one of our principal responsibilities. Our end products are measured on how effectively we report to all levels of management on problems needing management's attention. Each of our reports must therefore be well planned and carefully prepared to ensure that all important items noted in our examination are properly brought to their attention. Written audit reports are our usual means of communicating because:
  - A. They represent our formal, official position on the results of our audit work and our suggestions for action.
  - B. They receive wider circulation at higher levels of management and therefore, greater and more serious attention than oral reports.
  - C. Effective follow-up on corrective actions is, for all practical purposes, impossible unless what we have to say is included in an audit report.
  - D. They provide us with a basis for setting our own report standards (in quantity and quality) against which we can measure our audit effectiveness.

### 1201. Nature of Audit Findings and Recommendations

1. What is an audit finding? For our purposes, it is a written explanation of errors, weaknesses, deficiencies, adverse conditions, or the need for improvements or changes that are disclosed in an audit. It is a constructively critical commentary on actions or inactions, which, in the auditor's judgment, hinder the accomplishment of desired objectives in an effective and efficient manner. An audit finding usually is accompanied by a recommendation for specific action to correct the cited deficiency. Normally, our audit reports concentrate on informing management about things that call for corrective action (findings). But you should keep in mind that particularly good operations may, under certain circumstances, be commented on in our reports. Such comments must be adequately supported just as in the case of adverse findings.
2. Well developed audit findings, regardless of subject matter, have certain common elements. As a result, a standard finding sheet form (Exhibit 10-3) has been developed to include these common elements. See section 1202 for additional details.
3. Although each finding is different, basic characteristics are as follows:

- A. It must be significant.
- B. It must be based on accurate.
- C. It must be adequately developed in an objective manner and fully supported in our working papers.
- D. It must be based on sufficient evidence that supports the conclusions reached.
- E. The conclusions reached must be logical and reasonable.
- F. It must be convincing.

## 1202. Presentation of Audit Findings and Recommendations

1. During each phase of the audit (i.e. preliminary survey, systems understanding, and fieldwork), potential findings should be documented on finding sheets (Exhibit 10-3). The auditor-in-charge should submit the finding sheets (page 1 only) to the department head, discuss the findings with the department head (via meeting, phone call, e-mail, etc.), and document discussions on the finding sheets (page 2). At the conclusion of each phase, findings will be reviewed by the Audit Director.
2. Procedures for completing the finding sheet are as follows:
  - A. Title – The title should briefly describe the recommendation. Typically the title should begin with a verb and be constructive in tone (e.g., "Enhance Controls Over...", "Establish Procedures for...", "Require Approval of..." etc.).
  - B. Audit Finding - In this section you should describe the circumstances surrounding the finding, present facts or examples supporting the finding, and provide the reader with sufficient qualitative and quantitative evidence. Also, the opening sentence should gain the reader's attention by letting him or her know right away what you found.

This section should also include criteria (i.e., standards against which the questionable condition or behavior is being measured). Published criteria may be directly quoted, summarized or paraphrased, depending upon its length, relevance, and clarity. Examples of criteria include University policies and procedures, State policies and directives, Federal laws and regulations, and departmental procedures.

Some additional guidelines for the "Audit Finding" section are:

- (1) Present information on similar findings from prior reviews and indicate action or lack of action on them.

- (2) If you report that a percentage or number of instances showed a particular deficiency, indicate relative importance by stating the number of sample items tested.
  - (3) Avoid projecting conclusions over a large population if the sample on which you based your conclusion was small.
  - (4) When applicable, note corrective actions previously initiated by management.
- C. Cause - This section should document the underlying reason for the questionable behavior or condition. Examples of cause include:
- (1) Lack of communication.
  - (2) Lack of effective or sufficient supervision or lack of supervisory review.
  - (3) Inadequate policies and procedures.
  - (4) Requirements (policies, procedures, directives, laws, regulations, etc.) not followed or not distributed.
  - (5) Lack of resources (funds or staff).
  - (6) Negligence or carelessness.
  - (7) Lack of training.
  - (8) Conscious decision or instruction to deviate from requirements.
  - (9) Lack of planning, ineffective organizational arrangement, or improper delegations of authority.
  - (10) Unawareness of the problem and/or the potential benefits if the condition is changed.
- D. Effect - This section should document the actual or potential adverse effects which have resulted or could result from the condition being questioned. To the extent possible, the effect should be quantified. Examples of effect include
- (1) Uneconomical use of resources (e.g., time, money, manpower).
  - (2) Loss of potential income.
  - (3) Noncompliance with Federal, State or University requirements.

- (4) Ineffectiveness (job is not being accomplished as well as it could be or as intended).
- (5) Funds improperly spent.
- (6) Inaccurate information or information that is not useful or meaningful.
- (7) Inadequate control or loss of control over resources.
- (8) Lack of assurance that job is being done properly.
- (9) Lowered morale.

E. Recommendation - Generally, each finding will result in one or more recommendations. Guidelines for recommendations are as follows:

- (1) A recommendation should be as specific, realistic and constructive. In addition, the recommendation should relate to the cause of the weakness or deficiency.
- (2) Direct the recommendation to the specific officials who have responsibility and authority to take corrective action.
- (3) Avoid general recommendations (e.g., that controls be strengthened, that detailed plans be devised, that steps be taken to comply, etc.) unless you can combine such language with specific suggestions.
- (4) Do not recommend action that has already been taken. Instead, report that corrective action has been taken.
- (5) Avoid use of extreme language such as "immediately", or "expedite" unless the nature of the problem is so serious that such language is appropriate.
- (6) Do not introduce new information (i.e., material not included in the "Audit Finding" section) into the recommendation. The recommendation should follow logically from what you present in the finding.

F. Benefits of Recommendation to University – This section documents the potential benefit the University would receive if the recommended corrective action is implemented. The benefits are often the elimination or reduction of risks noted in the "Effect" section.

G. Date Delivered to Department Head – The auditor-in-charge should submit page 1 of the finding sheet to the department head and document the date delivered in this section. **If a finding suggests the possibility of fraud or irregularity, the auditor-**

**in-charge should obtain the Audit Director's approval prior to sending the finding sheet.**

- H. Results of Discussion with Department Head – Audit findings should be discussed (via meeting, phone call, e-mail, etc.) with the department head, and results of the discussions should be documented. During the discussion the auditor-in-charge should determine whether the department head concurs with the finding and recommendation. In addition, the auditor-in-charge should consider revising the finding sheet based on the results of the discussion. **If a finding suggests the possibility of fraud or irregularity, the auditor-in-charge should obtain the Audit Director's approval before discussing the finding with the department head.**
- I. Date Discussed with the Department Head – The auditor-in-charge should document the date the finding sheet was discussed in this section.
- J. Disposition – The auditor-in-charge should determine the disposition based upon discussions with management and auditor judgment. Possible dispositions include:
- (1) Report – All major (significant) findings should be included in the report. (See Section 1203 1.A for additional details.)
  - (2) Memo to the Department Head – In most cases, minor findings should be included in this document.
  - (3) Verbal – This disposition may be used for minor findings if additional information does not need to be communicated to the department head (i.e., after the finding sheet discussion).
  - (4) Drop – The finding may be dropped if the auditor-in-charge determines that the finding is inaccurate or insignificant.

For any finding not included in the report, the auditor-in-charge should document the rationale for not including the finding.

- K. Workpaper References – The finding sheet should be cross-referenced to all workpapers that support the finding.

## 1203. Characteristics of Well Written Findings and Recommendations

### 1. Fundamental Considerations.

#### A. Concentrate on reporting significant matters.

- (1) Audit reports should focus on major (significant) findings. In general, these findings address:
  - a. Important management control and procedural weaknesses.
  - b. Operational deficiencies.
  - c. Noncompliance with University, State or Federal requirements.
  - d. Improper costs including budget overruns, unallowable expenditures, etc.
- (2) How do you decide whether a finding is minor? There are no absolute standards and you will have to use good professional judgment. Here are some of the factors which help make an item minor:
  - a. An immaterial amount of money is involved.
  - b. It is a single, isolated deficiency or item of noncompliance.
  - c. There is no indication of a basic management weakness which warrants full and specific corrective action.
  - d. The condition disclosed has little or no actual or potential adverse effect on programs or operations.
  - e. The benefits are nominal.
- (3) Whenever possible, combine similar or related minor findings into one major finding. Doing this may enable you to better develop and show basic management weaknesses (causes) and more significant actual or potential adverse effects.
- (4) Do not exaggerate insignificant findings. Instead, present minor findings briefly and in such a way that they will not take on the same significance as major findings.
- (5) Trivial items are often not worth reporting and controlling for follow-up and clearance action. Formal reporting of minor, isolated deficiencies is an inefficient use of time and makes management less responsive to our overall

efforts. Discuss such items with management during the audit and consider excluding them from the report if adequate corrective action is taken or promised. Note such items in the workpapers and develop them as report findings only when they become repetitive or in some other way indicate a basic management weakness.

- B. Accuracy of facts and reasonableness of logic are most important. Do not exaggerate or overstate your case. Consider supporting evidence and be careful not to use data that could mislead.
  - C. Be objective. Include all significant, relevant information, even if it indicates disagreement with your point.
  - D. Do not be evasive. Do not rely on inferences or implications. If you have something to say and can support it, then say it. Do not hedge and rely on the reader to find hidden meanings in your reports, or expect him to "read between the lines".
  - E. Write constructively. Avoid disagreeable inflammatory tone, sarcasm, ridicule or oratory.
  - F. Stress the need for improvement in the future as opposed to focusing on deficiencies in the past. Acknowledge the risk and uncertainties that may have existed when the questionable action was taken. Recognize the possibility that the questionable action may have been reasonable under the circumstances existing at the time it occurred.
  - G. Timeliness of reports. Reports should be issued as soon as possible after completion of the audits; otherwise, our findings, conclusions, recommendations, and comments will lose their effectiveness.
  - H. Uncorrected conditions. All important matters disclosed by our audits should be considered for inclusion in the report even though management is aware of these conditions and does not intend to correct them. Failure to report unsatisfactory conditions might later be judged as careless oversight or construed to represent approval of the practice by the auditors. Each condition of this nature should be noted on the Matters for the Attention of Director form (Exhibit 10-2).
2. Improving Readability. So far this chapter has been primarily concerned with basic and substantive fundamentals of report finding presentation. The following list contains some other widely accepted suggestions for improving the quality of audit report writing. These have to do mainly with language, grammar, graphics, punctuation, and various aspects of effective word and picture usage.

A. Simplicity.

- (1) Write findings in simple, non-technical and clear language. If you must use jargon or technical terms, be sure to explain them so that anyone reading the report will understand. Simplify writing for wider readership.
- (2) Prefer simple, direct words and phrases. Use concrete words your reader can picture rather than abstract words.
- (3) Help clarify ideas by enumerating a series of items.

B. Conciseness.

- (1) Limit reports to information needed to support the points being made.
- (2) Write short, well organized paragraphs.
- (3) Write short, simple sentences. Avoid overloading them with too many separate ideas.
- (4) Use short report titles and captions.

C. Grammar and structure.

- (1) Use good grammar and punctuation.
- (2) Place modifiers close to the words they modify.
- (3) Use action verbs. Avoid the passive voice.
- (4) Strive for parallelism by using the same form to express similar ideas.
- (5) Present material in logical order. Avoid "non-sequitur" writing.
- (6) Avoid tense switching.
- (7) Ensure subject and verb number agreement.
- (8) Avoid "pyramiding" (too many words modifying the same noun).
- (9) Strive for effective transition. Attempt to tie thoughts together with words such as "however", "therefore", "in addition", etc.
- (10) Avoid use of "it" to begin sentences (e.g., "it is believed...").

D. Other readability factors.

- (1) Strive for variety in report language.
- (2) When possible, use visual aids (charts, tables, etc.) to help illustrate the subject matter.
- (3) Be concerned with physical appearance of reports (e.g., use of headings and bullets, effective page breaks, etc.)
- (4) Ensure that all words are spelled correctly.
- (5) Convey the meaning of abbreviations and initials early in reports. Then write out meanings only occasionally if the report is long and you want to relieve the reader from having to go back to the beginning.
- (6) If you want to refer to a form or instruction by number, state its name or subject somewhere in the report, preferably where it is first mentioned.

1204. Putting the Finding on Paper

1. Auditors use many ways to outline and organize their thoughts, and get their findings down on paper. Here are a few common steps to consider:
  - A. Jot down phrases, sentences, references and pieces of information that you may want to include in the finding. These shorthand notes will help you to sort out and identify the attributes or elements, major points, and subpoints of the finding.
  - B. Identify the finding sheet elements (e.g., audit finding, cause, effect, etc.) represented by each of the above pieces of information.
  - C. Determine the main theme of the finding and write the opening paragraph. This should contain a concise statement of the main point. If this step is difficult, the main point may not be clearly formed in your mind. Obtain more information and re-evaluate the problem so that you can determine the main point before proceeding.
  - D. Sort the remaining pieces of information and develop an outline for the finding.
  - E. After you are satisfied with your outline, write the finding. Planning and outlining your finding should facilitate the writing process and result in a more effective presentation.
  - F. Review what you have written and edit as necessary.

1205. Drafting and Issuing the Audit Report

Refer to Section 805: “Audit Findings and Reporting”.