

Quality of internal audit reports

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ABSTRACT

The purpose of this paper is to explore the completeness and quality of audit reports as perceived by internal audit's primary customer – the audit committee.

Data was collected using a structured questionnaire that was sent to audit committee chairpersons of banks registered with the South African Reserve Bank. Respondents were asked to provide their perceptions of the quality of the internal audit reports they routinely received.

The results highlight that not all internal audit functions present clear and appropriately focused reports. Whilst the audit committee chairpersons recognise that the internal audit reports do have value, there is also significant potential for improvement.

Key words

Internal audit; report; communication; quality

1 INTRODUCTION

While an internal audit function's fieldwork could be of exceptional quality, unless the written audit report has a matching quality of insight and clarity of expression, it seldom meets stakeholder expectations; furthermore, the report could in fact negate the value internal audit strives to add to the business.

The International Standards for the Professional Practice of Internal Auditing (herein referred to as the Standards) require the internal audit function to report periodically to senior management and to the board on the nature and extent of the risks the organisation is exposed to, and on control issues, fraud exposures and governance issues (IIA 2012:14). The board delegates this role to the audit committee (AC) which is then required to report to the board on internal audit matters. (For the purposes of this research paper, the term internal audit function will be used interchangeably with internal auditing, as no significant distinction of meaning was apparent in the literature reviewed for this paper).

The internal audit function usually provides information to the AC through written audit reports (Schneider 2009:24). The internal audit report consists of factual findings which have been identified during the execution of the audit, and serves as the formal tool of communication to stakeholders on the state of governance, risk exposure and control functions of an organisation.

Rittenberg (2002:32) explains that ACs require an effective information-gathering and dissemination system which is comprehensive, objective and

comprehensible in order for it to perform its duties effectively. Internal Audit can assist the AC with this information requirement by preparing an internal audit report that meets the aforementioned criteria.

Internal audit is recognised as being the eyes and ears of an AC, enabling the AC to provide independent feedback to the board (IIARF 2009:10). Thus, internal audit is in a favourable position to assist the AC in the effective discharge of its duty to report to the board.

A study conducted by PwC (2011:18) asserts that internal audit's "favourable position" is in fact a *unique* position as it is probably the only function that looks at every process across an organisation, and therefore has the unique ability to see the interconnectedness of processes and how they contribute to achieving the organisation's objectives.

Internal audit should therefore be using this position to their advantage and be pulling meaningful information (fraud, risk and governance exposures and control issues) from audits they have performed, incorporating this information into their reporting activities, and thus providing greater value and insight to the AC, thereby increasing the relevance of the internal audit function.

2 PURPOSE OF THE STUDY

The results of a recent survey conducted by PwC (2014:2) reveal that 30% of board members believe that internal audit adds less than "significant value" to organisations. As the deliverable emerging from every internal audit engagement is the internal audit report,

the question that arises is whether the audit reports are fairly conveying the situation discovered during the audit: in other words, would this perception change if the contents and writing style of the audit reports provided to the AC were improved?

Sufficient literature exists to provide persuasive perspectives on the quality of the internal audit function as a whole (Cathcart & Kapoor 2010:48; IIA 2014:5; Kapoor & Brozzetti 2012:1; Plant & Steyn 2010:6). However only a limited number of studies have been performed on the quality of the internal audit reports issued to their primary customers - the AC.

The recent collapse of African Bank has been attributed to weaknesses in the bank's micro lending/credit approval processes, weak governance structures and inappropriate regulatory oversight (Whitfield 2014:7). The question that arises from this is: why was the board unable to grasp the magnitude of the problems being experienced in African Bank *before* it was too late?

It is therefore relevant to explore the quality (completeness of content and clarity of writing) of reports that internal audit submits to AC chairpersons in South Africa's banking industry. For purposes of this research, the evidence collected to determine the quality of audit reports has been limited to the perceptions of chairpersons of ACs in South Africa's banking industry.

However, this introduces a limitation to the validity of this study in that the empirical research extends only to the views (perceptions) of AC chairpersons in the banking industry. Other limiting aspects were that no linguistic analyses were performed on the text of the reports the AC chairpersons had in mind when responding, nor were the findings verified by independent outside authorities. The results presented here should therefore not be seen as a generic view (applicable across all industries), of the value that internal audit reports add to the internal audit function's reputation. However the results do offer insights which other industries may find useful when reviewing their current reporting practices.

This research paper therefore focuses solely on the report presenting the internal audit function's audit engagement results to the AC chairperson. The primary objective of this research is to identify the current perceptions of the banking industry's AC chairpersons on the value of the content and accessibility of writing style of the internal audit reports they receive.

If poorly written internal audit reports, containing impractical or irrelevant information, are received by ACs, the AC chairpersons are unlikely to relay information on internal audit matters in any way that warrants the positive attention of the board. This then creates a negative impression of the value of the internal audit function.

The results of this research can assist in opening up the lines of communication and collaboration between the AC and the Chief Audit Executive (CAE) by serving as a starting point in a conversation to understand what it is that AC's require from internal audit reports.

In order to address the research objective presented above, a literature review and an empirical research study were performed. The literature review is presented in the next section and is divided into the following sub-sections:

- Defining the value that internal audit can add.
- Internal audit and the audit committee:
 - o the internal audit function's reporting lines; and
 - o the relationship between internal audit and the audit committee.
- Characteristics of an effective internal audit report:
 - o the content of audit work communicated in the report; and
 - o the quality of writing in internal audit reports.

3 LITERATURE REVIEW

3.1 Defining the value that internal audit can add

The glossary to the Standards (IIA 2012:22) defines the phrase *add value* as: "... when [the internal audit function] provides objective and relevant assurance and contributes to the effectiveness and efficiency of governance, risk management and control processes". Governance, risk management and control are fundamental to the definition of the internal audit function (IIA 2012:21). It is therefore axiomatic that for the internal audit report to increase the perceived relevance of the internal audit function, the internal audit report should itself be relevant and objective, and focus on the governance, risk management and control processes of the organisation.

According to Lenz and Sarens (2012:542), there is no *straightforward* answer to the question of what added value is. This could also indicate that the internal audit function does not have a clear understanding of what values stakeholders expect them to uphold and contribute to the organisation. The results of the PwC study (2011:3) reveal that an internal audit function adds significant value when it (internal audit function) is able to help management and AC understand the dynamic landscape of risks as well as to encourage a proactive behaviour to risks facing the organisation. Hence, it would seem advisable that internal audit should engage with its stakeholders to find out how they derive value from the internal audit reports, and internal audit should then ensure that addressing these issues becomes a significant component of their delivery.

Several studies have concluded that internal audit functions in general need to hold conversations with their stakeholders to explain how internal audit does (or should) in fact add value to the organisations (Mihret & Woldeyohannis 2008:14; PWC 2013:2; Ramamoorti 2003:15; Russell 2008:31). The same conversation should contribute to the internal audit function's understanding of what their (stakeholders) expectations of internal audit are. When there is a meeting of minds on expectations and their fulfilment, greater success in delivery is assured.

Whilst the Standards are silent on a definition of *value* as a deliverable, (and internal audit literature does not help much here either), the ultimate aim of the internal

audit function is to improve their organisation's risk management, governance and control processes. These assessments and their remedies are communicated to the AC in the written internal audit report which then assists the AC to provide effective oversight of the internal audit function to the board.

The next section of the literature review examines the reporting structure supporting the internal audit function, and thereafter the roles of and relationships between the AC and the internal audit function are examined. The objective of the next section is to understand how internal audit can best assist the AC in fulfilling its responsibilities to the board.

3.2 Internal Audit and the Audit Committee

The internal audit function's reporting lines

The Standards require internal audit to report to a level within the organisation that allows it to fulfil its responsibilities (IIA 2012:7). In other words, the internal audit function should report to a level within the organisation that has the necessary influence to ensure the internal audit function can perform its tasks unhindered, and that its recommendations receive appropriate consideration.

Internal audit has dual reporting lines, reporting functionally to the AC and administratively to the Chief Executive Officer (CEO). King III (IOD SA 2009:97) supports this dual reporting relationship and recommends that internal audit also reports to the AC so that internal audit receives the respect and cooperation of the board and management.

The Basel Committee on Banking Supervision (under the auspices of the Bank for International Settlements) was established to address the shortcomings in the banking industry and has issued a guidance document on the role and importance of the internal audit function in banks. Principle 12 of the Basel Committee on Banking Supervision supports King III's view on the reporting structure and requires the internal audit function in a bank to be accountable to the board, or its AC, on all matters related to the performance of its mandate as described in the internal audit charter (BIS 2012:12).

King (2014:1) explains that internal audit is "the glue in modern governance and the right arm of the non-executive board". Hence, by positioning internal audit in an organisation so that it has a direct reporting line to the AC, increases the relevance and stature of the internal audit function.

The relationship between internal audit and the audit committee

The audit firm PFK (not dated:3) identifies the role of the AC as that of a "watchdog", and views it as a subcommittee of the board. The AC plays an oversight role over the integrity of financial controls, risk management and the transparent reporting to shareholders and stakeholders. King III (IOD 2009: 64) concurs with this allocation of responsibility, and in addition states that the AC needs to satisfy itself that the financial reporting risks, internal financial

controls, fraud risk and information technology risks are appropriately managed in an organisation.

According to Schneider (2010:19) one of the main roles of the AC is to provide oversight of the internal audit function on behalf of the board. The board are responsible for risk management (RM) and control functions. And this responsibility is then delegated to the AC which is viewed as the central point for reporting on results of the audit (Paterakis & Cefaratti 2014:4; Sarens, De Beelde & Everaert 2009:2).

According to the Standards, the definition of IA includes the requirement "...to evaluate and improve the effectiveness of risk management, governance and control in organisations". It therefore appears that internal audit and the AC have interrelated objectives. The AC and internal audit need to develop a well-maintained channel of open communication so that internal audit can support the AC in its efforts to perform an effective oversight role (Paterakis & Cefaratti 2014:3; Rezaee & Lander 1993:37).

The document *The Audit Committee: Internal Audit Oversight* (IIA not dated:4) contains the assertion that ACs are required to have an in-depth understanding of business and associated risks, and of the environment in which that business operates. However, because internal audit is far closer to the operation of the business, it is more knowledgeable of the organisation's control environment, and is better able to understand the operating culture; the system of internal controls and the issues associated with business processes, as well as associated areas for improvement. It is precisely this knowledge that needs to come through when reporting to the AC on results of the audit.

Davies (2009:44) explains that ACs' responsibilities are increasing, driven by the increasing frequency of fraudulent scandals, new threats and risks. Internal audit functions need to be able to provide significant and relevant information so that ACs are able to meet their responsibilities. Achieving this leads to increased reliance being placed by ACs on the internal audit report, which in turn increases the relevance of the internal audit function.

According to Jacka (2014:71), Marks (2014:2), and Mihret and Woldeyohannis (2008:580), internal audit should communicate to its stakeholders what it is that their stakeholders need to know, and not what internal audit wants to say. The Institute of Internal Auditors Research Foundation (IIARF) (2013:7) asserts that CAEs should frequently ask AC members about their level of satisfaction with audit reporting. It is the responsibility of the heads of internal audit functions to communicate with their AC members and to tailor their reports to address the issues that the AC members need addressed.

Therefore for internal audit to remain relevant, it is important that internal audit understands the requirements of its customers (in this research restricted to the AC), and to provide them with the information that they need. By internal audit demonstrating their awareness of the different needs and preferences of their various stakeholders; this

adds credibility to the reporting process and thus enhances the internal audit function's standing and authority in the organisation.

The next section of the literature review examines the characteristics of an effective internal audit report to an AC.

3.3 Characteristics of an effective internal audit report

The content of audit work communicated in the report

The International Professional Practices Framework (IPPF) of the Institute of Internal Auditors (IIA) includes 8 Standards under the heading *Communicating Results* (IIA 2012:18). Practice Advisory 2410-1 recommends that an internal audit report should include a fair assessment of both positive and negative aspects of the business and its environment, from the perspective of the engagement's scope and objectives. Furthermore, it should contain considered opinions based on the audit evidence, and conclude with recommendations to address root cause of issues identified.

A KPMG (2014:6) survey revealed that the audit reporting responsibility protocol has changed to be more transparent in the reporting of its external auditing and accounting issues. This involves including descriptions of key risks, an overview of the scope of the audit area, and an explanation of the method used by the auditor to address key risks.

Russell (2008:31) supports this view in internal audit, explaining that reporting to the AC is most effective when there is a clear explanation of the identified risks and of the probable impact of the audit findings.

The Chartered Institute of Internal auditors (CIIA) (2013:11) published a guide for financial services providers in the United Kingdom (UK) on how to enhance the effectiveness of the internal audit function. It should be noted that this guide is also useful to internal audit functions that are not in the financial services industry, as it provides a benchmark against which to measure their current functionality. The internal audit reports submitted to the board's audit and risk committees should, according to the CIIA, include the following areas:

- Provide a focused view on significant control weakness and breakdowns together with a root cause analysis.
- Highlight any thematic issues identified across the organisation.
- Provide an independent view of management's reporting on the risk management of the organisation, including a view on management's remediation plans (the view might include advising restricting further business improvements until plans have been successfully implemented), and highlighting areas where there are significant delays.
- Prepare, at least annually, an assessment of the overall effectiveness of the governance and risk

and control framework of the organisation, together with an analysis of themes and trends emerging from recently completed IA work.

As these are seen by the industry as key components of an effective internal audit report, if the above issues are comprehensively addressed in the audit reports, this could increase the value of the internal audit report, which enables the AC to place greater reliance on their internal audit function's future reports. This ultimately creates a spiral of increasing relevance of the internal audit function.

Another important aspect of reporting, particularly to stakeholders, is its timing. Important and urgent information must be communicated as soon as possible. Prior to preparing the internal audit report, the auditor must also identify the intended audience, and tailor the report so that the issues it addresses are relevant to the recipients, and fall within the recipients' areas of responsibility and authority to take action (Rickard 1993:23; Schneider 2009:25).

The Standards require internal audit reports, to provide an overall opinion on the area under audit and to communicate clearly the evaluation criteria used in arriving at the opinion. The evaluation criteria are useful as it provides the AC with an understanding of how the overall opinion was derived.

Internal audit's (reporting) responsibilities can also include the education of the AC, achieved by including timeous information and reports on regulatory updates, changes in key suppliers, and assessments of the probable impact of changes in legislation (IIA nd:2; Schneider 2009:27). This type of pre-emptively provided information provides the AC with greater insight into the present and future state of the business, as the internal audit reports go beyond the (historic) issues identified during an audit. The inclusion of this type of information lends validity to the statement (made in the introduction to this research paper) that the internal audit function is the AC's eyes and ears in the business. Providing such information assists the AC in fulfilling its responsibilities when reporting to the board; and this will in turn increase the relevance of the internal audit function within the organisation.

Whilst it is essential that the content included in the audit report assists the AC in effectively discharging its duties, it is also important that the writing style in the reports is effective. The next section addresses the issue of appropriate styles of writing for reports.

The quality of writing in internal audit reports

Standard 2420 (IIA 2012:19) directs that the quality of communications must be "accurate, objective, timely, clear, concise, constructive and complete". Coetzee, Du Bruyn, Fourie and Plant (2010:261) state that there is nothing which loses appeal faster than a document with many grammatical and spelling errors. A document with many formatting and spelling errors draws attention away from the substance of the report (James 2014:1), thus diminishing the value of the report, and in turn, that of the internal audit function.

Standard 2420 (IIA 2012:19) directs that the quality of communications must be "accurate, objective, timely,

clear, concise, constructive and complete". Coetzee *et al* (2010:261), James (2014:1), and Marks (2014:2) offer the following suggestions for achieving good business writing:

- Keep it simple - keep sentences short and [paragraphs] concise and free of technical jargon.
- The focus of the report should be on improvement rather than fault-finding and condemnation, and the tone should be without malice.
- Only pertinent information should be provided.
- Perform spell checks on written correspondence.
- Avoid use of unprofessional and slang words.
- The report should be written in the active voice - passive voice inspires little confidence.
- Proofread the document for accuracy of presentation of the intended message; check for and correct ambiguous sentences.
- Keep the tone of the writing professional, especially when raising exceptions.

In addition to the above, results of a roundtable discussion chaired by the IIARF revealed that internal audit reports should be "visually impactful" and make use of dashboards (a visual display of the most important information needed to achieve one or more objectives; and which can be monitored at a glance), heat maps (visual summary of information represented by colours) or summary graphics (IIARF 2013:7).

The next section explains the methodology that was adopted to collect evidence to support the research objective.

4 RESEARCH METHODOLOGY

In addressing the research objective presented in section 2 above, a structured research questionnaire was developed to collect the perceptions of the quality of content and writing of internal audit reports, held by AC chairpersons in the banking industry.

4.1 The research questionnaire

The questionnaire was developed from the knowledge and insight obtained from the literature review. The questionnaire was divided into 4 subsections: the first obtained demographic information; thereafter the sections explored the AC chairpersons' views on the quality of internal audit reports they receive, in terms of accurately conveying the content of audit work performed, and the writing style of the report.

A senior manager in quality assurance from one of the top 4 banks in South Africa reviewed the questionnaire, prior to sending it (questionnaire) out to the AC chairpersons. This was done to assess the completeness of the questionnaire.

The questionnaire made use of a combination of question styles, beginning with multiple choice questions and questions using a five-point response scale offering respondents the choice of *always/mostly/seldom/never* and *not sure*. The AC chairpersons

were required to select the response that he or she associated with the statement offered regarding various aspects of the internal audit reports they routinely received.

In addition to the question styles mentioned above, the questionnaire also had a section of open-ended questions, intended to give the AC chairpersons the opportunity to give their opinions on ways to improve the internal audit report, and thereby to increase the value of the internal audit function to their organisations.

4.2 Selection of respondents

The research population consisted of the AC chairpersons of 9 locally controlled banks and 2 foreign controlled banks (11 in total), all registered with the South African Reserve Bank (Reserve bank not dated:1). From this population positive responses were received from 4 of the locally controlled and the 2 foreign controlled banks.

4.3 Data collection

Each of the CAEs of the 11 banks was contacted via email to inform them of the intended research study, and to request their assistance in finding out whether their AC chairperson would be interested in completing the research questionnaire.

The CAEs were provided with 2 questionnaire delivery options: first, on receiving their agreement to assist, the questionnaire could be e-mailed directly to their AC chairperson; and second, the questionnaire could be sent to the CAE for forwarding to their AC chairperson.

Once approvals from the CAEs had been received, the questionnaire was sent via e-mail: From the population of 11 banks, a total of 6 approvals (from the CAE's) were received. Four went directly to the AC chairpersons, and two went first to the CAEs to be forwarded to their AC chairpersons. Four managed to meet the initial deadline. A follow up (reminder) email was sent to those who failed to meet the initial deadline for submissions, granting them an extra day.

4.4 Response rate

From the 11 CAEs that were approached, only 6 responded positively, confirming their AC chairpersons were willing to participate. This totals a response rate of 55% (6 out of 11).

4.5 Capturing and editing of data

The questionnaire was developed and emailed to respondents in MS Word format, and the six completed questionnaires were returned, via email, in the same format. The responses were then manually captured into an Excel spreadsheet for further analysis. The analysis of these results will be presented and discussed next, in section 5 of this research paper.

5 FINDINGS

The results of the questionnaire are presented and discussed in the same sequence as the questions were presented in the questionnaire:

5.1 Profiles of the audit committee chairpersons

- 5.2 Meetings and reporting relationship between audit committee chairpersons and CAEs
- 5.3 Content of information included in internal audit reports
- 5.4 Quality of writing style in internal audit reports
- 5.5 Recommendations to improve internal audit reports

Objective of the analysis

The objective of this part of the analysis was to determine the demographics of the respondents in terms of professional credentials, experience and access to internal audit reports.

Findings

Table 1 summarises the demographic information of the AC chairpersons.

5.1 Profiles of the audit committee chairpersons

Table 1: Profiles of the responding audit committee chairpersons

Criteria	AC chair 1	AC chair 2	AC chair 3	AC chair 4	AC chair 5	AC chair 6
Professional designation	CA. SA	CA. SA	CA. SA	CA. SA	CAIB(SA) -	CA. SA
Years of experience as AC chairperson in the banking industry	1.5	4	3	11	1	6
Unrestricted access to reports	Yes	Yes	Yes	Yes	Yes	No

Discussion of findings

The most frequently acknowledged qualification amongst respondents was the Chartered Accountant of South Africa (CA (SA)) designation, with only one respondent recording that she/he had a Chartered Associate of the Institute of Bankers qualification (CAIB) designation. The respondents' average number of years of experience as AC chairperson in the banking industry was 4 years. One respondent however, reported having been in the position for 11 years.

Five of the 6 respondents reported having unrestricted access to internal audit reports. The single respondent that did not have access to the internal audit reports also indicated in a subsequent section of the questionnaire that their IAF did not have a direct reporting relationship with the AC. This AC chairperson also

reported only meeting with the CAE three times a year.

5.2 Meetings and reporting relationship between AC chair and CAE

Objective of the analysis

The objective of this part of the analysis was to determine the status of the internal audit function making use of the number of times the CAEs meet with the AC, and the functional reporting lines, as the definitive metrics.

Findings

Table 2 records the frequency of meetings between ACs and the CAEs as well as the reporting structures under which each of the respondents' banks' IAFs operate.

Table 2: Frequency of meetings and reporting structure

Criteria	AC chair 1	AC chair 2	AC chair 3	AC chair 4	AC chair 5	AC chair 6
Frequency of AC meetings with CAE per annum	4	6	5	4	4	3
CAE reports functionally to the AC Chairperson.	Yes	Yes	Yes	Yes	Yes	No
CAE consults with AC Chairperson on reporting requirements	Yes	Yes	Yes	Yes	No	No

Discussion of findings

Three out of 6 respondents reported having quarterly AC. This is favourable since the minimum frequency recommended by King III (IOD SA 2009:56) is for AC to meet twice a year.

Two of the 6 respondents (33%) reported meeting more than 4 times a year. It might be significant that, as reported in the next sections, their responses to the content and writing style of the audit reports they receive is positive.

Five of the 6 respondents (83%) indicated that the CAE reports directly to them. As supported in the literature review, the stature of the IAF is enhanced when direct reporting lines are in place.

Four out of 6 respondents (67%) confirmed that the CAE does consult with them to identify their (the AC

chairperson's) requirements from the IAR. It was also evident in the responses to subsequent questions (presented in Table 3, Table 4.1 and Table 4.2) that the greater the frequency of consultations between the CAE and the AC chairperson, the greater the completeness of content and writing style was apparent in the responses; This increases the reliance the AC chairperson was able to place on the internal audit report, which in turn increased the perceived relevance of the IAF.

5.3 Content of information included in the internal audit report

Objective of the analysis

The objective of this section was to identify the current content that AC chairpersons receive from their internal audit reports and to compare this to the ideal content revealed in the literature review.

Findings

content is included in the internal audit reports they receive.

Table 3 provides a summary of the ACs chairpersons' responses with respect to how often such ideal

Table 3: Content of internal audit reports

	Percentage is out of the sample (6)					Total
	Always	Mostly	Seldom	Never	Not sure	
a) Only significant control gaps and break downs.	100%					100%
b) Root cause analysis	33%	50%				83%*
c) A scope statement	67%	17%	17%			100%
d) Analysis of themes and trends	50%	33%	17%			100%
e) Possible risks that could occur in the future	17%	17%	67%			100%
f) Details of any fraud discoveries	83%	17%				100%
g) Alerts to red flag indicators	33%	33%	17%	17%		100%
h) Reasons for significant delays by management in responding to reports requiring implementation of corrective actions.	67%	33%				100%
i) Overall audit opinions on the area under audit are accompanied by clear evaluation of the criteria used in expressing such opinion.	33%	67%				100%
i) Reports are balanced and include the positive control practices as well as the control weaknesses observed.	83%	17%				100%

*One respondent only recently commenced with this inclusion.

Discussion of findings

The majority of responses fell between the *always* and *mostly* points on the response scale. However on the issue of *possible risks that could occur in the future* 67% (four out of 6 respondents) claimed that this was *seldom* included in the report. Another concerning response is with regard to *alerts to red flag indicators*; one respondent selected the *seldom* option, whilst one other respondent claimed to never include such content. As this aspect of the report has been identified in the literature review as "significant value", local internal audit functions should look to including this in their internal audit reports as it allows AC chairpersons to alert the board on specific future risk possibilities and also to provide an overall picture of the risk universe confronting the organisation.

AC chairpersons have a reporting responsibility to the board which is more efficiently fulfilled when the internal audit report on matters that warrant the attention of the board contains just that. It was therefore reassuring to see that **all** respondents selected *always* in response to the question whether the audit reports included "only significant control gaps and breakdowns". This ability on the part of the internal audit function builds credibility for the internal

audit function, allowing the AC to rely on internal audit to highlight matters of significance.

In searching for correlations between the data presented in Table 2 and that of Table 3 it became apparent that the guidance provided by the Chartered Institute of Internal auditors (CIIA) (2013:15) and the IIA's Practice Advisory 2410-1 are not consistently applied by the banks participating in this research study.

5.4 Quality of writing style in internal audit reports

Objective of the analysis

The objective of this part of the analysis was to determine and assess the characteristics of the internal audit reporting characteristics and the writing style of the internal audit report that best assist the AC to provide the board with information appropriate to ensuring effective oversight of the business.

Findings

Table 4.1 summarises the AC chairpersons' responses to the suggested characteristics included in the internal audit report that would then enable them (AC chairpersons) to report most effectively to the board.

Table 4.1: Internal audit reporting characteristics

	Percentage is out of the sample (6)					Total
	Always	Mostly	Seldom	Never	Not sure	
a) The communication is concise and avoids unnecessary elaboration, superfluous detail and redundancy.	33%	67%				100%
b) Technical and buzz words are avoided.	17%	67%	17%			100%
c) The impacts of findings are appropriately worded to warrant attention.	67%	33%				100%
d) The reporting of significant items is timeous.	33%	67%				100%
e) The report provides greater insight into the interconnectedness of business processes	17%	33%	50%			100%
f) The recommendations address the root causes of issues.	33%	33%	17%			83%*

*One respondent only recently commenced with this inclusion.

Discussion of findings

For the majority of the audit report characteristics, the responses selected were *always* and *mostly*, the top end of the scale, with remaining respondents selecting the *seldom* option. This indicates that no single standard or consistent application of these reporting characteristics is being implemented in the respondents' banks.

The responses to characteristics e) and f) above showed a greater range than the preceding 4 characteristics did, suggesting that these are areas where IA can expend more effort in seeking improvement. In so doing the AC is better equipped to understand the risk universe of the organisation which

will enhance the internal audit function's perceived usefulness and credibility.

The data shows to users of the internal audit report that internal audit does have a useful understanding of the entire organisation, but with "room for improvement". Overall they are therefore in a position to provide connected insights arising from the performance of their audit engagements (PwC 2011:18).

Findings

Table 4.2 provides a summary of the general quality of writing style included in internal audit reports.

Table 4.2: General writing style apparent in internal audit reports

	Percentage is out of the sample (6)					Total
	Always	Mostly	Seldom	Never	Not sure	
a) Tone of reports focuses on improvement, rather than condemnation.	67%	17%	17%			100%
b) The report is written in active voice.	33%	50%			17%	100%
c) The report is free of errors in spelling and grammar.	50%	50%				100%
d) The reports are supported by visual aids such as dashboards or heat maps or summary graphics.	33%	50%		17%		100%

Discussion of findings

Overall the responses reveal that the writing style used in internal audit reports is diverse and spans the full range of options offered the respondents. However, the majority of responses placed the internal audit reports style elements in the *always* and *mostly* categories.

Regarding spelling and grammar, only half the respondents gave their internal audit reports an *always* assessment (report characteristic c) in Table 4.2. This is problematic since, as noted by Coetzee *et al* (2010:261) and James (2014:1) a report that has errors in spelling and grammar loses its appeal, which tends to decrease the perceived value of the report, and introduces the risk that the substance of the matters it addresses will be missed.

One respondent also indicated that visual aids are *never* incorporated into the report. This is despite the fact that the IARF (2013:7) supports the use of heat maps in reports, as they make the report visually impactful.

5.5 Recommendations to improve internal audit reports

Objective of the analysis

The objective of this part of the analysis was to offer respondents a platform for their ideas on how the internal audit report can be improved so as to increase the value of the internal audit function. Respondents were asked: 'Please provide any feedback on how you think the current internal audit reports can be improved to add value to the internal audit function?'

Findings and discussion

Four of the 6 respondents (67%) were very positive and forward-looking, which indicates that the AC

chairpersons do rely on the internal audit reports to provide them with insightful opinions that in turn allow them to report effectively to the board on internal audit matters. The remaining 2 respondents indicated that they were "happy" with the style and presentation of their current reports and did not require additional input or improvements. However when the other two respondents assessment of content and writing style are compared with the other four, and factoring in the other parameters measured in this research, these two respondents appear to have internal audit functions that are below average in terms of their current reporting capabilities.

A common response from all 6 respondents was that the AC requires less "unnecessary information", and that low residual risk reporting should be kept to a minimum. Achieving this would be a significant improvement in the internal audit reports they receive.

One respondent observed that the internal audit report was "constantly evolving". This is an interesting statement, probably indicating that the AC chairpersons are aware that the internal audit function operates in an environment of constant change and necessary improvement. The internal audit function therefore also needs to keep abreast of reporting trends, while simultaneously keeping up to date with the needs and expectations of AC chairpersons in order to remain relevant and to contribute value to their organisations.

6 FURTHER RESEARCH

An area for further research is to conduct a qualitative study to determine how the content and writing style of internal audit reports can be improved so as to enhance the credibility of the internal audit function.

7 CONCLUSION

The internal audit report is considered to be the final outcome or deliverable of the internal audit

engagement. The objective of this research paper was to identify the current perceptions of the banking industry's AC chairpersons of the substance and quality of the content and writing style of the internal audit reports they receive. A literature review was conducted to identify the most pertinent factors that the internal audit function should consider when preparing their internal audit reports.

From a content perspective the following issues need to be addressed in order to increase the relevance of the report, and by extension, the internal audit function itself. The internal audit function should engage with its stakeholders to find out what they need from internal audit reports: the literature review maintains that reports should be concise and precise, highlighting significant control gaps and breakdowns; provide root cause analyses; analyse emerging trends, and provide insight on emerging and potential risks.

From a writing perspective, the following factors should be considered when preparing internal audit reports. The report should be free of spelling and grammatical errors; it should be a concise communication and avoid the use of technical jargon and buzz words, and should display the internal audit function's insightful overview of the connections within and between the business' processes.

The questionnaire responses revealed unanimity only insofar as all the internal audit reports apparently

reported on significant control gaps and breakdowns. Only one respondent appeared to be consistent in their assessment of content and writing style of the reports they receive, whilst the others, by selecting 'mostly' and 'seldom' indicated that there is still (sometimes significant) room for improvement. Therefore there is still plenty of room for improvement in the quality of internal audit reports that are currently being submitted to AC chairpersons.

However, the fact that six out of a population of 11 AC chairpersons chose to respond to the questionnaire suggests that a majority of AC chairpersons do recognise that the internal audit report has value, but that it also has the potential for significant improvement. This should encourage CAEs to work together with the AC chairpersons in order to deliver a report which feeds directly and efficiently into the ACs communication to the board.

The internal audit report serves as the communication tool which provides the AC with the raw material needed for its report to the board. By preparing an effective, value-rich audit report which takes into account the specific needs of the AC, while simultaneously addressing the style and content factors identified in the literature review, should enable the internal audit function to enhance its relevance within the organisation.

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