

# 11. THE REPORTING PROCESS

## 11.1 Introduction

There are different reports that may result from a completed audit.

Reports for Certification purposes are generally brief and follow a standard format for the type of opinion to be delivered.

Reports on management controls (identifying control weaknesses), compliance with laws, regulations and administrative procedures, and on the performance of the organisation require more developed writing and reporting skills.

Irrespective of the type of audit report, the main measure of the performance of the DAGP is the quality and usefulness of the reports produced by the Office. The reports bring together the professional knowledge and judgment of the auditors. Therefore, audit reports must be well written and substantiated, and developed in accordance with a formal process, as described in this Chapter.

Prior to reporting, during the evaluation phase of the audit, the auditor should have sought the agreement of entity officials with respect to:

- a) The extent and cause of each monetary error; and
- b) The extent and cause of each compliance with authority violation and internal control deviation.

The auditor will also have reached a conclusion on the results of each test, on each component, and on the financial statements as a whole, and dealt with any unacceptable results.

In the reporting phase, the auditor performs some final quality assurance procedures, concludes on the type of audit opinion to issue, and then drafts and issues the opinion. The auditor may also issue audit reports and management reports.

DAGP's Auditing Standards use the term "opinion" to refer to the auditor's conclusions as to whether:

- a) the financial statements properly present, in all material respects, the government's financial position, the results of its operations, its cash flows and its expenditures and receipts by appropriation; and
- b) the sums expended have been applied, in all material respects, for the purposes authorised by parliament and have, in all material respects, been booked to the relevant grants and appropriations.

The word "report" refers to DAGP's other products.

DAGP's reporting standards are contained in paragraph 4.0.7 of DAGP's Auditing Standards. They are:

- *At the end of each audit the auditor shall prepare a written opinion or report, as appropriate, setting out the findings in an appropriate form; its content should be easy to understand and free from vagueness or ambiguity, include only*

*information which is supported by competent, reliable, and relevant audit evidence, and be independent, objective, fair and constructive.*

- *It is for the Department of the AGP to decide finally on the action to be taken in relation to fraudulent practices or serious irregularities discovered by the auditors.*

An audit report (a report that is made public or that is presented to the appropriate public accounts committee or other external party) will be signed by the Auditor-General, the Deputy Auditor General (Senior) or the responsible Deputy Auditor General.

Management reports (reports addressed to entity officials) will be signed by the responsible Director General.

## **11.2 Focus on the Reporting Process**

The reporting stage of the audit often takes longer than estimated. The process of writing the report, cross referencing to the working paper files and finalising the working paper files, is time consuming. The auditor has to allow time for managers to review the draft report. There should also be an extensive review process within the DAGP to ensure:

- a high quality report, with clear, unambiguous messages; and
- the existence of sufficient evidence to support the wording contained within the report.

One way of completing the audit report as quickly as possible is to start writing the report as early as possible during the audit. The effort of putting down the points to be reported also helps to focus the analysis and identify whether sufficient evidence has been collected or whether more evidence is required.

Preparation for a mid-point review meeting, or for other review meetings, can help to focus the message that will eventually be contained in the report.

At the end of the reporting process, it is important that the audit is finalised with completed working papers. At the end of the audit, an Audit Completion Checklist should be completed.

## **11.3 Clearing Observations, Conclusions and Recommendations**

Before the auditor can publish a report on findings or an opinion on financial statements, the audit observations, conclusions and recommendations must be cleared with entity management.

This is accomplished by briefing entity management on audit findings and documenting their responses, which can also provide additional audit evidence. This process can be based on formal written statements or verbal briefings.

The auditor should make best efforts to obtain a sound understanding of the operations and to obtain sufficient evidence to support findings. Nevertheless, at the initial stages of clearing observations, not all observations may be complete or accurate. Where findings are refuted, or modified by the manager's response further evidence may be sought to substantiate the manager's assertions.

It is normal to clear the observations up the management chain, briefing lower level managers and confirming the auditor's understanding before briefing more senior managers. When visiting an entity's local office, it is usual to brief the senior manager before leaving the site.

The auditor should take detailed minutes of these briefing meetings. The auditor may send a copy of these notes to the manager for confirmation.

When there is a significant difference between what the auditor would expect to see and what was found, the auditor should discuss this with management to determine the reasons and then decide whether the expectations are still appropriate in the particular circumstances. The auditor should conclude whether management has fallen short or whether the expectations were unreasonable in the context.

In developing recommendations, the auditor can explore options with management through this process before including them in the draft report. The auditor should ensure it is clear that the conclusions and recommendations are preliminary at this time.

The effectiveness of the communication of the contents of an audit report is influenced by:

- Facts;
- Opinions; and
- Wording.

In clearing the report, the auditor should first ensure there is agreement on the facts. The auditor should recognise that in addition to the facts, there are opinions. For example, a fact may be that there is no control in place. Whether there should be a control in place is an opinion, even if it is a generally accepted accounting practice. Where conflict arises between the entity management and the auditor it is after over wording. The auditor should be careful when making generalised statements or using adjectives that could be considered to exaggerate a finding.

## **11.4 Obtaining Management Responses**

When clearing audit queries, or getting management responses to the draft report, the auditor needs a timely response.

To encourage this, the auditor should establish a date for discussing the material or indicate by what date the auditor would like to receive the response. Management should be given a reasonable amount of time to respond.

When management of the entity fails to provide a response as requested, the auditor should consult with senior DAGP management and draft a letter for the signature of the AG, informing the management of the entity that if a response is not provided by a given date, usually two weeks from the date of the letter, the DAGP assumes that the management of the entity have no disagreements with the contents of the report and that the DAGP will proceed to publish the report.

There are often multiple briefings to entity management, clearing each area with the respective manager(s) and then briefing the most senior manager on the total audit. If there are no briefings to lower managers or if all involved managers are going to meet together, it is advisable to make sure that managers are aware of the findings in their area before other

managers hear about them. Even a briefing by phone is preferable to no briefing at all. This is consistent with a “no surprises” style of audit.

## **11.5 Management representation letter**

Entity officials in each ministry, department, agency, etc. are responsible for the completeness and accuracy of the financial statements or, in the case of the financial statements of the Federation, the provinces and the districts, their portion of the financial statements. In addition, entity officials have often provided the auditors with numerous pieces of information – both verbally and in writing – during the course of the audit.

The auditor prepares the management representation letter to have entity officials acknowledge, in writing, that they are responsible for the completeness and accuracy of the financial statements (or their portion thereof) and for the representations they made during the audit.

Section 7(b) of the Controller General Ordinance requires the Controller General of Accounts to *“prepare and submit to the Auditor-General for each financial year a Consolidated and General Financial Statement incorporating the summary of the accounts of the Federation, all provinces and district authorities”*.

Section 5(d) of the Controller General Ordinance states that one of the functions of the Controller General shall be *“to lay down the principles governing the internal financial control for Government departments in consultation with the Ministry of Finance and the Provincial Finance departments as the case may be”*.

Since the Controller General of Accounts is responsible for the preparation and submission of the financial statements for the Federation, all provinces and district authorities, and for laying down the principles governing the internal control structures, the auditors should normally obtain a representation from the Office of the Controller General on the financial statements of the Federation, each province and each district. The auditors should also normally obtain a representation from the Office of the Controller General on other relevant financial statements. This representation is in addition to obtaining a representation from officials in the specific entity that they are auditing.

For audits that are coordinated by a central team, the central team could obtain the representation letter from the Office of the Controller General on behalf of all the other audit teams.

### **11.5.1 Standard content**

A sample management representation letter is included in the Standard Audit Working Paper Kit. In this letter entity officials are asked to acknowledge their responsibility for the proper presentation of the entity’s financial position, results of operations, etc., and confirm, to the best of their knowledge and belief, that:

- all relevant information has been made available to the auditors;
- they are not aware of any irregularities involving management or employees, or any violations of statutes or regulations whose effect should be recorded or disclosed in the financial statements;
- specifically listed asset, liability, revenue and expenditure items are valid, complete, properly valued, etc.;

- all required disclosures have been made;
- there are no significant subsequent events that require recording or disclosure in the financial statements; and
- there are no other matters of significance that require recording or disclosure in the financial statements.

The letter should normally be addressed to the person within DAGP who will be signing the audit opinion (the Auditor-General, the Deputy Auditor General (Senior) or the responsible Deputy Auditor General).

The letter should normally be signed by the:

- Head of the Organisation;
- Principal Accounting Officer;
- Financial Advisor; and
- Finance and Accounts Officer.

For exempt entities, officials performing the equivalent functions would sign the representation letter.

It is possible that more than one letter will be required on each audit. First, as discussed above, for the audits of the financial statements for the Federation, the provinces and the districts, the auditors should normally seek a representation from the Office of the Controller General in addition to officials in the specific entity that they are auditing.

Furthermore, separate representations may also be required from entity officials at several different locations within the entity.

The auditor needs to ensure that, if multiple representations are being used, all significant matters are covered off in the representations, and that at least one senior official is taking responsibility for each representation.

### **11.5.2 Preparation and clearance of the letter**

The auditor should review the letter of representation contained in the Standard Audit Working Paper Kit to ensure that it is appropriate for the entity. The auditor should make whatever changes are considered necessary, including adding any representations that he/she believes should be added.

The auditor should then discuss the draft letter with entity officials. This should be done well in advance of the deadline date for the letter to ensure that there will be no difficulties obtaining the required representations.

When the response is received from the officials, the auditor should ensure that any alterations made by the officials are acceptable to the auditor.

The Standard Audit Working Paper Kit includes a checklist that the auditor can use to assist in the preparation and clearance of the representation letter.

## **11.6 Audit completion checklist**

The primary purpose of the checklist is to give assurance to the person signing the audit opinion (the Auditor-General, the Deputy Auditor General (Senior) or the responsible Deputy Auditor General) that:

- the Director and the Director General have reviewed the working paper files;
- the audit work is complete;
- sufficient appropriate audit evidence has been obtained to support the auditor's opinion;
- all matters that should be reported are included in the opinion;
- Either:
  - (a) An unqualified opinion can be issued; or
  - (b) The auditor's opinion contains all of the required reservations; and
- The auditor's opinion can be signed and released.

A secondary purpose of the audit completion checklist is to act as final review document (supervision instrument) that the Director and the Director General can use to assure themselves that all of the critical planning, fieldwork, evaluation and reporting procedures have been completed satisfactorily.

### **11.6.1 Standard content**

A sample audit completion checklist is included in the Standard Audit Working Paper Kit.

The checklist contains a series of questions concerning the entire audit process – planning, fieldwork, evaluation and reporting as well as the certification referred to above.

The checklist should be completed after all of the audit procedures have been performed. The Director and the Director General responsible for the conduct of the audit should complete it and sign it. The responsible Deputy Auditor or General should then approve it.

### **11.6.2 Memorandum supporting signature**

The audit completion checklist assures the person signing the audit opinion was properly completed that the audit process noted above. However, the checklist does not provide any details concerning the contents of the financial statements or the audit process itself.

The memorandum supporting signature provides the person signing the audit opinion with this additional information.

### **11.6.3 Standard content**

The Standard Audit Working Paper Kit contains a table of contents for a typical memorandum supporting signature.

As indicated from the table of contents, the memorandum normally contains a discussion of:

- Any reservations being expressed in the auditor's opinion;
- Contentious matters on which DAGP decided not to express a reservation;
- Significant changes made to the form and content of the financial statements;

- Significant changes made to the accounting policies used to prepare the financial statements, and their impact on the financial statement amounts and disclosures;
- Explanations for the more significant fluctuations in each asset, liability, revenue and expenditure account;
- Significant changes to the basic planning parameters (materiality, audit risk, etc.);
- Significant changes to the audit approach (for example, significantly increasing or decreasing reliance on the internal control structure for a particular component);
- Any difficulties encountered during the conduct of the audit, and how they were resolved; and
- A summary of the amounts contained on the Summary of Unadjusted Differences.

## **11.7 Producing the Audit Report**

The auditor should prepare a draft opinion and audit report. The auditor will first brief entity management and then issue the audit report to them.

If there are any controversial, or matters with broad policy implications, it may be appropriate to brief the AG prior to issuing the draft report.

There will likely be a greater reaction to the draft report than was raised during the briefing. Much of the concern may be in response to specific wording and a desire for a different balance in the presentation of the findings. If the clearing process was well conducted, there should not be much debate regarding the facts unless the managers involved had not been forthcoming or had not taken the process seriously.

Entity management may have taken corrective actions by the time the observations are reported. In this case the auditor has two options. Either the comments of management may be acknowledged and included in the report (with or without verifying the accuracy of the statements) or after verifying that the corrective action has been taken, the observation may be dropped.

The auditor also has to prepare a report or audit note for the Annual Report. This is usually much briefer than the full report to management. Alternatively, the auditor may prepare a brief audit report and use a management letter to convey the supporting details.

Details of the various opinions and reports that may be published by DAGP are provided in the next Chapter.

## **11.8 Review of reports by others**

Once DAGP publishes an opinion and audit report, it becomes available for review by certain other parties.

### **11.8.1 Public Accounts Committees**

A PAC may conduct a hearing on the matters contained in a particular audit report, after which the PAC might issue its own report and recommendations on the subject.

In preparation for a meeting of the PAC to discuss a particular report, the auditor should prepare a “Briefing Book”, or briefing file. The briefing book is described in the next Chapter, and should contain:

- A copy of the report (cross referenced back to the key pieces of supporting evidence)
- The key evidence (including extracts of important documents with source of the documents, etc.) which should be copied from the working papers; and
- Anticipated questions with suggested answers.

### **11.8.2 Police, National Accountability Bureau and other similar organisations**

During the course of the audit, the auditor may have discovered fraudulent practices or serious irregularities that should be brought to the attention of these organisations.

The auditor may be required to provide these organisations with considerable detail regarding the irregularities and the audit work already performed, to permit the organisation to conduct an efficient and effective investigation.

### **11.8.3 Other external parties**

The contents of specific audit reports may be reported by the media, reviewed directly by the general public, etc.

Readers of the report will often have very little knowledge of the matter other than what is contained in the report itself. This makes it important that the matters dealt with in the report are very clearly described so that the readers can appreciate the significance of the matters raised, and the importance of the auditor’s recommendations.

If the auditor wishes to attract the attention of the media and the general public, it is also important that the audit report is clear and concise. The use of press releases, videos, and media briefing sessions could also be beneficial.