

Perspectives

By Joyce Lang, CPA, CIA, Contributing Columnist

For many areas of internal auditing, there is no single or “right” way to do our work; different approaches are effective in different organizations. Through the ‘Perspectives’ column, healthcare internal audit leaders share practices that are successful in their organizations. In each issue, at least three leaders respond to a question that has broad interest to our profession.

What makes your audit reports effective?



**Lisa Allnutt,
CIA CISA**

*Senior Director,
Internal Audit and
Compliance,
Carilion Clinic
Roanoke, VA*



**Anthony Almeda,
CPA CFE**

*Director,
Internal Audit,
Community Health
Systems, Inc.,
Franklin, TN*



**Mary Jo Flynn,
RN CIA CCSA**

*Vice President,
Audit Services,
Allina Hospitals
& Clinics,
Minneapolis, MN*

A big factor in the effectiveness of the audit report is the communication that occurs, not only as part of the report, but also before and during the audit. We begin our audits with pre-opening meetings with the Vice President and/or Director. We explain the audit process and scope and discuss their thoughts and concerns.

As a result of this meeting, they partner with us in the opening meeting held later with staff. This puts the staff at ease and allows more open communication. We also communicate with management throughout the review. This may be on a periodic basis or as significant issues are identified, depending on management’s preference.

A draft of the audit report is sent to management prior to the closing meeting. We provide recommendations; however, we also seek their solutions since they know what works in their environment. This becomes the “Agreed Upon Action” in the final report. Often this is determined at the closing meeting since different levels of employees are represented and some of the best

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Internal auditors are challenged every day with creating value for their organization. Management wants to know that the dollars spent on internal audit is money well used. Audit reports help maximize the value of internal audit to the organization. Several writing techniques used to make audit reports effective in a large for-profit healthcare organization are:

Know the Audience – This is the most important aspect of writing an effective audit report. Audit reports need to appeal to your audience’s concerns to be effective. Since internal audit is a service to management, the primary audience is senior management, including the Board of Directors. The secondary audience is hospital management.

With those audiences in mind, we create three different reports. The first is an audit report of the major financial and operational issues. These are issues that can lead to fraud, affect investor confidence in the organization, or lead to misstatement of financial statements—key concerns of senior management. Next, we report on the adequacy of internal

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The goal of every audit department is to create audit reports that deliver an effective message, raise awareness, spur discussion and result in action. After weeks of painstaking fieldwork, many auditors struggle with distilling the details into a message that meets the needs of corporate executives and process owners. This is frequently caused by not understanding the reader’s need for a top-down approach to information.

Using an audit report template, designed with the reader in mind, can help any auditor write an effective message.

Our audit report template has an Executive Summary and Audit Report Detail. The two-page Executive Summary is designed to provide sufficient context and clarity to grasp the level of risk identified without an in-depth understanding of the specific operational issues. The Audit Report Detail provides recommendation details most useful to the process owners. The template provides the auditor with writing guidelines and an outline structure of section headers, paragraphs and bulleted

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solutions are developed from these discussions.

We draft the "Agreed Upon Action" for management based on our meeting and have them review and edit it prior to sending to senior management. The turnaround time for their revisions is usually a couple of days. They appreciate not having to write the response and this also eliminates the back and forth that may occur when issues are not addressed fully.

The report itself is designed for Senior Management. It contains a scope, purpose, background if needed and a summary, as well as details for more significant issues. Our reports are generally three to five pages.

A rating and color code is provided for each item in the scope. This allows management to see areas that need attention and also provides an opportunity for them to see areas where the department did well. Details are provided for major issues, along with the "Agreed Upon Action" and date to be completed.

controls, as required by the Sarbanes-Oxley. Finally, we produce a report of minor concerns that do not materially affect internal control or materially misstate the financial statements. This report is only sent to hospital management.

Timeliness – Time is a critical component that affects the value of an audit report. Timely issuance enables management to respond to the issues promptly, to reduce or eliminate exposures identified. Timely reporting also has the intangible benefit of demonstrating that you complete your work with little delay.

We strive to write audit reports within two days of finishing our fieldwork and, after review, issue the report to hospital management for responses within four days of completing fieldwork. Hospital management is given five working days to respond to the audit comments. After a final review of the hospital's responses, we issue the report to corporate management within two weeks after fieldwork is complete. Timeliness of reporting is a key metric we use to rate the quality and value of internal audit.

Conciseness – Keeping audit reports concise while informing the reader is perhaps the most difficult and time-consuming task in writing the audit report. Brief statements, encapsulating the key ideas, can say a lot more than long explanations. If management sees excessively long audit comments they may delay reading the report because of time constraints. As mentioned above, any delay in reading the report lessens the value of the report.

We keep our audit reports concise by incorporating an Executive Summary of major issues and SOX issues. The Executive Summary is the first section of the audit report so management can quickly understand the issues. We strive to keep each audit comment in the executive summary no more than one sentence while at the same time incorporating the key ideas of the issue.

sentences to make it easy for the reader to navigate the report.

The Executive Summary begins with an introduction to the report which includes:

- A high level background on the business area
- Quantification of relevant data (e.g., number of transactions, revenue)
- Significant inherent risks in order to give context for the significance of the review
- A brief description of the nature and extent of the work performed, scope, and audit objectives

While there is always judgment required in gauging the amount of information needed for the reader, generally, no more than one to three sentences are written for each of the items.

The Executive Summary ends with the audit conclusion written in one or two short paragraphs. The first three to five sentences cover the significant outcomes of the review; the reader often reads this paragraph first and to get a good sense of any urgent concerns from these sentences alone. A summary statement of strengths and opportunities for improvement rounds out the first paragraph. Significant risks that require additional explanation are briefly summarized in the next paragraph.

The Audit Report Detail follows with recommendation details most useful to the process owners. Listed in order of significance, each recommendation is followed by bulleted sections of Goal (criteria), Observations (condition), Risk (effect) and management's mitigation plans.

By following the template and writing guidelines, we address the high-level reading strategies of busy executives and the practical application needs of process owners, to ensure an effective message is delivered in our audit reports. **NP**

Not all scars show. Not all wounds heal. Sometimes you can't see the pain someone feels.
~ Unknown