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AUDIT REPORTING

# PREVENTING REPEAT FINDINGS

**“B**UT the same mistakes are being repeated”, screamed the front-page headline of the *New Straits Times* dated Jan 19.

Prime Minister Datuk Seri Anwar Ibrahim has once again pushed the right button. He has instructed his cabinet members to study the remarks made in the Auditor General’s Report on expenses, leakages and non-compliance.

This initiative will set the much desired “tone at the top” — essential for good corporate governance and culture. The focus and diligence from the very top will cascade down the lower ranks, and things should start falling into place when the relevant staff start addressing the issues raised in the Auditor General’s Report.

## Five attributes of internal audit reporting

In internal audit parlance, there are five attributes to the actionable part of the audit report — criteria, condition, cause, effect and recommendations.

The criteria refers to the expected standard. The ways that things should be, the accepted norm.

The condition refers to the deviation from the criteria, that which is not per the accepted standard. The condition is that which is referred to as the dread-

ed audit findings.

Having got the findings, it will be necessary to delve into the cause of the findings. After all, if we fix the cause, the findings should not recur. What is sought is not the immediate cause but the actionable cause.

Auditors, on determining an initial cause, will continuously ask “why?” and each time that question is asked, the answer will lead to another cause. Such iterative questioning will eventually lead to what we call the actionable cause — the root cause which needs to be addressed.

A finding proper per se is only relevant if there is an effect. If there is no effect at all, then there is no worthy finding. The effect will need to be spelt out convincingly.

Then there is the recommendation — the recommended course of action to ensure that the effect of the findings are addressed and that the cause of the findings is cured so that findings do not recur. Often the curing of the finding is achieved by putting in place relevant and adequate internal controls.

There is no order as to how these five attributes should appear.

Any internal auditor worth his salt will mentally articulate these five attributes when writing an audit report and decide on their arrangement to create the desired impact and call to action.

## Application of the five attributes

Let’s say laptops of a particular model were bought for RM9,000 when the market price was RM4,000. The criteria will be that the market price of the device was RM4,000. The findings (condition) will be that the laptop was purchased for RM9,000. The cause may very well be because no check on the market price was made, usually by getting a few quotes, or maybe a tender was not carried out if the number of laptops was sizeable enough. The effect is obvious — wastage or leakage. And the recommendation may very well be to get at least three quotes for procurements below a certain threshold. As for large purchases, the recommendation will be to call for a tender.

## Repeat findings

In audit, “repeat findings” are findings highlighted previously but have recurred. Such repeat findings are the greatest fear of an auditee. Repeat findings are a sign that the auditee has not taken the past findings seriously enough. One must be careful that these repeat findings are similar to the previous findings in nature and attributes.

The disdain for repeat findings is because though these were highlighted earlier, actions were not taken to address them.

The prime minister alluded to

such repeat findings when he stated “the Auditor General’s Report always contains recommendations, but the same mistakes are repeated year after year”. He continued that “such report was important because repeated mistakes had been detected, such as a lack of monitoring that allowed leakages to occur...”

## Sanctions and rewards

There must be a system to discourage serious findings, especially repeat findings. Findings will require proportionate sanctions.

Former auditor general Tan Sri Ambrin Buang believes that punitive measures, such as fines, transfers and wage cuts, are no longer realistic as punishment for those who do not respond appropriately to the recommendations in the report.

There must be a sufficient mix of rewards and punishments to ensure that there are no serious audit findings and that the findings, when they arise, are acted upon promptly.

The Auditor General’s Report should be treated seriously and should draw the attention and reaction that it deserves. And the actionable cause, when determined and addressed, will cure many of the malaises.

The writer is chief executive officer of Minority Shareholders Watch Group

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