

The 17 Audit Reports Every Board Needs

Condensed schedule assists directors with risk oversight roles.

January 22, 2010 by [Walter Smiechewicz](#)



A student went into an exam having prepared for days knowing of the professor's reputation for difficult exams. Settling in, with number two pencil gripped firmly, the student completes detailed answers for every question. Every fact and figure the student had remembered was diligently codified in lengthy answers.

When the exams were handed back, the student was surprised at the professor's comment. "This was a test of short answers—not essays. You wrote too much and I found it very difficult to read your multi-page answers to determine if you understood and were able to provide the key points from class."

Likewise, board members may be tempted to scribble such a missive on an internal audit report: "Rather than giving us pages of details you learned during the dozens of audits performed, can you audit the key areas (i.e., risks) and give us the 'short-answer format' of what we, as board members, need to be concerned about?"

Indeed, it's now nearly commonplace for "audit-overkill," which dilutes the effectiveness of what is perhaps the one of the most important roles a board member can play.

There are a number of typical issues a board member must confront such as risk, governance, and controls. But while some sort of apparatus may be in place, there is no operating manual to which the board member can turn to that clearly identifies the potential risks and presents a set of solutions.

Rather than the conventional protocol of presenting a stack of excel spreadsheets informing the audit committee of the annual internal audit schedule and expecting nothing more than a perfunctory review and approval, (pardon me while I do an infomercial impersonation), what if I told you that your auditing schedule could be replaced with just 17 audits, that if executed properly, could provide even better oversight than the 100 or so you've been using?

Below I've outlined such a condensed schedule. Upon reviewing this list many GAs may seek to build out a host of additional audits to satisfy the "sufficient coverage" appetite simply through force of habit. However, they must resist this temptation.

To make the decisions that matter, boards must have information that cuts through to the core of the risk issue and provides a clear course of action for review.

In each of the following, the GA should determine the key risks (i.e., the top two to three risks per audit), the strength of governance designed to mitigate those risks, and if concomitant controls are operating as designed.

Here we go...

1. Strategy: What is the strength of governance surrounding how an entity's strategic plan is developed and monitored?
2. Reputation: Is there awareness regarding third party's opinions about the organization in the social media and what risks that uncovers for the company?
3. Finance: What controls exist around revenue recognition in the company?
4. Left side: Are items that should have been expensed such as Other Assets, PP&E and Capitalized Software among others, remaining on the left side of the balance sheet?
5. Right side: Is there a sufficiency of capital when juxtaposed against the company's strategic plan?
6. Market, interest rate and liquidity: The previous 24 months have revealed seismic shifts in liquidity availability – has liquidity been moved from the right side of the balance sheet back to the left side?
7. Compliance and regulatory: Is the GC's office structured and prepared for increased demands of regulatory compliance? Is there awareness as to the impact of key regulators on aspects of your operations? What are the important compliance issues that could instigate class action litigation?
8. Sales: Is the company in compliance with all aspects of the FCPA?
9. Production: Do the metrics and quality assurance procedures (domestic and international production facilities) ensure safety and quality of products?
10. Research and engineering: Are protocols sufficient to determine if new products will drive consumer demand – or has there been a failure to keep up with market trends?
11. Human resources: Do turnover metrics in divisions indicate risks yet to surface? (Often times employee departures indicate underlying problems.)
12. Technology: Are systems sufficient to ensure consumer data privacy and quality of management information for proper decision making?
13. Customer service: Are systems sufficient to keep management informed concerning customer feedback and satisfaction levels?
14. Credit/receivables: Have credit due diligence standards remained strong in the current economy or have they slipped in order to increase sales?
15. Vendor/supply chain: Are systems sufficient to know the risk within the companies who are in the supply chain and how their risks might impact the company?

16. Physical security and natural hazard: The Once in a Thousand Years event has somewhat sped up its frequency. Are business resumption procedures regularly tested?

17. Valuations: What percentage of the balance sheet is valued by financial models? What is the strength of the model validation procedures utilized?

These 17 audit reports should be summarized into one-page reports for ease of reading, with detailed information provided upon request. Each summary should include methods used, findings, proposed action and expected results.

This format will be a valuable and time-conserving addition to both the senior management of your company and the board. It will allow the audit group to attract an entirely new level of professional talent that, after a few years of engaging in this rigorous internal audit regimen, will be more than prepared for key management positions.

And most importantly, the board and C-Suite will be able to maintain a higher level of confidence with auditors, who are on the front lines as the eyes and ears of the board.

The board will be able to discharge its responsibilities without being subject to ambiguity or surprise and present quality products and services resulting in sustainable returns to shareholders.

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