INTERNAL AUDIT REPORT

A Practical, Professional Template
(As Seen in Real Businesses)

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“An internal audit report is not written to impress auditors. It is written so management can sleep better at night.”

...ANURAG

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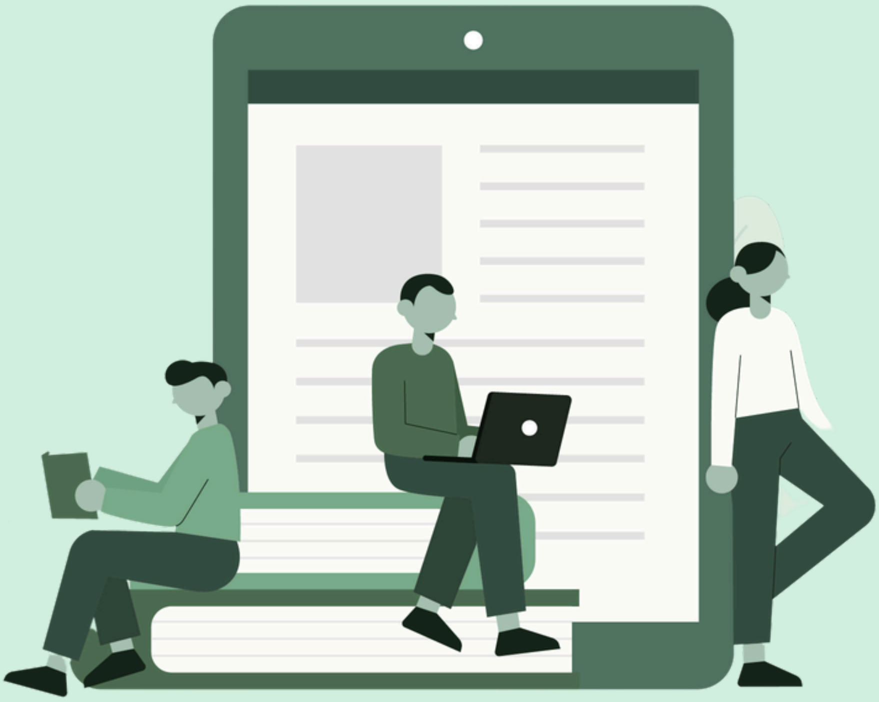

01

WHY THIS EBOOK EXISTS?

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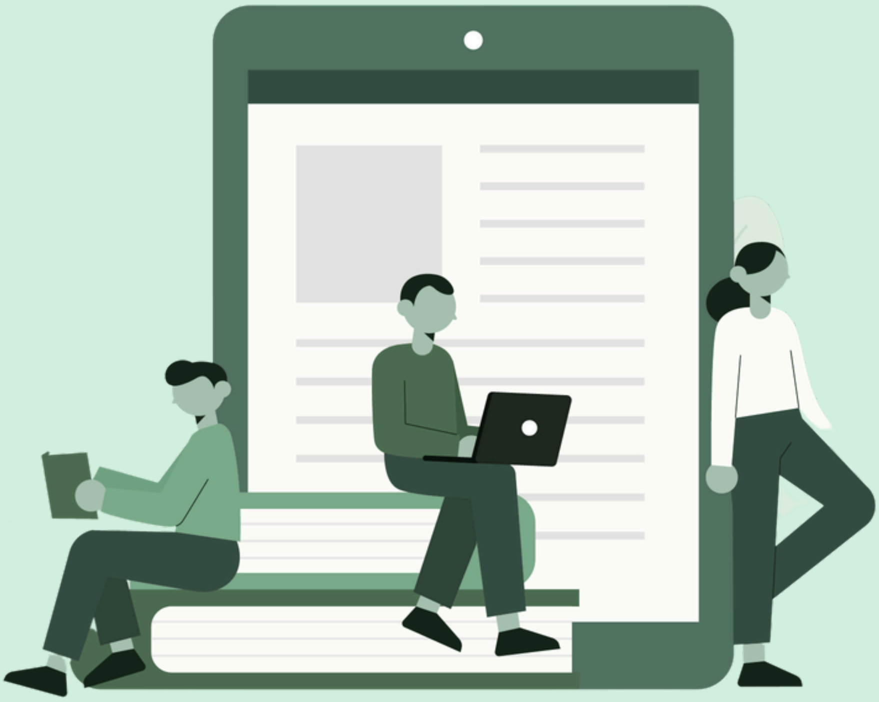
EBOOK EXISTS?

Before jumping into formats and sections, let's set the tone.

Most internal audit reports fail not because of a lack of compliance knowledge, but because:

- They are too technical
- They are copied from old templates
- They don't help decision-makers act

> Over the years, I have seen beautifully drafted audit reports that nobody read after the Board meeting. And I've seen simple, direct reports that actually changed systems. This ebook is about the second kind.



02

AUDIT SCOPE

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Setting the Boundaries Before Judgement

What is Audit Scope (in simple words)

Audit scope answers one basic question:

What exactly are we checking, and what are we not?

Without a clearly defined scope:

- Management expectations mismatch
- Audit findings get questioned
- Accountability becomes blurred

What an Ideal Audit Scope Covers?

A. Objective of the Audit

Clearly mention why the audit is being conducted:

- Financial controls
- Operational efficiency
- Regulatory compliance
- Risk assessment

“If you can’t explain the audit objective in one paragraph, the audit itself is confused.”

B. Coverage Details

1. Departments/processes under review
2. Time period covered
3. Key focus areas
   - Companies Act compliance
   - GST / TDS
   - Payroll & statutory dues
   - Internal controls & others

C. Legal Reference

- Companies Act, 2013 – Section 138

(mention applicability without heavy legal jargon)

Small Case Study

The 'Assumed Scope' Problem

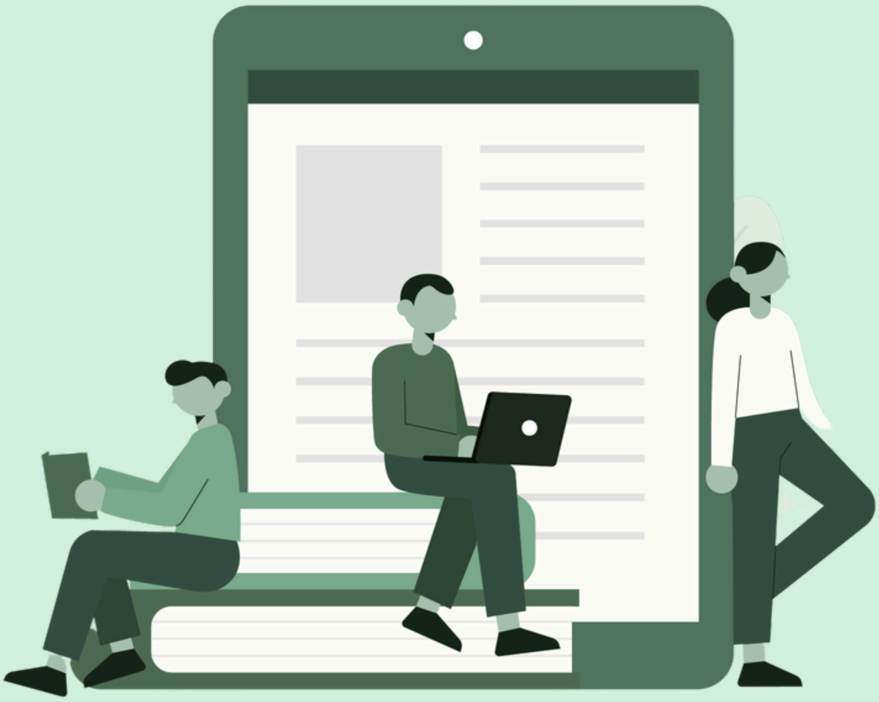
A mid-sized manufacturing company assumed the internal audit would cover GST reconciliations.
The audit team assumed GST was out of scope.

Result?

- GST mismatch discovered during departmental scrutiny
- Management blamed the audit
- The auditor blamed the scope note

Lesson

A clear audit scope protects both management and the auditor



03

EXECUTIVE SUMMARY

EXECUTIVE
SUMMARY

One Section the Board Actually Reads

This section is not a summary of pages.
It is a summary of impact.

What the Executive Summary Should Do

- Give the Board a 5-minute understanding
- Highlight what really needs attention
- Avoid technical detailing

What to Include

Key Compliance Gaps

- Delayed ROC filings
- GST / TDS irregularities
- Income Tax non-compliances

Major Risks Identified

- Financial exposure
- Regulatory penalties
- Process weaknesses

Improvement Areas & Trends

- Compared to previous audits
- Improvements vs recurring issues

> If your executive summary needs an explanation call, it's not an executive summary.

EXECUTIVE **SUMMARY**

Relatable Example:

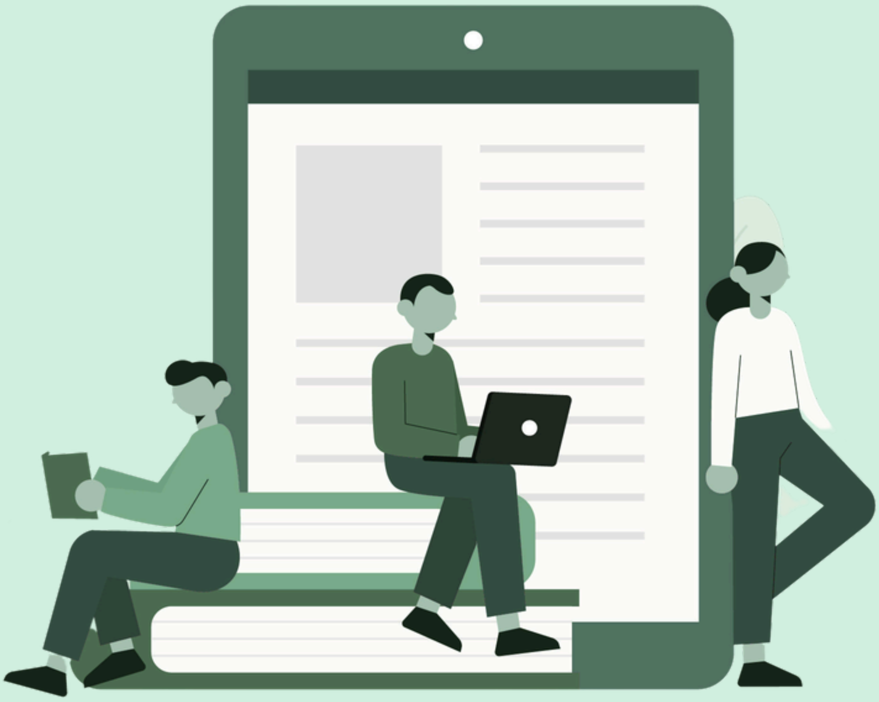
Instead of writing:

Non-compliance with Section 139 of the Income Tax Act was observed.

Write:

Delayed filing of income tax returns may lead to interest, penalties, and increased scrutiny from authorities.

Same point, but very different impact.



04

RISK MATRIX

RISK MATRIX

Which Risks Deserve Attention First?

Most businesses know what is wrong, and they struggle with what to fix first.

This is where the risk matrix helps.

The Two Questions We Ask

- How likely is this to happen?
- If it happens, how serious is the impact?

Risk Prioritisation

- High Likelihood + High Impact → Act immediately
- Medium Likelihood / Impact → Plan and fix next
- Low Likelihood + Low Impact → Monitor regularly

Practical Examples

- Delaying TDS deposits → High priority
- Late ROC filings → Medium priority
- Minor cash handling errors → Low priority

Daily Life Analogy

Not locking your main door at night is a high-risk issue.
Not cleaning your balcony daily is a low-risk one.

> **Both matter, but not equally.**

05

DETAILED OBSERVATIONS

DETAILED
OBSERVATIONS

Where Audit Becomes Actionable
This is the heart of the report.

Each observation should follow a fixed rhythm so management doesn’t feel overwhelmed.

Recommended 5-Step Structure

A. **Observation**
What exactly was noticed?

B. **Root Cause**
Why did it happen?

C. **Risk / Impact**
What could go wrong if ignored?

D. **Recommendation**
Clear, practical solution (not theory)

E. Management Response
Ownership, timelines, commitment

DETAILED
OBSERVATIONS

Sample Observation

Observation:

TDS on contractor payments was not deposited within the prescribed timelines.

Root Cause:

Absence of a monthly TDS tracking mechanism and dependency on year-end reconciliation.

Risk/Impact:

Interest and penalty under Section 201 of the Income Tax Act, along with reputational risk during assessments.

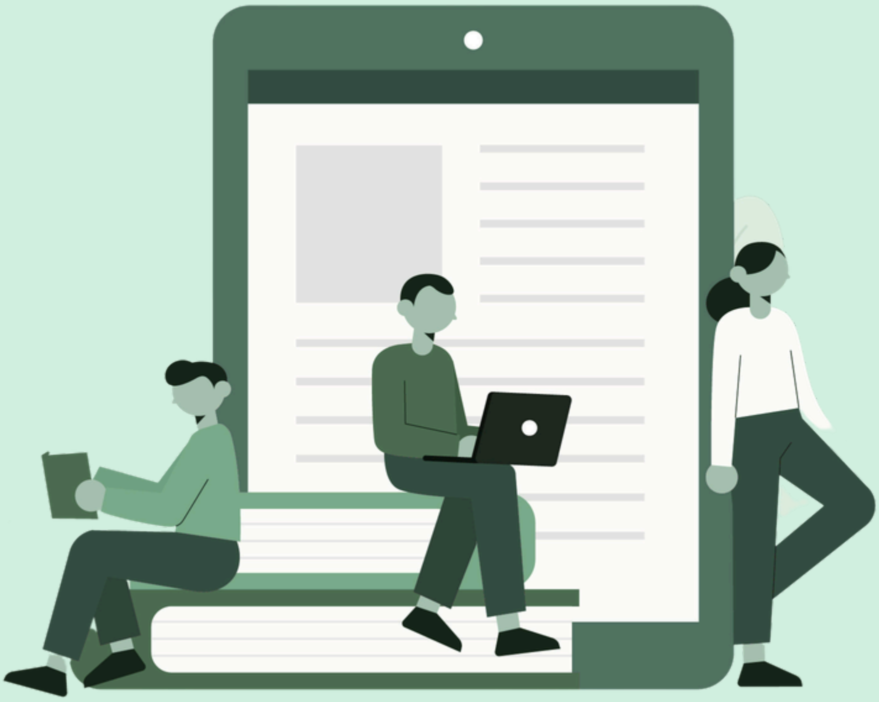
Recommendation:

Implement an automated TDS tracker with monthly reconciliation responsibility assigned to the accounts team.

Management Response:

The accounts team to be assigned responsibility and compliance to be reviewed monthly.

> **Good audit observations don’t accuse. They guide.**



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ANNEXURES

ANNEXURES

Keeping the Main Report Clean

Annexures are where details live, not where decisions are made.

What Goes into Annexures

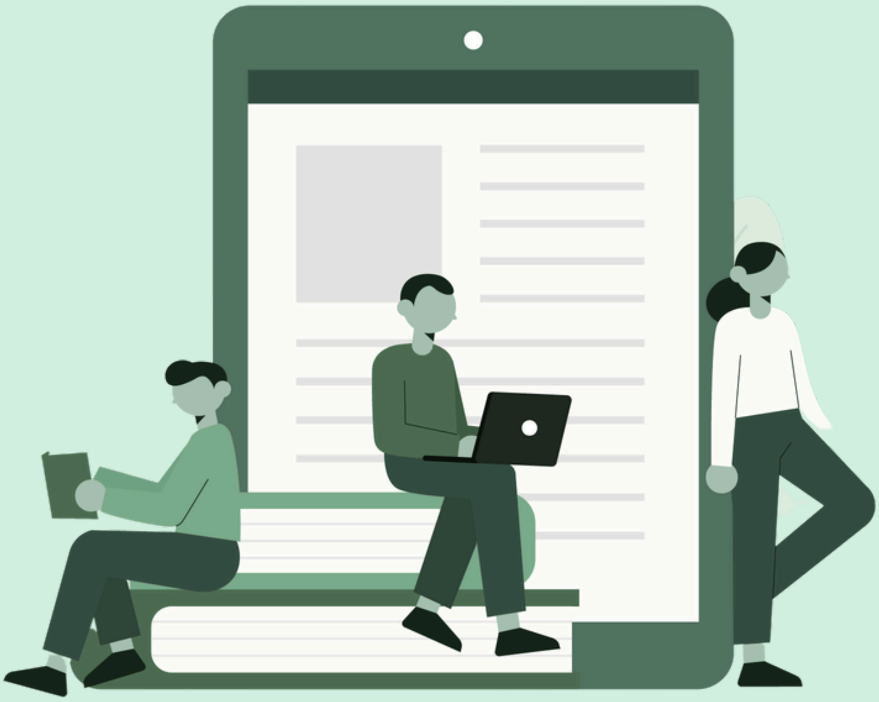
- Risk rating criteria
- Audit team details
- Documents and checklists reviewed
- Legal and regulatory references

This helps

Avoid clutter

Maintain professionalism

Support audit conclusions



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DISCLAIMER & CLOSING NOTE

DISCLAIMER

This report is prepared for internal purposes only to assist management in improving controls, risk management, and compliance.

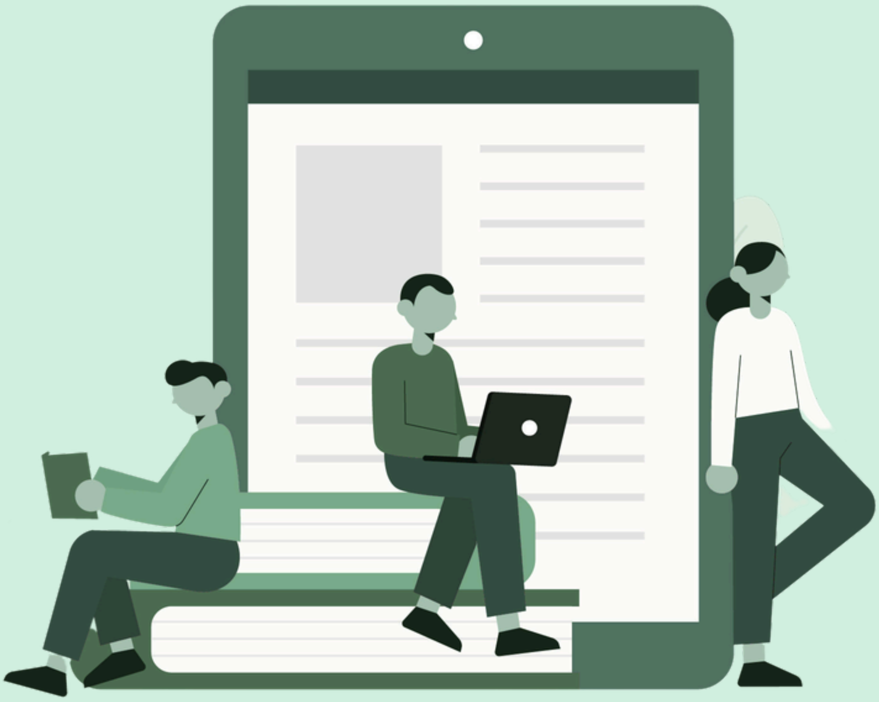
It should not be considered legal advice.

Management remains responsible for implementing recommendations and ensuring compliance with applicable laws.

CLOSING NOTE

Ending on Trust, Not Formality

> An internal audit is not the end of a process, it’s the beginning of better systems.



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INTERNAL AUDIT REPORT PRACTICAL CHECKLIST

INTERNAL AUDIT REPORT
PRACTICAL CHECKLIST

A companion guide to ensure nothing important is missed This checklist is not meant to replace judgement...It is meant to support it.

1. PRE-AUDIT PLANNING CHECKLIST

Before starting the audit, ensure:

- ☐ Audit objective is clearly defined (financial / operational / compliance)
- ☐ Applicability of internal audit under Companies Act, 2013 (Section 138) assessed
- ☐ Audit period is clearly identified
- ☐ Departments / processes to be covered are finalised
- ☐ Key focus areas are agreed with management (GST, TDS, Companies Act, payroll, internal controls, etc.)
- ☐ Scope exclusions (if any) are clearly documented
- ☐ Opening discussion held with management to align expectations

> Most audit issues arise not during fieldwork, but because expectations were never aligned at the start.

2. AUDIT SCOPE DOCUMENTATION CHECKLIST

Ensure the scope section answers:

- ☐ What is being audited?
- ☐ Why it is being audited?
- ☐ Which departments/processes are covered?
- ☐ Which time period is under review?
- ☐ What laws and regulations are being considered?
- ☐ Are any areas explicitly excluded?
- ☐ Is the scope clearly understandable to a non-finance person?

3. EXECUTIVE SUMMARY CHECKLIST

Before finalising the executive summary, confirm:

- ☐ Summary can be read and understood in under 5 minutes
- ☐ Key compliance gaps are highlighted clearly
- ☐ Major risks are prioritised, not listed randomly
- ☐ Language is non-technical and business-friendly
- ☐ Trends compared to previous audits are mentioned (where applicable)
- ☐ Action areas are evident without reading the full report

> **If the Board only reads one page, it should still know what needs attention.**

4. RISK ASSESSMENT & PRIORITISATION CHECKLIST

Ensure each identified risk has been assessed for:

- ☐ Likelihood of occurrence
- ☐ Impact if the risk materialises
- ☐ Appropriate risk category (High/Medium/Low)
- ☐ Clear reasoning behind risk classification

  Focus on risks that affect:
  - Cash flows
  - Compliance
  - Reputation
  - Business continuity
- ☐ Management can easily identify top-priority risks

5. DETAILED OBSERVATIONS CHECKLIST

Ensure each identified risk has been assessed for:

- ☐ Observation is factual and specific
- ☐ Root cause is identified (not assumptions)
- ☐ Risk/impact is clearly explained
- ☐ Recommendation is practical and implementable
- ☐ Recommendation is proportionate to the risk
- ☐ Management response is documented
- ☐ Responsibility and timelines are mentioned

> **Good observations don’t sound like accusations…they sound like guidance.**

6. COMPLIANCE COVERAGE CHECKLIST

Depending on applicability, ensure review of:

- ☐ Companies Act compliances
  (ROC filings, registers, board processes)
- ☐ Income Tax compliances
  (TDS, advance tax, returns)
- ☐ GST compliances
  (returns, reconciliations, payments)
- ☐ Payroll & statutory dues
  (PF, ESIC, professional tax)
- ☐ Internal control processes
  (approvals, documentation, reconciliations)

7. ANNEXURES & SUPPORTING DOCUMENTS CHECKLIST

Before closing the report:

- ☐ Risk rating criteria included
- ☐ Audit team details provided
- ☐ Documents and records reviewed are listed
- ☐ Relevant legal references mentioned
- ☐ Annexures are clearly cross-referenced
- ☐ Main report remains clean and uncluttered

8. FINAL REVIEW & REPORT QUALITY CHECKLIST

Depending on applicability, ensure review of:

- ☐ Report tone is professional and neutral
- ☐ No unnecessary legal jargon used
- ☐ Formatting and structure are consistent
- ☐ All observations are internally consistent
- ☐ Disclaimer is included
- ☐ Report is signed/issued appropriately
- ☐ Report answers one final question:

  “Can management act on this?”

> **Internal audit is not about highlighting what went wrong in the past...it is about reducing the chances of it going wrong again.**

Hello,
I am Anurag Nahta

INTERNAL AUDITOR

I'm an Internal Audit professional with a decade of experience and a passion for simplifying complex business challenges. On LinkedIn, I share insights on internal audit and controls with my 19,900+ followers. From manufacturing to finance, I've helped streamline processes across various industries. When I'm not diving into audits, you'll catch me travelling, playing cricket, or trying new foods.

Let's connect and explore the world of internal audit together!

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