How To Write An Impactful Audit Report

The role of Audit adds increasingly more value

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Agenda

- Current Headwinds
- How to address challenges and add value
- Key components for developing an Audit Report
- Audit Report-writing techniques
Headwinds facing Internal Audit

- Changing business processes
  - Mergers & Acquisitions, expansion

- New product development: exposure to new risks
  - Mobile banking and payments, multi-family lending, residential lending and refinancing

- Convergence in risk management
  - Operational, IT, vendor, regulatory, credit, market

- Increasing pace of regulatory changes and related risks
  - Stringent enforcement means financial and strategic impact
  - Information overload and differing interpretations

- Need for greater risk assurance
  - Rating agency, board, investor requirements

- Leveraging technology to achieve greater efficiencies
Complexity and convergence of risk

Areas of greater involvement but least satisfaction

Survey respondents were asked to rank their top three areas of least satisfaction with internal audit:

- Large programs/change management: 42%
- New product introductions: 35%
- Capital projects: 34%
- Mergers and acquisitions: 33%
- IT infrastructure: 29%
- Business continuity: 25%
- Corporate governance: 25%
- Data privacy and security: 20%
- Fraud and ethics: 14%
- Financial reporting controls: 12%

Source: PWC Survey Report – 2013
State of Internal Audit
How to address challenges and add value?
How to address Challenges and add value:

**Study reveals:**
- Organizations have more work to do to align stakeholders’ expectations
- On average, 56 percent of board members rated internal audit’s performance as strong, compared with 37 percent of management

**Source:** PWC Survey Report – 2013

*State of Internal Audit*
What Auditors Can Do Through The Audit Report?

To help address the requests by investors and other stakeholders for more relevant and decision-useful information

- Be more transparent by increasing the usefulness and informational value of the audit report
  - Understand the Audit history and dig beneath the surface for key perspectives
  - Offer strategic insights that improve business performance
    - Add insight through emphasis
    - Link similar findings and align with recommendations
    - Provide clarification without excessive detail and jargon
  - Provide a key perspective that focuses on the risks that matter
  - Highlight important matters / significant judgments
  - Be as consistent as possible across jurisdictions

Source: PWC IIASB Auditor Reporting 2012
E&Y Enhancing transparency of the audit committee auditor oversight process Nov 2012
How to structure an effective report?
Audit Report* - the significant output of the audit process

A clear written expression of significant observations & recommendations based on the policies, processes, risks, controls

– Identifies potential opportunities for improvements
– Identifies issues/ non-conformities
– Helps in making informed decisions

*Source: IIA Standard 2410, 2420
An Effective Audit Report Should...

- Engage the audience
- Reflect self-identified risks and issues
- Specify and simplify the facts
- Create a call to action
...by understanding the importance of the observation and specifying the relationship between the cause and effect, you have greatly increased your effectiveness to a proper call of action

*Source: Elevate Consulting
Audit Report: Key Considerations

• What is the objective of the audit report?
• Who should and who is reading this report?
  – Analyze the audience
• How do they plan on using the report?
• What kind of reaction are you looking for?
Audit Report: Key Considerations

• Define the purpose of the report
  – State your aims, objectives and intended outcome

• Keep your audience your central focus
  – Consider the subject from the audience’s perspective

• Accurate, but brief and clear
  – Only include important and directly relevant information
  – Bottom line first, then supporting details

• Simplify the facts
  – Determine how you are going to analyze the results
  – Use only value-adding descriptive words
  – Keep sentences and paragraphs short

• Start and end strong

• Personalize the “pain points”
How to Tailor Your Audit Reports

Think about who will be reading the report..

- Know the audience and answer the questions:
  - Who will be the most important readers of the report?
  - How much do they know about the subject?
  - How do they plan on using the report?
  - Why should they care about an auditor’s recommendations?
  - How the problem impacts the reader?

Clients → Audit Committee → Target Audience → Senior Executives 

Stakeholders → Line Staff
Audit report structure

• Decide on the best report format and presentation:
  – A brief summary
    o Start with the main point, state the critical issue first then follow up with details
  – Central message
    o Context for the findings
    o Include Audience concerns to consider
      ▪ Illustrate the risks
      ▪ Why should they care about an auditor’s recommendations? What risk does not following the recommendations expose them to?
  – Elements of a finding
    o Possible use of text boxes, graphics and verifiable statistics
  – Use layers for multiple audiences
    o Takes the reader’s knowledge of the subject into account
  – Discuss report message throughout the audit
  – Use short, simple sentences
  – Use words your audience understands
  – Use color and visuals effectively
Communicate findings in context

• State your aims and objectives for the audit
  – Provide bigger picture
    o Why this report matters
    o Help the reader understand what all the audit findings mean
  – Determine what are the risks
  – Determine levels of effect
  – Create your call to action
  – Link findings to business strategy/objectives
  – Risk rate the findings and the implications if findings are not remediated.
    ➢ Create conclusions for lack of action (no action for 6 months = acceptance of risk)
How to Risk Rate The Audit Findings?

Findings and Recommendations: Questions to ask?

• What is the problem? (Condition)
• What policy or best practice can be adopted? (Criterion)
• What led to the problem? (Cause)
• What is the risk? (Effect)
• What should be done? (Recommendation)

As risks increase, internal audit's coverage of risk and performance in emerging areas is critical
Effective reports:

- Avoid the “blame game.”
- Avoid unnecessary technical jargon.
- Avoid taking all the credit
- Avoid negative language
- Provide recommendations, not detailed solutions…”
Tools to simplify report creation
Data analytics: a new priority

A major concern senior executives expressed is that internal audit does not understand the root causes when making quality improvement recommendations.

Source: PWC Survey Report – 2013
State of Internal Audit
Information Model aligns data

Risk Library
- Risk 1
- Risk 2
- Risk 3
...

Auditable Entities
- Business Unit 1
- Business Unit 2
- Process 1
- Process 2
- Policy 1
- Policy 2
- ...

Annual Audit Plan
- Audit Universe
  - Process 1
  - Process 2
  - Site 1
  - Site 2
- Audit Projects
  - Audit Project 1
  - Audit Project 2
  - Audit Project 3
- Key Risks
  - Risk 1
  - Risk 3
  - ...

Template Repository
- Work Program Template
- Checklists
- Questionnaires
- Control Test Plans
- ...

Audit Project
- Tasks & Milestones
- Work Paper Documents
- Draft & Final Reports
- Workflows, Emails & Alerts

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Technology as an Enabler

Internal auditors got the lowest marks in “leveraging technology.”

Technology has emerged as a key enabler for internal audit to improve audit quality and value while remaining cost-effective. One of the fundamental ways internal audit can leverage technology is through “data analytics.”

Source: PWC Survey Report – 2013
State of Internal Audit
Technology as an Enabler

- Provides a highly structured and standardized method of reporting audit results
  - Quick and easy access to all audit data
- Powerful reporting and analytics for real-time visibility
  - Standardized data collection
  - Automated reports summarizing the results & observations
    - Ability to create and condense information
    - Impactful visualizations with supporting metrics
  - Multiple reports & graphical dashboards highlight critical information
    - Trend analysis, heat-maps, charts
    - Deep and persuasive intelligence on business issues
  - Provides strategic insights that improve business performance
- Provides efficiency in testing through automation
- Ensures consistency
Things to Remember

✓ Apply the standards
✓ Know your organization
✓ No surprises!
✓ Summarize highlights
✓ Explain clearly
✓ Make it interesting
✓ Make it easy to read
✓ Leverage technology

Compose informative, clear, concise audit reports
Thank You

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Monday, April 15, 2013