

## New ways of reporting



In 1909 Harry Selfridge recognised the importance of the shop window display as a way to entice passers-by into his shop. Chief audit executives (CAEs) are also window dressers, accountable for how the audit message is presented to stakeholders. Is your window enticing? Is it engaging or is it overlooked on the way to something more interesting?

This briefing paper discusses the presentation of audit results, everything from the use of gradings, the language of recommendations and the use of technology. The intention, like Mr Selfridge is to provoke a reaction and perhaps offer an alternative way of thinking about the audit window front.

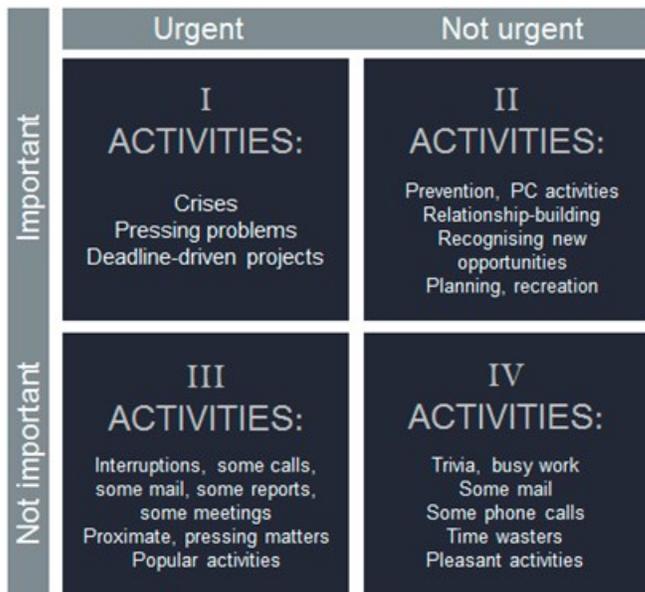
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## Standing out

Companies spend millions to ensure that their product is the one you buy, the advert you remember, the one you recommend to friends. Internal audit does not have a product to sell in the traditional sense but it does have a service to sell; not in monetary terms but in relation to its observations and opinion, agenda/reading time and engaging stakeholders in the value of assurance. The quality of the internal audit service is often judged by the report.

Take a moment to think about your own reading list, how do you prioritise it, are there reports that someone has taken the time to prepare that you haven't read? Time management skills tell us that of the four quadrants in the table below to tackle I as a priority, schedule time for II, delegate or defer III and delete or

avoid IV.



It is essential that internal audit results are delivered in a manner that ensures they are always in box I not because they are important but because the recipient is engaged with the audit process and automatically puts them there.

Larry Sawyer, the father of internal audit, is attributed with saying that the audit report is the shop window for the internal audit function. Consigned to history are the self-important 20+ page reports that leave the reader reaching for caffeine; most are concise at less than 10 pages. Shorter is undoubtedly appreciated but does it guarantee box I?

## One size does not fit all

A key marketing principle is segmentation; classifying a target population based on needs and requirements. If this works so well for organisations across the globe why do internal audit functions tend to produce a single audit report?

The internal audit audience is a varied mix, the audit committee, the executive, line management, sometimes an external party. Trying to appease all of these customers dilutes the message that each one needs to receive as whilst the overall message is the same the way in which it's delivered needs to be relevant.

Is this internal audit trying to deliver too many messages at once? Although, managing multiple versions of reports is not without risk with the potential for them to get out of sync and damaging audits reputation.

Many CAEs overcome this by having an executive summary aimed at the audit committee with the body of the report containing the detail for line management whilst the executive can chose which elements they read depending on their remit and level of interest. Auditors can be challenged to reduce the content of their reports still further, is the detail really for management or to demonstrate audit have understood the area? Could the executive summary suffice even for management? Is the detail really needed? Is more than one

report needed? Is there an alternative media to reports?

## Seeing red!

Ratings are a useful tool for reporting trends and providing a snapshot of assurance, particularly when using an assurance map. However, they can also be emotive and act as a powerful magnet to draw attention away from the content of a report. Think back to the priority matrix could it be that red/unsatisfactory falls in box I, amber/needs improvement in box II or III, green/satisfactory in box IV?

Ratings may trigger consequences for management that are outside of the intentions of internal audit, such as a visit to the CEOs office, a summons to a committee or worse still a P45! This negative cultural association causes unnecessary tension between audit and management. Even without these events the use of ratings may lead to the withholding of information that could assist internal auditors in identifying control weaknesses. When ratings are used they are often the topic of discussion and debate with management rather than the actual content of the report, this can also lead to publication delays.

Colour ratings are even more emotive as they are invariably red, amber and green. It is a convenient system, easily recognisable the world over as a traffic light system, stop, prepare, go. Unfortunately colours are also associated with feelings such as anger, passion and happiness depending on cultural significance; it can also be lucky or unlucky symbolising wealth and good fortune or war and power.

The issue goes beyond culture as **psychologists have found** that red increases the heart and pulse rate together with blood pressure.

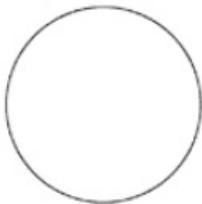
Given all of these issues why does internal audit compound an already challenging task of delivering difficult messages with the use of ratings, particularly colours?

In addition to ratings, internal auditors use words such as findings, sampling, testing, evidence, results, but do these technical sounding words really need to be used? Findings sounds very formal, rarely is the actual finding something that management didn't know, is it not more the observation or audit insight that is being shared? Perhaps internal audit should omit the use of profession related words when writing reports – more plain **English**.

## A picture paints a thousand words

Scientists now argue against the left (logic) and right (creativity) brain theory, however before all the accountants reading this claim victory over the use of tables and text, it still remains true that people process visual content better than text. The brain can process images 60,000 times quicker than text.

**Graphic Description**



**Textual Description**

a curved line with every  
point equal distance  
from the center

Visual tools for delivering messages include charts, diagrams, mind maps, infographics and videos. These

enable greater insights to be shared, increasing the influence and impact of the audit message. How often have you shown a video of an operational process or location to demonstrate an issue or used an infographic to generate debate and discussion? BUPA (Spain) received a highly commended in the 2017 Audit and Risk Awards for their use of a 3-minute audit findings video as part of their audit committee papers.

Data visualisation extends this by creating the opportunity for interaction; it is an essential tool to enable the human mind to manage the complexities of big data. Software that enables charts to be built up, drilled into or perspectives changed at the click of a button are part of the digital armoury that CAEs need to deploy. If you need to be convinced further take 15 minutes to watch a [TED talk](#) on the topic.

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## Tell me or teach me

In an audit report, there is nothing worse than the phrase 'management should consider', aside from being an easy get out to avoid action, it implies that they haven't thought of the idea themselves, perhaps they have but it's not been cost-effective or a priority. It also prompts the question, should internal audit be telling management what to do?

An audit recommendation can have no margin of error, it is advising a specific course of remedial action. Is internal audit expert enough in all business areas to offer such instruction? It may also be perceived as an adversarial approach, pitting the acumen and professionalism of the internal auditor against the business.

An alternative approach is to collaboratively agree actions with management during the findings discussion, exploring and debating options whilst offering professional counsel on governance, risk and control points. This endorses the position of internal audit as a trusted advisor, as opposed to the policeman telling people what to do. Internal auditors need to have robust understanding of the organisation in addition to negotiating skills to achieve acceptable outcomes; the approach does not work if management are allowed to evade difficult decisions. Internal auditors should have a clear idea of the outcomes they want to reach and steer conversations accordingly, know the points to concede and those to hold firm on; offering recommendations as part of a two-way discussion is a more collaborative approach than presenting them as a fait accompli.

There should be scope for management to agree with findings without committing to remedial action. Where considered within their remit to accept the risk this should be reported and escalated in line with an agreed process; this should not be an easy option for management. It is easier for internal audit to manage such situations when risk appetite is clearly defined.

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## The report is dead, long live the report

Internal audit has been renowned for heavy text based reports using Word or electronic working papers auto-templates. Many functions have switched to presenting audit results and whilst this encourages the use of graphics, there is still the infamous danger of death by PowerPoint! And there are those functions which then follow up the presentation with a formal report.

In the digital age, does internal audit still need to write reports? Is there an alternative way to present the results of audit work to stakeholders? What are their information requirements – what do they ask for and what do they need to be told?

Taking the view that all of the detail usually included in the report can be provided by exception, if a finding is disputed, there are three important elements to consider; the audit opinion, the findings themselves and any actions that arise.

The audit opinion is primarily for the board, the audit committee and other oversight bodies such as external audit and regulators. It is imperative that audit retains control of their output and that it cannot be manipulated by the recipient but there are media options. Also look afresh at the audit report, how much of the information is surplus to requirement?

Does your organisation use board management software? How can this be exploited? Could an internal audit dashboard be produced to keep members updated in real-time rather than having to wait for the next quarterly meeting. If software is not an option, perhaps an audit opinion email is a more concise delivery mechanism than an executive summary.

Detailed findings are the catalyst for change and unless the subject matter is board related such as culture or governance it is most likely to be management that is the primary stakeholder with abridged or consolidated information being provided to the board. Once the need for change (a new control, a different type of insurance, an adjustment to a process step, a revised policy) has been established the finding itself is no longer relevant, it is part of the history of the review along with the evidence that supported it. It is time to look forward. That being the case what is the most efficient way to do this; wordsmithing a report or having a conversation (recorded/summarised for evidence)? Culturally what works best within your organisation?

Using root cause analysis can be beneficial when communicating findings as it requires the focus to be on key points rather than a myriad of minor issues.

The final, most important part of the report is the record of the actions that management have agreed to take and/or the risks they have chosen to accept. Ideally an automated approach to tracking actions enables all stakeholders to see what is important to them in real time, specific software or a well-crafted Excel spreadsheet can achieve this. There are also many collaborative tools within office suites or free to download (check IT security policy first, we wouldn't want internal audit to be the source of malware!).

All stakeholders require insight into the opinions, findings and actions derived from internal audit activity. It is important that the information provided includes trend analysis not just snapshots of individual audits.

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## Closing thoughts

Powerful statements are the end result of audit activity, they influence the allocation of resource, perceptions of individuals and in some instances the direction of strategy. It is important that the impact of the audit message is not lost as organisations become more dynamic and communications media adapts. Has the time come for the internal audit profession to step away from the shield of the written report, to find a new way of formalising its contribution to the organisation? A quick internet search reveals that the vast majority of guidance and training courses still focus on the skills to write a report – is it time for CAEs to make the case for change?

*"People will sit up and take notice of you, if you will sit up and take notice of what makes them sit up and take notice"*

- Harry Gordon Selfridge