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Delivering internal audit findings

Chartered Institute of Internal Auditors

Internal auditors need to communicate the results of their engagements clearly and concisely to all relevant recipients. Delivering audit findings with greater impact is a proven way for internal audit to provide assurance, aid governance, enhance risk management and prompt improvements.

Producing a report that matters to your readers is a difficult task – it requires planning and discipline at every stage. However, adopting these simple steps will quickly help you better use the time available to produce reports that showcase internal audit's value – and, more importantly, benefit the organisation.

International Standard 2420: Quality of communication
What is important to the reader?
What's not important to the reader?
Moving from fieldwork to the big picture
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International Standard 2420: Quality of communication

The International Standards lead the way in stating how to achieve this through reporting. Standard 2420 states that communications must be accurate, objective, clear, concise, constructive, complete and timely.

On the most basic level, we understand what this means: communications, including reports, should be 'free from errors and distortions, fair, impartial and unbiased. The interpretation of the standard tells us this and more:

• Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information.
• Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy and wordiness.
• Constructive communications are helpful to the engagement client and the organisation and lead to improvements where needed.

However, as every internal auditor knows, producing a report that meets all these criteria – especially under pressure – is a difficult task.

What is important to the reader?

Whether internal or external to your organisation, your readers will have much in common. You can assume that most of them are busy and juggling multiple tasks.

You have just a few minutes to make an impact with your report – people's attention spans rarely extend beyond that. So your report needs to make a case, line by line and sentence by sentence, for retaining the reader's interest.

Understanding what matters to your readers – whether management, non-executives, regulators or other interested parties – takes time and effort. You need to step back from your day-to-day immersion in the audit engagement. The longer the engagement, the broader or more complex the scope, or the more numerous your findings – the harder this is.

Planning a successful audit means building time in at every stage to check progress and communicate regularly with colleagues and clients. The more you respect this necessary step, the easier it will be for you to pull together a coherent, relevant audit report.

What's not important to the reader?

Writing an internal audit report requires you to step back from the context and material in which you have been immersed during the audit engagement. What is more, you need to think less about your perspective and needs, and more about your readers' point of view.

You should follow the guidance in 2410.A1: 'When issued, an opinion or conclusion must take account of the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.' And 2410.C1 tells us that 'Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.'

The pitfall lies in heeding the words 'expectations', 'relevant', 'useful' and 'needs of the client'. Of all the work undertaken during an audit engagement, only a small amount needs to go into the report. Remember: just because something happened, doesn't mean it's important.

Try not to write defensively, loading your report with unnecessary detail. Many internal auditors do this to prove that they have done their fieldwork properly and to boost their credibility. The risk is that in doing this, they waste readers' time and try their patience. Including only what is relevant to your readers, in the fewest, best chosen words, conveys the most powerful message.

However, it's much harder to write clearly and concisely than to waffle on at length. Consult our guidance on communication skills and writing about risk for tips on keeping your writing tight and relevant. Apply the timeless advice about writing clearly:

- use short sentences
- favour the active rather than the passive voice
- avoid jargon, clichés and buzzwords.

You may be surprised at how this approach appeals to readers and increases your own authority.

Throughout the internal audit engagement, try to write with the reader in mind. Even though readers will not see your working papers, keep your writing at every stage concise, precise and focused.

Acquiring this discipline early in the engagement will pay dividends even during fieldwork. Well-written audit documentation is easier to discuss with the client, submit for review and use in a report.

Moving from fieldwork to the big picture

Most internal auditors don't think about the report until they have completed their fieldwork and discussed findings with the client. This is perfectly understandable. However, this is the perfect time to check that you – and the client – can move from detail to headlines.

Most good writers try to avoid clichés. However, the one about not being able to see the wood for the trees is what we need here.

If you have an internal audit that encompasses more than one business area, or produces lots of findings, you face a big risk. A report that enumerates many observations, but doesn't pull them together into a meaningful message, is little use to your reader. The reader is counting on internal audit not just to analyse individual instances of inadequate or ineffective controls, but to tie them into wider organisational objectives.

By the end of an audit engagement, moving from fieldwork to the big picture is difficult. Marrying up the masses of detail in your working papers with the obligation to 'include the engagement's objectives and scope as well as applicable conclusions, recommendations and action plans' (2410) may seem nearly impossible. One simple technique can help you understand the relationships more easily: mind-mapping.

The Oxford English Dictionary does not define 'mind map', but Wikipedia says:

A mind map is a diagram used to visually organise information. A mind map is often created around a single concept, drawn as an image in the center of a blank landscape page, to which associated representations of ideas such as images, words and parts of words are added. Major ideas are connected directly to the central concept, and other ideas branch out from those.

Mind maps can be drawn by hand, either as "rough notes" during a lecture, meeting or planning session, for example, or as higher quality pictures when more time is available.

Some people enjoy mind-mapping more than others. However, you don't need to use any particular method, shapes or software to mind-map. Just sketch out – preferably by hand – what you think are the main areas or findings of your audit, with associated words or phrases near or around each issue. Doing this can help you visualise links between areas you previously thought were separate, or see the true extent of a finding.

For example, if you are conducting an audit across several business areas, mind-mapping may help you see links among separate findings in separate areas. Or, if you think you have a lot of low to medium-risk findings, mapping out the risks and root causes to each finding may help you spot commonalities. If many of the findings have the same root cause, you may want to reconsider how many findings you really have!

Discussing the results of this exercise with your internal audit colleagues and with the client is essential. The client needs to understand why, for instance, several minor observations merit a higher-risk rating when seen in a broader context.

This is all part of sound communication throughout the engagement. Following these principles reduces the risk of surprises when you issue the draft report. It also helps you produce a final report that provides meaningful assurance to the organisation. As part of the assurance process some organisations grade reports, examples of grading structures are provided below.

Structuring the report in a way that conveys the most important findings clearly

Even if you have been writing 'tight' throughout your fieldwork and have communicated openly with the client, the audit report can still be daunting. Conveying the 'headlines' and supporting evidence concisely and with confidence takes time and effort.

When you're facing a deadline, the temptation is to dump everything you know onto the page – always with the intention of editing later.

This rarely happens. So how can you take the mass of knowledge, experience and data in your fieldwork documentation and turn it into a clear, coherent message about priorities and next steps?

Well, just as mind-mapping helps you organise the individual elements of your findings into meaningful headlines, linear outlines can help structure your audit report.

A linear outline is similar to a mind-map in that it requires you to distinguish your main points from your supporting evidence. There are many examples of outlines available online – see which one appeals to you most.

Once you have written a thorough outline, you'll find that fleshing it out into a complete report is much easier.

The power – and poison – of layout

Layout can make or break a report. Using a readable, reasonably-sized font and using enough white space makes the difference between a report that has readers wincing and one that invites them.

Using tables, graphs and even photographs can make your findings much easier to understand or visualise.

Sub-headings, while useful, can be distracting if too numerous. A good report is like a navigable website – if you have too many layers of information, or crowd your document with too many graphics and colours, you will lose your readers.

Read our guidance on presentation skills to improve your ability to present findings in person.

And remember – if you are using PowerPoint to report your results, use it sparingly. A minimum of slides, with a minimum of content on each slide, is the best way to retain your audience's attention. Take the time to produce a lean, meaningful set of slides, and try your best to talk your audience through the main points.

Communication is all about human beings interacting with each other – try to do just that, face to face and eye to eye, free of scripts and technological crutches.

What are the possible risks you face?

Many things can get in the way of you producing the report you want to. Some of them may be within your control, but you need to also be aware of those outside it.

1. Failing to understand the broader corporate context – including culture, strategy and shifting priorities (during mergers and acquisitions, or restructuring, for instance) – could lead internal audit to produce reports that are irrelevant to the organisation.

   You can try to mitigate this risk by extending your network outside your immediate team; speak to colleagues throughout the organisation regularly and keep abreast of news about your sector.

2. Focusing too narrowly may lead to reports full of minor details and low-risk instances of ineffective control, without considering what the underlying risks are that those controls should mitigate. Internal auditors may also restrict themselves to recording cases of non-compliance, without considering the root causes; this may lead them to overlook systemic or cultural failings that concern the entire organisation. For instance, if you interrogate your work papers and see that many findings are down to staff being untrained, this could signal that senior budget-holders do not understand or prioritise good training.

   Good audit engagement planning includes regular checkpoints, so that you can seek the necessary perspective from colleagues and managers. The mind-mapping technique discussed above will also help you put observations into perspective and spot broader connections.

3. Anticipating opposition from readers and recipients may lead to softening critical messages – and, as a result, failing to communicate clearly what needs addressing. It may also lead to ratings or gradings being reduced on the grounds that internal audit has not made a strong enough case for more critical assessments.

   Practise writing your fieldwork documentation concisely and factually. If you can articulate what you found and what it means for the organisation in precise, objective language, this will be more useful to your readers. Shying away from a difficult message won't help the organisation resolve it.

4. Adopting corporate group-speak – jargon, clichés and buzzwords – leads to woolly, dull reports. It is common for people to fall into the habit of parroting the latest business-speak, as it is easy to copy and gives a comforting air of belonging. However, reports written in this style are hard to understand and lead readers to wonder if the writer a) knows what he or she is actually doing or b) is hiding something.

   The only way to avoid this trap – George Orwell called it 'invasion of one's mind by ready-made phrases' – is to be on your guard constantly. If you're finding it easy to fill the page with words and phrases that spring to mind automatically, it's a good sign you're not thinking for yourself, much less writing anything fresh or meaningful.

5. Pressures of time and workload lead many internal audit functions to compress the number of days allotted to the report. This leads internal auditors to 'dump' every passing fact and thought about the subject onto the page, producing a draft that is wordy, confused and confusing. This

then compromises all stages of review.

Even if you cannot control how much time you have left to write a report, you can control what you do in that time. Mind-mapping, outlining and then sticking rigorously to only what is relevant will help you produce a much more readable draft report.

6. When presenting findings in person, many people present poorly and fail to use presentation software such as PowerPoint as an effective tool. Rather, they use it as a crutch that duplicates the script they read. This bores the audience and diminishes the presenter's credibility.

Following our advice on presentation skills will boost your confidence and credibility, as well as keeping your audience awake!

Examples of internal audit report grading

Example 1
1. Controls have reduced the organisation's exposure to risk to a minimum level.

No further action required. Recommendations will be added to Internal Audit database with follow-up when due.

2. Controls have reduced the organisation's exposure to risk to an acceptable level.

No further action required. Recommendations will be added to Internal Audit database with follow-up when due.

3. Controls have an unsatisfactory effect on reducing the organisation's exposure to risk.

Management must produce a memo detailing circumstances surrounding the control failures and action being taken to rectify.

4. Controls have little or no effect on reducing the organisation's exposure to risk.

Management must produce a memo detailing circumstances surrounding the control failures and action being taken to rectify.

Example 2
Critical

An unsatisfactory control environment, i.e. findings indicate significant control weaknesses and the need for urgent remedial action within 0-30 days.

Materiality £100k+ at Group level.

Important

An adequate control environment, but subject to reservations i.e. a number of findings, some of which are or could become significant, have been raised. Immediate action required within 1-3 months.

Materiality £50-£100k at Divisional/Function level.

Routine

A satisfactory control environment i.e. findings indicate that, on the whole, controls are satisfactory, although some enhancements may have been recommended. Short term action required within 1-12 months.

Materiality £0-50k at Site/Process level.

Example 3
Unacceptable

The internal control framework does not meet minimum acceptable standards overall. In our opinion systemic and/or material control weaknesses were identified.

Needs significant improvement

Internal control framework does not meet minimum acceptable standards overall as some key control activities require significant improvement to ensure all risk are adequately mitigated.

Needs some improvement

Internal control framework meets minimum acceptable standards overall but needs to be improved because some risks are not adequately mitigated.

Acceptable

Internal controls meet acceptable standards overall and provides reasonable, but not absolute, assurance that the activity covered is subect to adequate risk management and control.

Example 4
Opinion

Narrative description

Audit grading

High/Medium/Low

Example 5
Catastrophic

Operational failure affecting >50% of customers.
Potential financial loss greater than £25m.
Impact - prominent media coverage, withdrawal of regulatory licence.

Critical

Operational failure affecting >25% of customers.
Potential financial loss £10m to £25m.
Impact - media coverage, major regulatory breach resulting in fine, censure or enforcement.

Significant

Operational failure affecting >5% of customers.
Potential financial loss £1m to £10m.
Impact - Regulatory breach resulting in fine, censure or enforcement, local news level coverage.

Important

Operational failure affecting <5% of customers.
Potential financial loss £0.5m to £1m.
Impact - Minor regulatory breach resulting in no/minor penalty, CCD level awareness.

Example 6
Full assurance (effective)

Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives are being met.

Substantial assurance (some improvement needed)

Some specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met. Limited assurance (major improvement needed).

Numerous specific control weaknesses were noted

Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.

No assurance (unsatisfactory)

Controls evaluated are not adequate, appropriate, or effective and do not provide reasonable assurance that risks are being managed.

Example 7
The control framework is:

Disjointed

The approach to risk and control requirements is ad hoc and disorganised and staff are not fully aware of their responsibilities. Risks and controls are partly identified but controls are inconsistently implemented and there are some missing key controls.

Outlined

Risks and controls have been identified and evaluated to form a control framework. However, the control framework may not completely contain risks within defined risk appetite levels as some controls are not fully effective, some controls are not well documented, and some controls are dependent on the knowledge and motivation of individuals.

Analysed

Risks and controls identified, evaluated and linked so as to form a structured control framework. Controls as described are in place, are effective and are adequately documented.

Governed

Risks and controls are identified, evaluated and linked so as to form a designed, documented, coherent and integrated control framework. There is regular feedback on control activity that provides assurance that controls are functioning as intended and that the control framework is holding risk within defined risk appetite levels.

Optimised

Risks and controls are identified, evaluated and linked so as to form a designed, coherent and integrated control framework both within and between functional areas and entities. Continuous feedback validates that the control framework meets or exceeds organisational expectations.

Example 8
Control system is satisfactory

Control arrangements provide reasonable assurance that risks are identified and managed effectively. No further action is required.

Control system is not satisfactory

Control arrangements do not provide full assurance that all risks are identified and managed effectively. Further action is required.

Further reading

Communication skills
Writing about risk
Culture and the role of internal audit
Presentation skills

Performance Standards:
2400 Communicating Results
2410 Criteria for Communicating
2420 Quality of Communications
2450 Overall Opinions

External resources
Financial Reporting Council - Guidance on the Strategic Report (June 2014)