Rethinking the role of reporting FAQs

This document is intended to address frequently asked questions related to the KPMG white paper Making it stick, which addresses ideas for improving internal audit reporting.

The ideas for improving internal audit reporting were explained during the related KPMG webcast on March 25, 2020, which was attended by nearly 1,600 participants. Almost 80 percent of the webcast attendees felt they were likely to put at least some of the ideas presented into practice, so it is no surprise that follow-up questions have been coming in. The most common of these questions have been summarized below; however, if you are eager to get started on your journey and have additional questions or interest in brainstorming, please do not hesitate to reach out and request time to discuss with us.

? What are the lessons learned for successfully putting this into action?

As with any audits, a variety of roadblocks are to be expected. Overcoming these potential roadblocks helps us provide the value we sought to provide at the onset of the audit. Some of these tactics may be:

— Act with confidence

— Be disciplined about real-time reporting

— Get comfortable with imperfection and be ready to "fail fast"

— Do not wait to report until the end

— Offer options when considering a new format of the final IA report.

To learn more about how to overcome these roadblocks, refer to page 8 of our reporting white paper.

? What is currently a typical timeline to draft, socialize, and finalize an audit report? How long should it take?

Based on our study, most companies are currently taking two weeks or less to draft their audit reports and spend another month or less socializing/finalizing them, resulting in a six-week process. We encourage you to strive to complete this process in two weeks by spending a week drafting/creating the report and another week finalizing/socializing it.

? Are the concepts presented in the webcast in line with IIA guidelines and best practices?

Communications need to include engagement objectives, scope, and results with applicable conclusions and recommendations and/or action plans. If the audit is assurance in nature, an opinion is included as well. Regarding results, these don't necessarily need to be communicated all at once and we believe they should be communicated throughout the audit with a recap at conclusion.

We believe that our approach meets these standards set by the IIA. Please refer to section 2400 starting on page 17 of the IIA standards report for full detail.

? How do you balance providing enough detail regarding the issues as well as ensuring action by management on lower-priority issues?

Low-priority issue management primarily occurs during the audit, instead of during final reporting. You would still agree on low-priority issues and their action plans; however, this would occur during real-time reporting and doesn't necessarily need to be covered in the final report. If it is covered in the final report, it would be in less detail and reported after the higher-priority issues. The successful validation of these actions will depend on a disciplined monitoring and follow-up process.

? How are management self-identified issues being reported?

Management self-identified issues can initially be captured through real-time reporting and then built upon over the course of the audit. If these issues become higher-priority over the course of the audit, then they would be included in the final report as any other high-priority issue would be. Ideally, these issues would now have additional insight and agreed remedial actions reported as a result of the real-time reporting.

? Clarify sequence of management action planning and issuance of reports.

Action planning should occur prior to final report issuance. We recommend reporting on issues in real time throughout the audit as they are identified. This allows early action plans to be discussed and once audit procedures are complete, high-priority issues and action plans can be confirmed. This also leads to a faster issuance of the final report once high-priority issues and their actions are agreed upon.

? How do you manage potential friction between IA and stakeholders and position IA as a relevant function to the organization?

It's important to anticipate potential friction and focus on collaboration with stakeholders from the beginning until the end of an audit. If executive teams are made aware of issues in real time and are kept in the loop, then they won't feel as threatened by the new information and will feel more comfortable proceeding with action plans. It's equally important to select an audit area where IA believes value can be delivered to demonstrate the impact of quality IA and build credibility. Consider which stakeholders would be most receptive when you're identifying your pilot area to improve your chances of success. Or, think about which stakeholders would be the most challenging and identify a way to involve them more closely in the design and real-time feedback of the changes you are attempting to implement. This role of close collaboration with business owners is a key element of our Dynamic IA approach.

? If no ratings, how do you convince the audit committee that they don't require these to know what has greatest priority?

The recommendation to remove ratings stemmed from the need to reduce the time to issue reports. If ratings are not an issue for your organization, it is not necessary to remove them. Regardless, ratings should be used as a method to prioritize findings to determine which are the highest priority to include in the report. A heat map or simple table can be added to the report to show the prioritization of the findings if that is what the customer wants.

? Can you tell me more about tools you would use to aid in these processes?

If you are beginning with quick wins, working within the Microsoft Office Suite such as PowerPoint and Excel may be enough to achieve many initial improvements. We also encourage using PDF exports to preserve formatting for easy viewing on different devices. As you work to optimize your reporting, many audit workflow tools provide great functionality to leverage; discuss with your customer service manager to brainstorm. If you do not have an audit workflow tool in place that already consolidates audit results for reporting and follow-up, alternatives could be use of Excel or Access paired with a visualization tool like Power BI. We like Power BI because of how it handles rich text; Tableau is another great visualization tool especially when you are visualizing nontext data. For more robust issue management, tools such as JIRA or ServiceNow could be considered to collect, monitor, and report on pending issues during and after the audit.

? To what extent are these ideas to improve reporting relevant for SOX work performed by IA?

While SOX work follows a more defined structure, there are many of the same opportunities to improve reporting. First, the role of real-time reporting and early warning of possible control deficiencies is important; having a disciplined reporting cadence with process owners and executives is key and should occur at least monthly and prior to board reporting. Next, SOX is a great area to utilize data-driven reporting as results can be presented by process, level of severity, status of remediation, and more, based on both testing and certification inputs. Detailed reporting can be focused on deficiencies, especially deficiencies perceived to be of higher severity either individually or in aggregate.

How are the reporting concepts presented applicable for regulated organizations, such as those in the financial services sector?

Not all recommendations to improve reporting will be applicable to every organization due to the industry or regulatory requirements. For example, regulator needs may not allow for movement away from ratings. We encourage you to have conversations with all of your stakeholders, including the regulators and audit committee, to discuss the current state of reporting and possible changes. Your key stakeholders may be open to change if it provides more transparency, simplicity, and insight into the control environment as compared to the traditional rating approach. We recommend discussing with key regulators before fully moving away from ratings.

We hope you can use our recommendations as a catalyst for change to identify the improvements that make sense for your organization. No change is too small if it helps improve reporting. If you would like to hold a brainstorming session about your specific situation, please do not hesitate to reach out and request time to discuss with us.

Where can I find resources related to IA reporting and the dynamic IA approach in action, including sample reports?

We encourage you to start with our newest white paper on this topic, Making it stick, which is available here. Within this piece, there is a sample audit final report and a sample department-level report for board-level use. We have additional examples that may be useful and encourage you to reach out to discuss.

If you would like to revisit any other content covered during the March 25 webcast on the role of reporting, a replay can be accessed here.

Additionally, more information on our Dynamic IA approach can be found at http://read.kpmg.us/iar.

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