



Making it stick

**Improving internal audit
reporting for maximum impact**





Why the need to change?

Too time consuming. Too many words. And not enough focus on outcomes and driving change.

We realize the evolution of the reporting process will not happen overnight and it is a journey. When on this journey, the concept of “making it stick” is key to keep in mind. The Stickiness Factor is explored by Malcolm Gladwell in his book *The Tipping Point*, and it teaches us that we need to keep our audience in mind and pay careful attention to the structure and format of reporting delivered to dramatically enhance its stickiness. By enhancing stickiness, we can then make the message memorable or sticky enough to create change and spur action.

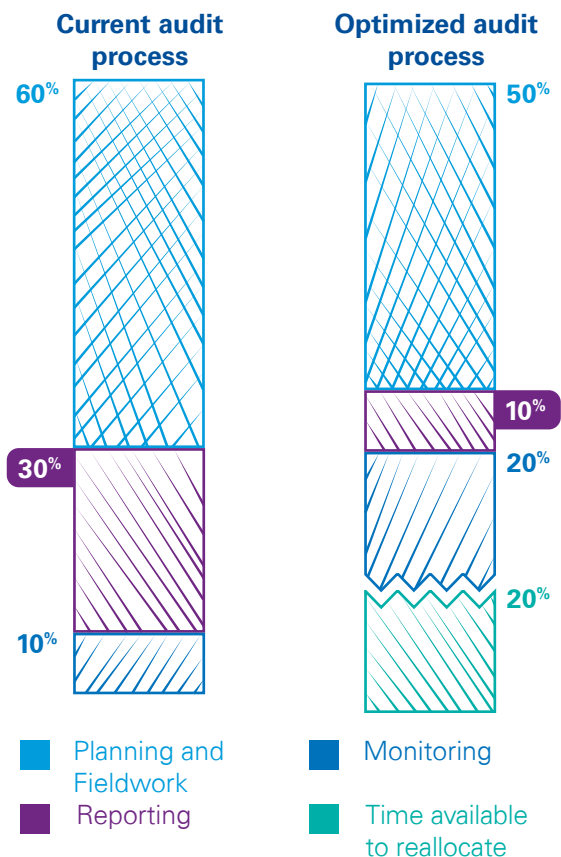
The KPMG 2019 survey on the current state of internal audit (IA) reporting found that less than 40 percent of participants felt their audit reports provided high value to readers.¹ The good news is that there is a roadmap to help evolve your IA reporting from a point of pain to a point of impact. Through this evolution, IA can recover time to refocus on other value-add aspects of the audit while providing reporting in a way that makes it stick.

“There is a simple way to package information that, under the right circumstances, can make it irresistible. All you have to do is find it.”²

The journey to achieve reporting that sticks will involve a team effort by internal audit, common customers, the audit committee, management, and IT. It is critical to have customer buy-in on the value of change as well as to have their needs in mind when changes are considered. It is equally as important to secure the funding needed to enable supporting technology and change management activities.

This piece provides a multiphase roadmap to achieve sticky reporting with your end customer in mind that can be implemented no matter where you are in your journey.

For many, the majority of audit efforts are consumed between fieldwork and reporting. This leads to less time available for planning and monitoring. If we could spend more time planning, and less time reporting, this would leave time to add value through activities otherwise missed. This piece focuses on how to gain efficiencies in reporting to both reduce time spent on reporting while increasing its impact.



¹ “Reimagining internal audit reporting: Insights from the industry,” study by KPMG, 2019

² *The Tipping Point*, by Malcolm Gladwell

? What do customers want?

The target or “customers” of most IA reports—audit committees, executive teams, and business management—are busy multitasking, short on time, and understandably impatient. They need audit information delivered quickly and in a way that is focused and easy to interpret. A sticky audit report for this audience may mean fulfilling the following:



Focus on the high-priority findings: Research has shown that individuals can retain information in three to four concepts at a time.³ In consideration of the research, reports should highlight a few high-priority findings and identify only the most meaningful opportunities that “enhance and protect organizational value.”⁴

— This is because when reports go into detail of all potential findings, the high-priority ones tend to get buried in a sea of data and details.



Deliver it the way they want it: The report should be delivered in the most efficient and simplistic way that appeals to the audience’s working style.

— For example, many people access information on their mobile devices. This means you might want to consider distributing the audit report in a mobile-ready format.⁵



Provide frequent updates: It is important to meet with audit customers frequently and provide disciplined status updates that incorporate action planning. This boosts the likelihood that the final report will be on target and completed more efficiently.

Understanding your customers’ personas is key to determining what they want. Below are the common differences in wants based on customers’ roles in the organization.



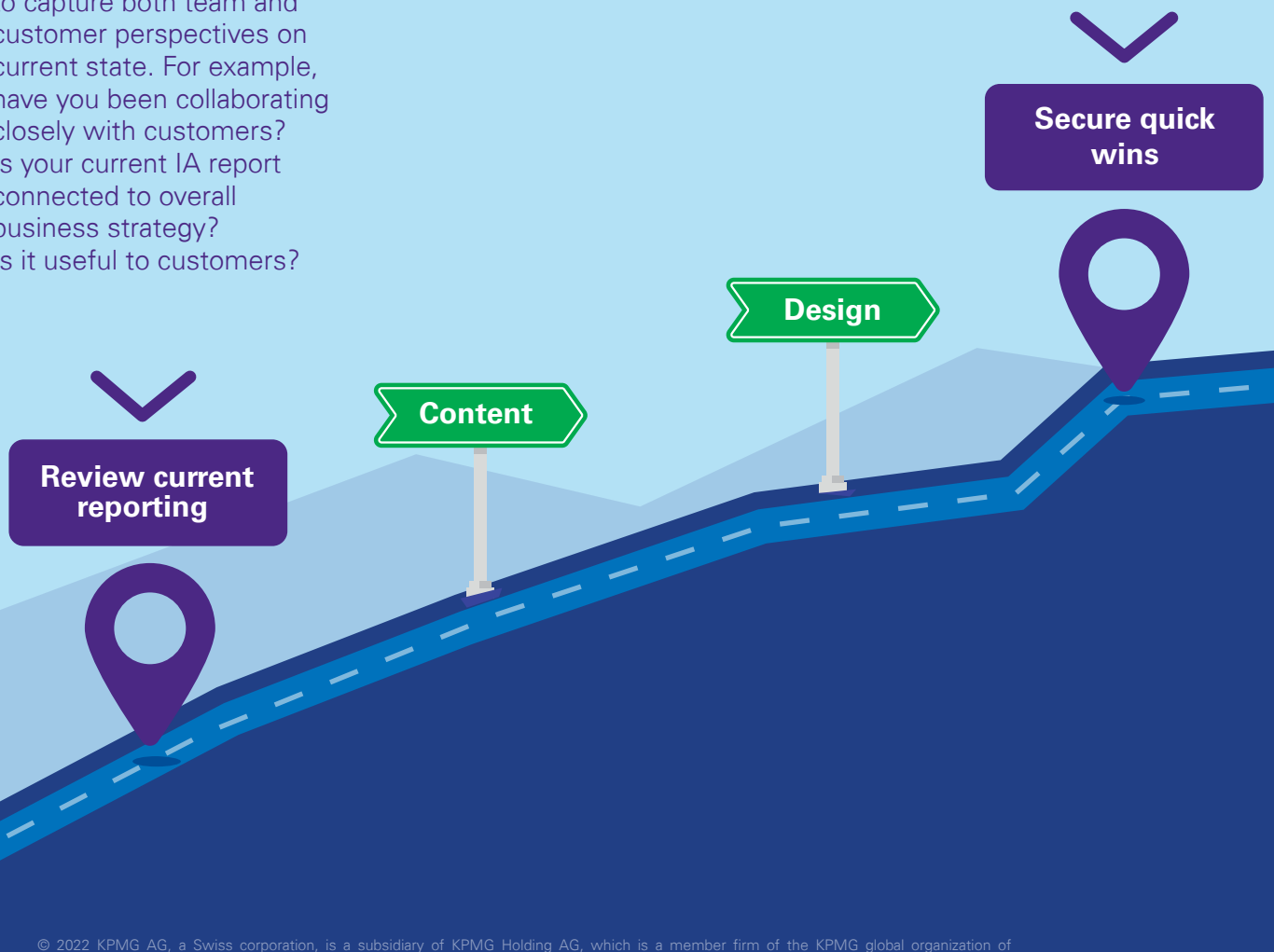


Starting the journey

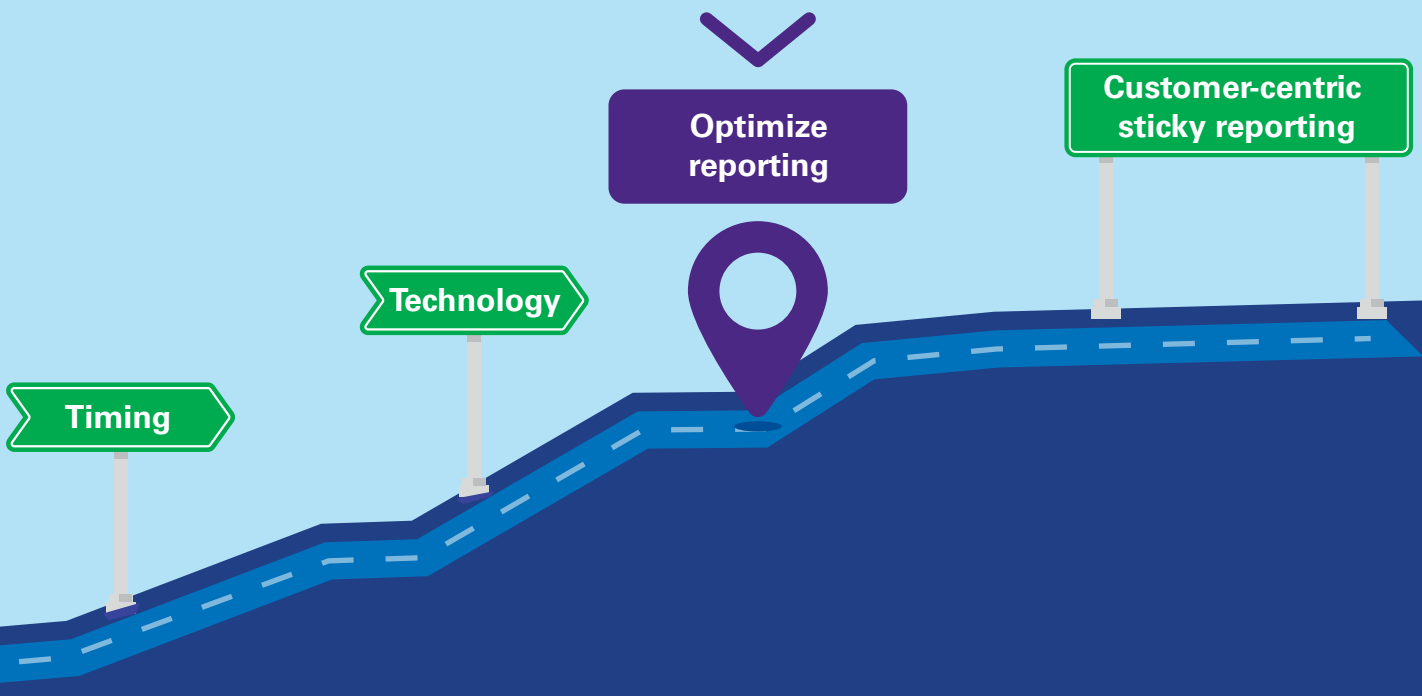
Evolving IA reporting does not happen overnight; it is a journey. There are small, attainable steps you can take to get the ball rolling and generate quick wins. These quick wins will build the momentum for you to reach optimal reporting.

Identify easy changes you can implement first. Most IA departments can secure a number of quick wins in a relatively short amount of time. By the end of this phase, you should be able to draft and finalize a concise, informative report in 10 pages or less and in two weeks.

Consider holding a workshop to capture both team and customer perspectives on current state. For example, have you been collaborating closely with customers? Is your current IA report connected to overall business strategy? Is it useful to customers?



Get more aggressive with your enhancements and integrate technology. Although this phase may take more than a year, your IA report ultimately will be a concise, readable one- to two-page deliverable.



Refer to pages 6 and 7, for a list of potential quick wins and details on what optimized reporting should look like.



Detailed guidance for your journey



Content

Securing quick wins

- **Focus on highest priority findings and their details, placing them up front:** As introduced earlier, research finds that individuals can retain three to four concepts at a time. Therefore, the final IA report should strive to focus on the top three to four findings to make it stick. Lower priority findings can be documented in a more summarized manner and discussed in real time or placed in an appendix.
- **Scale back on nonessential audit information:** Content related to audit input such as process overviews and procedures is usually communicated at the onset of the audit and does not need to be recomunicated in final reporting. Best practices and additional information (e.g., benchmarking, data-driven insights, audit metrics) can be placed in the appendix or shared separately.

Optimizing for the sticky reporting

- **Prioritize findings in real time:** Formalize a real-time reporting protocol to routinely discuss possible findings and their significance, so that final reporting does not need to include all findings.
- **Limit final reporting to top findings/action steps:** Once the report is shortened and real-time reporting is established, final reporting can focus on deeper insights on themes and solutions. Provide a dashboard view of key performance indicators (KPIs) and key risk indicators (KRIs) in lieu of additional text.
- **Move away from using ratings:** Ratings should shift to acting as a means of prioritizing findings. Overall, report ratings become unnecessary, and all findings in the final report are considered high priority.



Timing

- **Introduce frequent real-time reporting:** Meet with customers every week or two to discuss internal audit findings as they arise. These frequent meetings will give you a clearer idea of the findings that concern customers.
 - Begin drafting the final report before fieldwork is over. Offer a work-in-process, early draft for management to see and react to.
 - Be disciplined about real-time reporting. Ensure meetings are scheduled ahead with customers, are detailed, and have assigned action items and due dates.
- **Achieve final reporting within two weeks or less:** The final report should only be a short summary of the overall audit. Real-time reporting should be the primary channel of audit communication allowing for final reports to be completed faster.
 - Most of the details (e.g., findings, strategies) should have been gathered during the real-time reporting process and discussed in meetings with customers.
 - Ideally, you could reduce the time spent preparing the final report by 20 percent by reporting on top findings and providing solutions that mainly focus on these findings.

Refer to the Additional materials section for illustrative examples.



There are four categories to consider when assessing improvements to current reporting. Ideas within each of these categories have been organized between quick wins and optimized reporting.



Design

Securing quick wins

- **Structure your communication in order of importance:** Consider when, where, and how your customers will read the report and what is most important to get across first if they do not read all the way through. Assume you only have two minutes to get the message across.
- **Shorten length of report:** Strive to have 10 pages or less including appendix.
- **Use graphics to tell the story:** The old adage, “a picture is worth a thousand words” applies to IA reports, too. Instead of just words, use dashboards, charts, and infographics to convey key performance indicators (KPIs), key risk indicators (KRIs), and audit insights to make it stick.

Optimizing for the sticky reporting

- **Limit the final report to no more than two pages.**
- **Provide a visualization of how findings have been prioritized:** For example, a heat map or simple table will help to emphasize the findings that need the most immediate attention. Additionally, this provides context on other findings observed and logic behind prioritization.
- **Integrate written reporting with data-driven reporting:** Data-driven dashboards provide a complementary view of what is most critical to the audit area.



Technology

- **Take advantage of data visualization tools:** This technology is readily available for a reasonable cost (e.g., Tableau, Power BI).
- **Distribute your report in a way that is mobile device friendly** (e.g., email friendly format such as PDF, considering appropriate size and layout of the material presented).
- **Move away from text based to visual.**

- **Leverage technology to develop and deliver status and final reporting:**
 - Fully automated continuous monitoring process dashboards utilizing data extraction from internal data sources.
 - Integration of software that supports real time finding management, through integration of GRC technologies or finding management tools (e.g., JIRA).
 - Leverage project management software to support real-time status reporting.

Refer to the Additional materials section for illustrative examples.



Overcoming roadblocks

As with many journeys, roadblocks are to be expected. One of the most notable will be overcoming the IA team and its customers' reluctance to change and their desire to see all the details in the final IA report. There is also IA's self-imposed fear that management won't appreciate all the work that it does unless it explains everything in the final IA report.

Below are some actions that can overcome these potential roadblocks:

Act with confidence. Don't be afraid to explore making sensible changes to the IA report and the IA reporting process.

- There is only so much you may be able to do initially without the support of senior management and other customers. But keep on pushing; find a way to activate change because sticking with the status quo is unacceptable.

Be disciplined about real-time reporting. Schedule meetings with customers ahead of time. During these meetings, provide them with updates on IA status, project plans, and findings that have been identified. This allows you to focus only on a few high-priority findings that customers are most concerned with in the final IA report.

- Customers will be aware of all the work IA has done during the year as a result of your frequent meetings.

Get comfortable with imperfection and be ready to "fail fast." Your real-time reporting sessions and new reporting format may not hit the mark the first few times. That is okay. Regroup. Get a better sense of what customers are focused on, and move on to the next iteration.

- Customers will realize that you are looking at IA from a business perspective, boosting IA's reputation as a true business partner.

Do not wait to report until the end. Versions of the report and management actions should be circulated to management throughout the audit rather than waiting until the end. The benefits of circulating throughout the audit are:

- Shorter reporting times. The report has been shown to the customers and agreed upon.
- Greater acceptance regarding report changes. The customers become familiar with the report and have the opportunity to provide input rather than being surprised with changes at the end of the audit.

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

Provide customers with different ways and information to present in the final IA report.



Take action today

It is likely your organization and/or industry is experiencing enormous transformation. By adapting the ideas discussed in this whitepaper, your IA reporting should begin shifting from a point of pain to a point of impact that supports transformation. We encourage you to reach out to our KPMG team for any support you may need to help you on this journey.

Our IA services range from transformation support and single audit projects to cosourcing and full outsourcing. We work with organizations to help improve IA quality and oversight, increase value while keeping an eye on costs, and enhance risk and controls management.

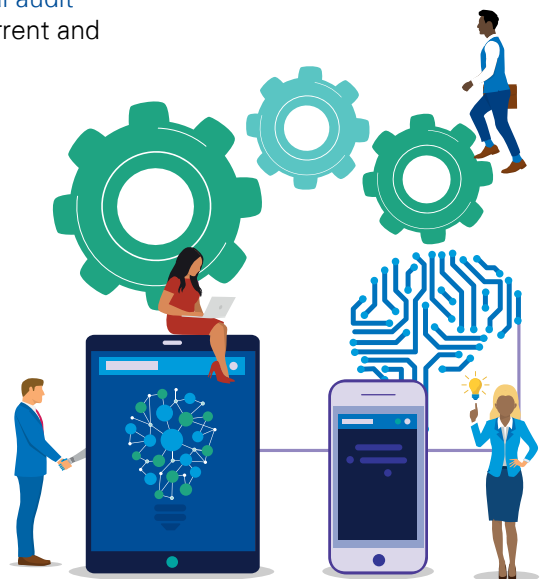
Our global team of professionals brings passion and a fresh approach to internal audit. They focus on balancing the need for core competencies with the imperative of infusing innovative techniques into the process. They understand that achieving effective IA capabilities requires a significant level of investment in skilled resources, training, and technical infrastructure. They'll help design a framework for enhancing your IA reporting system and work with you to implement that strategy.

We encourage you to review [Dynamic internal auditing](#) for additional ideas on how to drive IA reporting beyond merely delivering findings with superficial recommendations. It lays out a blueprint for developing deep insights into the root cause of problems, making corrections or changes, and then monitoring situations going forward and staying ahead of future risks.

You may also want to leverage our publication "[Reimagining internal audit reporting: Insights from the industry](#)" for benchmarking data on current and future reporting approaches.

Eager to get started on your journey?

Call KPMG to request a brainstorming session regarding your specific environment. See the back page for our contact information.



¹ Established through our global network of member firms



Additional materials

Following are sample templates intended for illustrative purposes. Each organization will have its own perspective on where standard templates would be beneficial and which attributes and elements to incorporate, based on its audit program.

Project-level reporting

For illustrative purposes only, as each organization will consider what makes sense in its environment.

Internal Audit report: Security incident response			
Final report – snapshot			
Audit leader: Ryan Smith			
Audit executive sponsor: Joe Thomas			
Project background and scope	Project objectives and approach	Priority observations	Management actions and due dates
<p>The Company wants to bolster its readiness around its security incident response.</p> <p>The audit took a two-phase approach:</p> <p>Phase 1: Assessment of IT security incident response design</p> <p>Phase 2: Testing of IT security incident response effectiveness</p>	<p>The audit objective was to assess the design and operating effectiveness of management’s procedures for security incident response.</p> <p>Internal Audit conducted walk-throughs with management and facilitated a tabletop exercise of the CSIRP to perform the objective.</p>	<p>OID1. The Cybersecurity team is not independent of day-to-day IT operations.</p> <p>OID2. Cybersecurity incident response playbooks have not been documented or exercised to guide management through response activities for specific attack scenarios.</p> <p>OID3. Discussion regarding when and how critical third-party partners are involved is not accounted for as part of the CSIRP.</p> <p>OID4. No documented criteria to guide Helpdesk personnel in determining whether to notify CSIRT lead about an incident.</p> <p>OID5. Documentation is not being retained as part of the incident response.</p>	<p>AID1. The Company will fill positions as needed to maintain segregation of duties. Owner: Sarah Moore, 6/19/2020</p> <p>AID2. Incident response exercises will be conducted on a semiannual basis. Owner: Tom Lewis, 3/1/2020</p> <p>AID3. Critical third party involvement in incident response will be documented appropriately. Owner: Sarah Moore, 2/20/2020</p> <p>AID4. Training will be conducted annually and at the time of hire as well as referenced in Helpdesk documentation. Owner: Sarah Moore, 3/15/2020</p> <p>AID5. Documentation will be retained to show timely and effective resolution. Owner: Tom Lewis, 2/20/2020</p>
Additional insights			
<ol style="list-style-type: none"> Management’s annual review of the CSIRP via a tabletop exercise is not designed to simulate an attack scenario that measures the team’s readiness to respond end to end (identification through reporting). The current CSIRP exercise consists of a walk-through of the documented plan and limited scenario exercises. Further, the CSIRP exercises completed to date do not include executives/strategic team. List of critical applications could be enhanced to ensure that all business-critical applications are identified, including cloud-based or other off-premise applications. Consider referencing adjacent processes and procedures within the CSIRP at critical points where they should be followed. Examples include DR/BCP plans, safety procedures, and the communications policy. 			

Department-level reporting

For illustrative purposes only, as each organization considers what makes sense in its environment.

Internal Audit department snapshot

Year-to-date results as of Q2 2020

Summary of findings by priority for reports issued from 2020 – Q2 YTD '20

- Critical – 5 (10% of findings)
- High – 20 (40%)
- Medium/moderate – 10 (20%)
- Low – 5 (10%)
- Nice to have – 10 (20%)

Note: Depending on attitudes towards ratings, presentation may vary.

Audits with critical findings

- Trade and customs compliance – Q2 FY20
- Payroll compliance – Q1 FY20
- Transportation/logistics – FY19
- Cybersecurity – penetration testing – FY19
- HR safety compliance – FY19
- Procurement process assessment – FY19

Audits with high priority findings

- Corporate responsibility/sustainability – Q2 FY20
- Enterprise asset management/plant maintenance – Q1 FY20
- ERP cloud security – Q1 FY20
- Manual journal entries – Q1 FY20
- Capital investment approvals – FY19
- Data governance – FY19
- Cybersecurity phishing assessment – FY19

Targets for 2020



75% SMPs

Currently 95% of projects utilize SMPs

60% in 2019



80% data analytics

Currently 85% of projects utilize DA

75% in 2019



40% offshore utilization

Currently offshore resources deliver 45% of total engagement hours (including IA, DA % SOX)

30% in 2019

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