



# INNOVATIVE APPROACH TO AUDIT REPORTS

Lessons learned from an internal audit 10-year challenge

# Table of Contents

---

<b>Introduction .....</b>	<b>1</b>
<b>Preparation .....</b>	<b>2</b>
<b>The new report format .....</b>	<b>4</b>
<b>Additional innovations .....</b>	<b>8</b>
<b>Conclusion .....</b>	<b>10</b>

## About the Expert

### Neil Frieser

Neil Frieser is senior vice president of internal audit for Frontier Communications, an \$8 billion company with customers in 29 states. Previously, as vice president of internal audit for Warner Music, he managed Viacom's global Sarbanes-Oxley compliance function. Earlier in his career, he was CFO for Simon & Schuster's medical publishing operations and an audit and transaction support manager with PricewaterhouseCoopers. Frieser is currently vice chairman of the North American Board and a member of the Global Board of The IIA. The author of multiple articles on corporate governance and compliance, he has chaired, since 2016, an annual conference focused on cybersecurity collaboration between the government and the private sector.

---

# INTRODUCTION

---

## The “10-year challenge”

**For those who manage to even casually peruse social media from time to time,** the term “10-year challenge” might sound familiar. The idea is to show two relatively similar images, usually “selfies” or user photos, side by side to indicate how far one has come over the course of a decade. Typically, this exercise is meant to highlight some form of progress or perceived positive attribute. For example, someone might choose to show how much weight he or she lost, how much muscle mass was gained, how well he or she seems to be aging, or even how something as simple as a smile has remained consistent through all the ups and downs of life.

Neil Frieser, Senior Vice President of Frontier Communications, decided to use the ten-year challenge to frame his presentation *Innovative Approach to Audit Reports*, which was given at the General Audit Management Conference (GAM) in March 2019. Looking back at 10-year-old internal audit reports produced by Frontier Communication’s audit team, as well as historical audit report formats, Frieser’s core team found much they could improve to add value to future reports for management, the audit committee, and by extension its organization.

The purpose of this knowledge brief is to document the steps Frieser’s team took on its journey to bring more user-friendly, communications-focused ideas to the traditional audit report format, as well as highlight some key takeaways other audit shops can use to bring a new level of readability, persuasiveness, and impact to their own reports.

# PREPARATION

## The origin of all successful innovations

---

### Audit report team development

**Frieser began his presentation with a simple polling question** to gauge how his audience viewed its own audit reports. The results showed 58 percent of respondents said that their reports are “typical, probably similar to most others.”

Such a response speaks to the trend of internal audit not valuing structure of the audit report in equal measure to other elements of the engagement. The report’s information is and always has been valued, but how such information is presented is often not given proper consideration despite the universal acknowledgement that simply being heard is as important as what you have to say. “Typical,” in any context, is rarely used in a complimentary fashion.

“I think all good reporting is the same thing — the best attainable version of the truth.”

— Carl Bernstein

However, while most might consider their audit reports typical, many do not have a strong understanding of other approaches to report writing. Without a forum to establish dialogue between audit professionals, it can be difficult for teams to understand how their formats compare to what peers might bring to the table. Frieser himself acknowledged this dilemma. “We weren’t quite sure where we stood with [our reports], so we just thought we’d figure it out, and see if we could do something a little different.”

The process of rectifying this took approximately three or four months alone, during which Frieser formed a core team to spearhead this initiative and develop a consensus on what its new report should accomplish. “I did not mandate what we did. All I did was gather the right people on my team and said, ‘We need to collaboratively work together on this,’ ” he said. While it is a small detail, the creation of a competent audit team that conveys a thorough understanding of the organization’s needs, a broad palette of skillsets and specializations, and a diversity of thought is critical to the development of a new audit report format.<sup>1</sup>

### Objectively evaluate the past

Before improvements can be made, it is also important to establish what aspects of current reports are accomplishing. This requires a detailed, contemplative, objective analysis of both the advantages and disadvantages of previously issued reports. Half of the 10-year challenge is looking at the past, after all.

---

<sup>1</sup> For more information on how to form an effective audit team and maximize talent, read The IIA’s Global Knowledge Brief [“Audit Team Transformation: How to Create a ‘Dream Team.’”](#)

Frieser divided his own 10-year challenge into two separate sections: the report's executive summary and the observation report. Frontier's 10-year-old summaries, in Frieser's own estimation, were similar to what most other reports might look like. "[Our executive summaries] contained a little bit of background about the audit, what are we covering, some of the business functions that we included in scope, an overall rating, and some individual items that were key findings...Pretty dense, just words, and maybe some bullets," he said.

Frontier's past observation reports were divided into three parts labeled "Observation," "Impact," and "Management Response" respectively. The idea for such a structure, it was determined, was good; while things could be done to "punch up" these sections, as Frieser said, they remained largely unchanged in the final audit report. When making a determination of the current state of an audit report, there is no need to throw the baby out with the bathwater. Maintaining objectivity does not mean one has to be overly critical.

Despite some positive qualities, however, other qualities required significant improvement. Ultimately, Frontier's evaluation of past audit reports resulted in the following findings:

- Overall report rating alternatives and definitions were not included in the executive summary or anywhere else in the report.
- There were no graphics included anywhere in the report, and presentation was overall dense.
- There was no differentiation between audit- and management-identified observations.
- Individual observations were not formally rated for severity or impact.
- There was no subprocess (maturity) evaluation included.
- There was no explicit linkage between observations and overall report rating.

Moving forward, these findings provided Frieser's team a set of invaluable benchmarks on which to measure the success of its new report format by.

# THE NEW REPORT FORMAT

## Definitions, visualizations, and maturity models

---

### Improved definitions

**“I believe that the reporting process is essentially like building a house,”** said Frieser. “And for me, the foundation of the house is the definitions.”

Definitions play a critical role in not just providing the report clarity — as well as insulation from potential misinterpretations — but it also delivers consistency from report to report. By maintaining clear, consistent criteria with each individual report senior management, the audit committee, and any other relevant parties can quickly establish what observations require the most immediate attention.

The challenge, however, is establishing precisely what these criteria are for evaluating observations. “We struggled with what we should evaluate,” said Frieser. During the process, his team settled on two distinct terms: “pervasiveness,” which Frieser explained as “how often we see this kind of an issue,” and “enterprise level impact,” which is presented in terms of dollars figures that vary depending on the report. These evaluations are ranked throughout the report using one of three options.

For pervasiveness:

- **Minor.** Isolated and/or limited to local process.
- **Moderate.** Noticeable and may extend beyond the local process.
- **Extensive.** Significant and occurs in multiple places.

For enterprise level impact:

- **Minor.** Low risk with a line item impact less than \$XX and or/account impact less than one percent of the total line item.
- **Moderate.** Slight to moderate risk with a line item impact between \$XX to \$YY and/or account impact between one percent and five percent of the total line item.
- **Significant.** High risk with a line item impact greater than \$YY and/or account impact more than five percent of the total line item.

Frieser's team also decided to identify which observations are "control deficiencies" or "efficiency opportunities," with each classification highlighted at the top of the page and color-coded based on severity. These classifications are defined as follows:

- **Control Deficiency.** Shortcoming that reduced the likelihood of an entity achieving its objectives related to operations, reporting, and compliance.
- **Efficiency Opportunity.** Current process does not result in achievement of optimal productivity or use of resources.

Going further, Frieser's team also prioritized giving a "management identified" designation to applicable observations, which can be extremely valuable by providing recognition and proper accountability to the appropriate parties. The added transparency also shows how the roles of both management and internal audit are interlinked.

To be considered as such, an observation must reflect the following criteria:

- Internal audit was notified about the issue prior to detailed testing.
- Management has identified, assessed, and communicated the issue to the appropriate level in the organization.
- Management has established clear actions plans with targeted completion dates for remediation.

## Maturity model incorporation

This same approach was taken with regards to overall assessment definitions, which were divided into four separate rankings: "satisfactory," "some improvement needed," "multiple improvements needed," and "major improvements needed." Of particular note in these rankings is Frieser's team's decision to not include "unsatisfactory" as an option.

"Previously, we had an 'unsatisfactory' ranking, and it was really difficult to make the distinction between 'needs improvement' and 'satisfactory' because we didn't have any objective criteria for how to do that," he explained. Such subjectivity often resulted in discussions between internal audit, management, and the audit committee regarding observation evaluations, and in some cases opened the door to call into question the validity of the audit team's analysis.

To bring in a more objective measurement and better support their observation evaluations, Frieser's team chose to adopt a maturity model. Incorporating any form of maturity evaluation into the report is relatively rare in internal audit; according to the poll conducted during the presentation, only 15 percent of respondents said they rate maturity in their audit reports. In Frontier's case, however, such a step was necessary, and together with the additional evaluations it helped show a clear linkage between the observations themselves and the ratings they were given.

"One of the things that has been really good about this is that it takes a lot of the subjectivity out of the equation. We still end up having discussions and debates between ourselves and our auditees [who] sometimes feel like they should have been audited a different way, but at least we [now] have a pretty objective criteria to stand on," said Frieser.



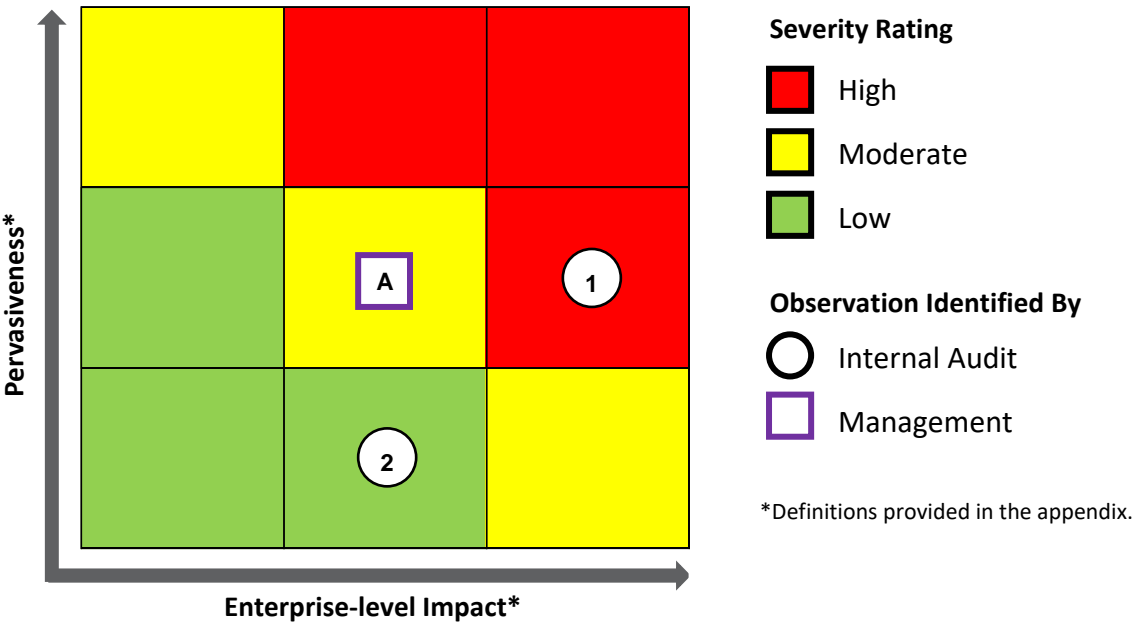
While they are not included in the observations directly, definitions are always located in the report’s appendices should management or the audit committee require additional reference. Unlike some other audit reports, these definitions do not change from report to report, and as readers become more familiar with them, the less necessary clarification will be needed. Such an approach results in a more uncluttered overall presentation.

## The value of graphics

Once clear, consistent definitions were determined, the challenge then became how to convey such detailed information in a concise, easily-digestible manner. Instead of using a standard text-heavy formatting, Frieser’s team opted to incorporate the use of graphics to illustrate both observation ratings and maturity ratings.

Observation ratings, both internal-audit-identified and management-identified, are plotted on what Frieser affectionately calls “the grid.” This unique visualization effectively provides a snapshot of where each observation falls in terms of both pervasiveness and enterprise level impact. To simplify the image even further, each section of the 3x3 grid is color-coded based on severity, with legends included for easy identification of what each color and shape means. In a single image, Frieser’s team found a way to intuitively convey to management and the audit committee the same amount of information a full page of text would, and do so in a way that takes seconds to internalize.

**Exhibit 1: Summary Observation Rating Example**



The team took a similar approach to plotting process maturity ratings, but instead of a grid pattern, it opted for a more linear visualization. After identifying the sub-processes present in the scope of the report (e.g. cybersecurity risk program objectives, cybersecurity risk governance structure, and protective and detective technologies in the case of a cybersecurity risk audit), Frieser’s team then plotted its assessment in relation to where within the standard maturity framework (e.g. nonexistent, initial, repeatable, defined, managed, or optimized) it can most accurately be categorized. Also included on this graphic are brief references to which observations the plotted point reflects, as well as a color-coded “target range” determined based on where internal audit feels the organization should be.



The value of this target range cannot be underestimated; an additional benefit of presenting maturity assessments in this fashion is that it brings a degree of positivity to the report. “As auditors, we oftentimes only deliver bad news. We tell management about all the things they did wrong, but if they’re doing things right, this [approach] gives us the opportunity to say that they are within the expected range. It’s an opportunity for them to get some kudos, presuming that their maturity level actually falls into that range,” said Frieser.

## Exhibit 2: Process Maturity Rating Example

Sub-processes in scope for the review	Obs #	Level 0: Nonexistent	Level 1: Initial	Level 2: Repeatable	Level 3: Defined	Level 4: Managed	Level 5: Optimized
Cyber Security Risk Program Objectives, Assessment, and Management	1,A			●			
Cyber Security Risk Governance Structure						●	
Information Protection Policies, Processes, and Procedures					●		
Cyber Security Communications and Awareness Training					●		
Protective and Detective Technology	2,A			●			
Response and recovery planning and execution					●		
Security Continuous Monitoring						●	

Maturity Rating Criteria	
<b>Nonexistent</b>	Management processes are not applied at all
<b>Initial</b>	Processes are ad hoc & unorganized/inconsistent
<b>Repeatable</b>	Processes follow a regular pattern
<b>Defined</b>	Processes are documented & communicated
<b>Managed</b>	Processes are monitored & measured
<b>Optimized</b>	Good practices are followed & automated
●	Observed Maturity
	Target Range

# ADDITIONAL INNOVATIONS

## From executive summaries to content creation

---

### The executive summary

**Outside of the observations themselves,** Frieser's team also took care to address deficiencies they saw in its executive summaries.

"We tried to bring a graphical presentation to [our executive summaries]," said Frieser. This not only improved readability, but it also reinforced the audit team's credibility. "If it looks good, then the reader is going to expect all the stuff behind it really has the same level of quality," he said.

This approach is reflected in the inclusion of assessment ratings using the definitions right out of the appendix. These are highlighted with the same color-coding system used throughout the rest of the report. For additional clarity, Frieser's team also provides a legend at that bottom of its executive summaries in case readers require a reminder of the meaning of each color coding.

### Content tips

The use of words was not entirely discounted in Frontier's re-evaluation, and while the audit team's approach to writing executive summaries did not change drastically (scope, timeframe, and background area all still included), greater attention was paid to what should be included in them. The inclusion of supplemental information is a good example of this. "There are times [the audit team discovers] pieces of information we would really like to share, but it's not an observation," said Frieser. "The only really good place to incorporate it is in the executive summary, so sometimes we will provide a little bit of explanation."

In regards to what should not be included, Frieser emphasized the dangers of relying on abbreviations, acronyms, and, critically, potentially inflammatory terms in both the summary and the whole of the report. "Just be smart about it. If you think [your phrasing] might offend somebody, don't put it in there. Think of a nicer, easier way to say it instead of potentially aggravating your client," said Frieser. Despite the common characterization of audit reports as documents that emphasize negatives, it pays dividends during development to view the report as a positive force for change. Internal audit should let that viewpoint be accurately reflected in word choice and phrasing.

A few additional tips for content development that Frieser highlights include:

- **Organize observations into themes when possible.** If separate observations are recognized as representative of a higher-level issue, internal audit can provide added value for the auditee by emphasizing the issue through deliberate grouping.

- **Provide root causes and context for complex situations.** Don't explain what happened, but *why* it happened.
- **Use concise language.** Be deliberate in your word choice. As a reflection of this advice, Frieser recommends adhering to a "one page" rule for observations and executive summaries.
- **Pressure tests ratings.** The audit team, under the guidance of the CAE, should take steps in advance of presenting the final report to ensure all observations and assessments can hold up against intense scrutiny.

# CONCLUSION

---

## What will your 10-year challenge reveal?

According to Standard 1300 of the *International Standards for the Professional Practice of Internal Audit (Standards)*, “The chief executive must develop and maintain a quality assurance and improvement program that covers all aspects of internal audit.” While this should include an evaluation of the audit activity’s conformance with the *Standards* and the *Code of Ethics*, such an evaluation should also include an assessment of the overall effectiveness and efficiency.

### Audit Focus

#### Standard 1300: Quality Assurance and Improvement Program

The chief executive must develop and maintain a quality assurance improvement program that covers all aspects of internal audit.

With this in mind, it is vital that internal audit does not overlook its audit report during this evaluation. What was sufficient for conveying observation assessments ten or even five years ago may not necessarily be the most effective approach, especially when teams such as the one led by Frieser continue to provide new, innovative ideas that could benefit audit functions across the profession.

Your own audit report formatting needs may not align exactly with the needs Frieser identified in his presentation, but adapting many of his views in regards to clarity, conciseness, and transparency are universal. Start the process with your own 10-year challenge and consider viewing your audit team’s past work with fresh eyes. What elements of the report have management and the audit committee responded most positively to? What elements seem to be viewed the most continuous? Are there any points that could be conveyed in an alternative fashion, such as through visuals, that enhances persuasiveness and impact?

For most, the answer is almost assuredly “yes.”

## About The IIA

The Institute of Internal Auditors (IIA) is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 200,000 members from more than 170 countries and territories. The association's global headquarters is in Lake Mary, Fla., USA. For more information, visit [www.globaliia.org](http://www.globaliia.org).

## Disclaimer

The IIA publishes this document for informational and educational purposes. This material is not intended to provide definitive answers to specific individual circumstances and as such is only intended to be used as a guide. The IIA recommends that you always seek independent expert advice relating directly to any specific situation. The IIA accepts no responsibility for anyone placing sole reliance on this material.

## Copyright

Copyright © 2019 The Institute of Internal Auditors, Inc. All rights reserved. For permission to reproduce, please contact [copyright@theiia.org](mailto:copyright@theiia.org).

May 2019



**The Institute of  
Internal Auditors**

*Global*

### Global Headquarters

The Institute of Internal Auditors  
1035 Greenwood Blvd., Suite 401  
Lake Mary, FL 32746, USA  
Phone: +1-407-937-1111  
Fax: +1-407-937-1101  
[www.globaliia.org](http://www.globaliia.org)