The Actionable Audit Report

On your mark, get set, go!

By Margie Bastolla

The goal of an audit is to encourage change that helps the organization. Actionable audit reports consider the readers' needs, are easy to understand, include only significant audit issues, and most importantly, influence the readers to act.

Do our communications, whether verbal or written, influence positive change? Do our communications compel people to act? With the right knowledge, skills and tools, you can breathe life into your audit reports.

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Writing an actionable audit report is like running a race. To win the race, you must set a clear goal, get the right training and tools, be a team player and embrace a can-do attitude.

Set a clear goal

Two friends are avid runners. Sally enters races because of the sense of accomplishment she feels as she crosses the finish line. Marlin, on the other hand, enters races to win, challenging herself with each successive race to run faster and smarter.

Both friends focus on different but specific goals, and both do everything possible to reach their goals. Marlin's goal is obviously more difficult to achieve because a race can only have one winner. But win or lose, she sets her eyes on the next race, making her goal to win.

Setting a clear goal gives us something to aim for, whether in sports or in business communications. Have you given much thought to the primary goal of your audit report? Is your goal simply to inform the reader about what you have found, or to persuade the reader to act?

These goals are quite different. Most audit departments desire to both inform and persuade the report's readers, but many audit reports are heavy on informing and light on persuading.

If the primary outcome of an audit is to encourage change, you need to think about what persuades readers to act. Is the goal to just report higher risk observations so that lower risk observations do not water down the report? Or is the goal to give clear, concrete wording that highlights the risks the organization faces if problems are not corrected?

Consider the following two risk statements. Which is more persuasive?

- Inconsistent adherence to safety procedures exposes the patients and staff to potential harm and puts the clinic at risk for fines.

- Per the Centers for Disease Control, used needles can spread contagious diseases such as Hepatitis C and

HIV. People pricked by contaminated needles have a 25 percent chance of contracting an infection or disease. In addition, the health department can fine the clinic up to $5,000 per safety violation.

Clearly, the second statement is more likely to grab your readers' attention.

Report-writing principles and a well-thought-out audit observation template can help.

By setting a clear goal for your audit report—to inform, to persuade, or both—you know what kind of information to gather during the audit. In addition, you know which audit observations to include in the report and how to communicate these observations to effect change in your organization.

Get the right training and tools

Sally is training for a race next month in London. She is adhering to a principles-based workout program that considers the frequency, intensity, type and duration of her pre-race training. Sally has even devised a running strategy for the day of the race. And though she is currently focused on the big picture of race preparation, Sally has also put considerable thought into clothing, shoes and water intake, which are essential tools she needs on race day.

Developing an actionable audit report also needs the right tools and training. Consider how report-writing principles and a well-thought-out audit observation template can help.

Report-writing principles – Internal audit departments should consider devising 10 or fewer writing principles to guide their report development process. These principles give auditors norms, rules or values to signify what is desirable and positive. By their nature, principles are not prescriptive. Instead, they reinforce desired outcomes.

Principles, customized to the organization, can help audit departments create actionable audit reports:

1. Identify the effect for each audit observation. The effect, which is a statement of risk, clearly and concretely spells out what could go wrong. Where possible, include frequency, size and likelihood.

2. Include only high- and medium-risk audit observations in the report.

3. Provide detail for each audit observation that is equal with the level of risk (i.e., high-risk observations get more space in the report than medium-risk observations).

4. Issue draft audit reports within two weeks of fieldwork completion.

5. Value brevity and simplicity in writing.

Florina Dekalo, CAE, of Northwestern Memorial HealthCare in Chicago, is a big proponent of principle No. 5. "Clarity and conciseness in our audit reports are key drivers of our success," she said. "Executives and audit committee members have limited time to read our reports, so we want to make sure that they can easily identify and understand the risk areas and recommendations highlighted in our reports."

When viewed from the reader's perspective, a report that is timely, brief and persuasive is likely to produce action and change.

Five-element audit observation – Report writing is primarily a thinking process. Only after the auditor has thought through the problem should they focus on writing quality issues like clarity and conciseness. Einstein said, "If I had an hour to solve a problem, I'd spend 55 minutes thinking about the problem and 5 minutes thinking about solutions." The same can be true for the auditor who has identified a reportable audit observation.

Internal auditors have at their disposal a powerful problem-solving methodology for the audit observation—the five-element format. On its surface, the five-element format, which includes condition, criteria, cause, effect

and recommendation, seems straightforward and easy to understand. However, auditors often struggle with the five elements because they only have a cursory understanding of what makes up each element and how the five elements fit together.

Start with the *condition*, which is the problem you found during your audit. The condition is the foundation on which the other four elements are built. If the condition is not well formulated, how can the auditor determine the cause and recommend a solution? Remember the moniker "a problem well-defined is a problem half-solved."

For example, when formulating the condition, you might ask yourself these questions:

1. Does the condition describe the world as it is?
2. Does the condition deviate from the criteria? How so?
3. Does the condition infer risk?
4. Is the condition accurate and objective?
5. Is the condition quantifiable?

To ensure the audit team understands each element, consider creating several questions for each of the five elements. Karen Brady, CAE for Baptist Health South Florida, says, "As the last person to review the audit report, I look at the audit report as a bystander." She says that "so what?" is the most important question an auditor can ask when formulating the effect.

Set a clear goal for your audit report—to inform, to persuade, or both.

"My audit committee is not involved in the day-to-day business, so it's important that we clearly spell out 'so what' if the problem continues." But "so what" is not always obvious to the reader. For the cause, you might ask, "Why does the condition exist?" For the recommendation, you might ask "Does the recommendation address the root cause?"

Powerful questions will help auditors formulate each element correctly. After you have developed the questions, train everyone on the five-element, problem-solving approach.

Be a team player
Running is not an individual sport. Every runner is part of a team that coaches, supports and encourages them. Relay races are particularly fun to watch because runners must

embrace their position in the line-up, hand off the baton at precisely the right time, and cooperate with other team members to win the race. Typically, the baton hand-off goes smoothly, but a dropped baton almost always means defeat. Audit report development and relay races can be similar in that way.

To encourage change, you need to think about what persuades readers to act.

The report development process is a team effort where members must work together cohesively from the audit's planning stages until the final report is issued. Team members must have clearly defined roles and understand how what they do—or do not do—impacts others.

Through detailed planning, coordination and collaboration, the audit team can end much of the inherent frustration in the report development process. Effective teamwork can prevent incomplete and inaccurate observations, excessive reviews and rewrites, writing quality problems, and report issuance delays.

Consider the following recommendations.

Develop the observation – Auditing and writing are parallel processes, not consecutive processes. Waiting to develop audit observations at the end of fieldwork, or after fieldwork completion, is inefficient and adds both time and stress. Develop the audit observation where you find it.

Determine the five elements – As you develop an audit observation, use bullet points to fill in the five elements. Your goal at this stage is to focus on the actual content— what should go into the observation—not writing for perfection, which comes later in the process.

Meet with your team leader – Discuss your observation and thought processes. Your team leader can ask probing questions, help you think things through and ensure your recommendation is reportable.

Incorporate feedback – Consider the feedback you received and write the observation in complete sentences. Focus on writing clarity, conciseness and tone.

Edit your own writing – Edit your observation three times before transmitting to the next person. First, edit for overall content, then for writing quality, and lastly for grammar, spelling and punctuation.

Waiting to develop audit observations at the end of the audit adds both time and stress.

Review by your team leader – As team leader, you should review observations like you would review work papers. Do not make corrections or edits. Instead, explain to the auditor what changes you are looking for and why. By following this strategy, you will help the auditor own the writing task, develop their report-writing skills and grow in confidence.

Embrace a can-do attitude

With running, attitude is everything. Runners will never meet their potential without the right running attitude. Report writing, like running, is often arduous. Even the best writers struggle with staying focused and getting their thoughts on paper.

With few exceptions, auditors dread the report-writing task. They realize that developing audit observations and compiling the report takes concerted time and effort.

Some auditors also believe that no matter how well they write, their bosses will change the style or content of the writing. Finally, most auditors admit that using fewer words and clearer wording would improve their writing.

Internal auditors can limit much of their frustration by focusing first on report content. By gaining a deeper understanding of the five elements, and how these elements fit together, auditors learn how to frame the audit observation. They are now using a problem-solving approach that ensures the observation is logical, complete, persuasive and reportable. Next, auditors need to focus on writing quality, eliminating wordy phrases, writing in active voice and correcting dangling modifiers. Voila! The auditor has now developed a well-written observation.

Conclusion

With the right knowledge and tools—and lots of practice—auditors' report-writing confidence soars along with the improved quality of their audit reports. **NP**

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