The Institute of
Internal Auditors
Australia

White Paper

Themes Based Reporting

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Themes Based Reporting

Contents

Background

Purpose

Themes-based reporting is a value-adding approach that helps the Chief Audit Executive (CAE) to determine, consolidate and report high-level insights to the Audit and Risk Committee (ARC), Chief Executive Officer (CEO) and other key stakeholders through the grouping of internal audit outcomes into related higher-level topic areas (or themes). The themes are typically established during the development of the forward audit plans (though there is provision for ad hoc opportunities for themes that potentially arise).

Background

In terms of professional auditing standards, internal auditors are required to communicate the results of their engagements (standard 2400) and the CAE is required to communicate results to appropriate parties (standard 2440). Further, when overall opinions are issued they must be supported by sufficient, reliable, relevant and useful information (standard 2450 refers).

There is an unattributed quote in the foyer of the ATO's corporate headquarters in Canberra (Amungula Building): "*To go beyond what you know, you have to discover what you don't know*." This is a worthy aspiration for CAEs in their dealings with ARCs.

ARCs are increasingly looking for CAEs to deliver greater value as illustrated in the following quote from an experienced ARC Chair: "*I like the way that Internal Audit asks the right strategic questions, and also how they report on trends and systemic issues rather than just focusing on the results of an audit.*"

The concept of Themes-based Reporting is discussed as part of the January 2020 white paper on Well-founded Audit Planning. An excerpt is contained in Exhibit 1.

Exhibit 1 - Excerpt from White Paper – Well-founded Audit Planning

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It is often beneficial for medium and larger sized internal audit functions to divide the audit topics into distinct audit themes; this might translate into five to ten themes respectively. In addition to reporting on the outcomes of individual audits each quarter, the CAE is well-positioned to deliver to the audit committee the high-level themes-based insights in an annual report on internal audit outcomes. This is an emerging approach to further adding value to the business. An example of the themes used in a large internal audit function is contained below.
Example of Audit Themes - Core business activities - Business and technology change - Security and privacy - Contract and outsourcing management - Overheads management - Fraud, corruption and culture - Financial stewardship - Strategic reviews - Management information - Assurance activities

This white paper is intended to provide the basis for CAEs to establish a contemporary themes-based reporting approach that complements and enhances their existing approach for communicating the results of internal audit engagements to appropriate parties. The example themes in Exhibit 1 are intended to be illustrative; in practice, it may be appropriate to keep those identified to a minimum to allow capacity for emerging and / or ad hoc themes. Smaller audit functions will also typically have fewer themes.

Themes Based Reporting

Discussion

Issue

The results of internal audit engagements are reported to different managers depending on 'ownership' of the business operation. These reports are usually useful at an operational level.

However, from a broader strategic perspective the unique identity of a business can be jeopardised by emerging risks and significant business changes. There needs to be a reporting approach - such as themes-based reporting - that enables the CAE to draw together the threads of internal audit engagements of related business elements. These are useful at a strategic level and for the ARC.

CAEs can position themselves well by planning for themes-based reporting, through regular reporting to core themes identified through strategic audit planning, and by ad hoc reporting on other emerging themes identified as the audit program is implemented.

Entities across the public, private and not-for-profit sectors have their own unique business identities. The identity typically reflects the expectations of the general public and other stakeholders in dealing with these entities, and is often aligned with the brand that the entity has crafted for itself over extended periods of time. Examples are included in Exhibit 2 (intended to be illustrative rather than definitive).

Exhibit 2 – Examples of Business Identities

Type of Entity	Common Features of the Business Identity
Charitable Institutions	Credibility and trust; maximise contributions that help the needy (minimising administrative overheads and financial seepage).
Financial Institutions	Security of financial assets; secure monetary transfers; transactional accuracy; client confidentiality.
Health Services	Quality, safe and timely services; patient confidentiality.
Law Enforcement	Integrity of operations; fairness and equity of activities.
Railway Operators	Clean, reliable and safe transport services.
State and Federal Revenue Authorities	Privacy, integrity and confidentiality of client / taxpayer information; fairness and equity in dealings; arrangements to ensure people meet their obligations.
Superannuation Funds	Security and safeguarding of assets; reasonable investment returns over the longer term; sympathetic care of clients and their privacy (at different stages of their life).

The establishment of audit themes will vary for the different types of entities and their peculiar 'identities'. Themes will typically be derived from a range of sources such as:

Primary Elements
- Entity's strategic / statutory objectives.
- Business identity.
- Entity's risk profile and emerging risks.
- Critical business drivers and changes.

Secondary Elements
- Economic and operating environments.
- Regulatory obligations.
- Global connectivity.
- Emerging technologies.

Themes-based reporting complements the concept of 'collaborative reporting' that was the subject of a previous white paper. The reporting approaches can operate in parallel.

> **Note 1:** Collaborative reporting is an approach whereby audit, risk, and compliance specialists work together on analysing trends and patterns in their collective work to deliver greater value to the audit and risk committee and senior management through consolidated insights and assurance on the overall state of the risk and control environment.

History

The then IIA Global Chairman of the IIA Board, Angela Witzany, said in August 2016: *"internal audit's ability to remain relevant hinges on ceaseless attention to the priorities of the organization it serves."* In introducing her theme of 'audit never sleeps', she also reflected: *"Our world is hyper-connected and in constant motion."*[i]

According to the Global Internal Audit Common Body of Knowledge (CBOK) study undertaken in 2015 by the IIA Research Foundation, 62% of Australian audit departments report being fully or almost fully aligned with the strategic plan of their organisation (slightly higher than the global average of 57%).[ii]

Themes-based reporting enables those audit departments that are not yet fully aligned to the entity's strategic direction to move in that direction, and for those that are to strengthen that alignment.

Themes-based reporting also helps the CAE to deliver a greater level of 'client excellence', which contemporary literature suggests is one of the five common features of 'best

Themes Based Reporting

in class' internal audit functions, as illustrated in Exhibit 3.

Client excellence draws together a range of critical elements, such as the value of the partnership between the CAE and the ARC; the usefulness and breadth of reporting to the ARC and other stakeholders; business alignment; the internal audit brand; and coordination with other independent scrutineers like the external auditors.

Exhibit 3 – Five Features of 'Best in Class' Internal Audit Functions
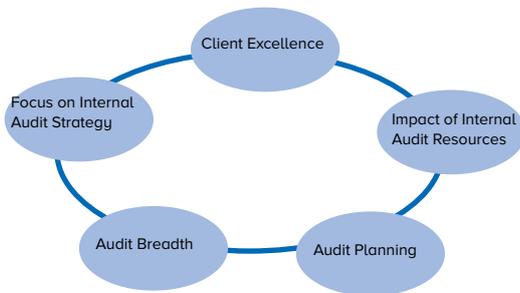
Example - Security and Privacy

Part 1 – Establishing the Audit Theme

The increasing incidence of cybercrime across the world represents a potentially significant threat to entities that are expected to safeguard the privacy, integrity and confidentiality of stakeholder information. For that reason, the audit theme of 'security and privacy' was established in the example provided in Exhibit 1.

Part 2 – Reporting Audit Engagement Results to Different Managers

Let's assume that the CAE reported the results of the following six audit engagements to different operational managers throughout the year:

- Building security at a remote location was reported to local management, the Head of Facilities Management, and at a high level to the ARC.
- Penetration testing of the digital environment was reported to the technology security manager, the Chief Information Officer, and at a high level to the ARC.
- A review of logical security within the customer services area was reported to the Head of Client Services, to the technology security manager as there were security policy issues, and at a high level to the ARC.

- The application of information privacy principles for staff records was reported to the Head of Human Resources, and at a high level to the ARC.
- Access safeguards for third party information (eg driver's licences) were reported to the other entity in line with the Memorandum of Understanding, and to the ARC.
- A data matching review comparing security data from separate HR modules (eg security required for a specific position against the incumbent's security classification level) was reported to the Head of Human Resources, and at a high level to the ARC.

[Note: The above examples have been simplified and are intended to be illustrative in nature.]

In this situation the ARC has received insights from these six audit engagements, with reporting spread throughout the year mixed together with the outcomes of other individual audit engagements that are not security-related. It is difficult with this type of reporting, solely, for the ARC to determine the 'security culture' of the entity.

Part 3 – Themes-based Analysis

Where CAE's have established an audit theme on 'security and privacy', they are well placed to analyse the results of the individual audit engagements in relation to this theme in the context of the entity's strategic objectives, business identity, risk profile, emerging risks, and critical business drivers and changes.

Where available, they can draw in insights available from:

- Other corporate data, such as the results of risk workshops, a staff engagement survey, and / or a fraud risk assessment.
- Reports from other independent scrutineers such as the external auditor's review of general information technology controls including security.

With sufficient, reliable, relevant and useful information (as mentioned above) they are able to form an overall opinion on the entity's security culture, as illustrated in Exhibit 4.

Themes Based Reporting

Exhibit 4 – Inputs for Forming an Overall Opinion on the Entity's Security Culture

Part 4 – Themes-based Reporting

By drawing together the results of the various reviews illustrated in Exhibit 4 plus similar analysis for the other audit themes (see Exhibit 1) the CAE is able to produce a high-level themes-based report. Flexibility can be built-in to the themes-based reporting approach to accommodate emerging and / or ad hoc themes that are identified during or after the program has been completed.

This can be either a standalone report for the ARC, CEO and other stakeholders or incorporated into an Annual Report on Internal Audit for the same audience. The size and maturity of the audit department will determine the best approach.

Five Action Steps

Establishing theme-based reporting can be achieved where the CAE implements the following action steps.

1. Develop the concept of themes-based audit reporting in consultation with the ARC Chair and the CEO. Determine the preferred timing (half-yearly or annually), the audience, the style of reporting, and whether it will be a standalone report or part of the Annual Report on Internal Audit. Produce a pro-forma report to illustrate the style and content of a themes-based report.

2. Once the concept of themes-based reporting has been agreed, workshop the practical approach with the internal audit team and modify the internal audit methodology accordingly. This might translate into slight variations to the way in which the results of internal audit engagements are reported (for ease of future themes-based analysis). Update the Audit Manual to reflect the agreed changes.

3. As part of the internal audit department's high-level audit planning approach, assign each audit topic against a defined audit theme (for medium and large internal audit functions) in the forward audit plan. This might translate into five to ten themes respectively. [Further guidance is available on this step in the white paper on Well-founded Audit Planning.]

4. On an annual basis (or half-yearly if that is the preferred cycle per step 1) undertake themes-based analysis for all the audit themes established in step 3, incorporating the results of other corporate data and scrutineer reporting where it is sufficient, reliable, relevant, useful and available (see Security and Privacy example, including the illustration at Exhibit 4). There may also be situations where the reporting themes are expanded and incorporated into the themes-based report to accommodate ad hoc reporting on other emerging themes identified during the course of delivery of the approved audit program.

5. Form an overall opinion on each of the audit themes, and undertake a reasonableness check in consultation with appropriate stakeholders. Incorporate the opinions into a themes-based audit report to the ARC and CEO. Share the themes-based outcomes with the internal audit team at a whole-of-staff staff meeting (or video-conference if multi-site function). Determine key audit priorities for the year ahead, and identify any modifications to the audit themes for the next forward audit plan. Disseminate the themes-based opinions to key executives and relevant external stakeholders. Develop and make available FAQs on themes-based reporting.

Themes Based Reporting

Conclusion

Summary and Options

It is a requirement under professional auditing standards for internal auditors to communicate the results of their engagements to appropriate parties, and when overall opinions are issued they must be supported by sufficient, reliable, relevant and useful information. This type of reporting needs to be continued.

There also needs to be a higher-level reporting approach - beyond but complementary to the traditional engagement reporting - that provides a broader strategic perspective in the context of the entity's strategic objectives, business identity, risk profile, emerging risks, and critical business drivers and changes. Themes-based reporting enables the CAE to draw together the threads of internal audit engagements of related business elements into a higher-level reporting approach that provides useful strategic insights to the ARC and other critical stakeholders.

Themes-based reporting helps CAEs and their critical stakeholders to go beyond what they know, to discover what they don't know. It also encourages internal auditors to ask the right strategic questions, and to report on trends and systemic issues rather than just focusing on the results of an individual audit engagement.

Conclusion

The mission of professional internal auditing is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insights. The link between business identity and themes-based reporting advocates well for a much more responsive strategic value to the business of internal audit activities.

Themes-based reporting elevates the communication of the results of internal audit engagements for appropriate parties to a strategic level. In doing so, it demonstrates internal audit's ceaseless attention to the priorities of the entity it serves and helps internal audit to remain relevant to the ARC and other critical stakeholders.

Bibliography and References

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[i] Internal Auditor magazine, IIA-Global, August 2016, p55

[ii] GREAT Ways to Motivate Your Staff, Global Internal Audit Common Body of Knowledge (CBOK), The IIA Research Foundation, 2016

Note - The Australian statistics were obtained by IIA-Australia and presented at the South Pacific and Asia Conference (SOPAC) in 2016.

Themes Based Reporting

Purpose of White Papers

A White Paper is a report authored and peer reviewed by experienced practitioners to provide guidance on a particular subject related to governance, risk management or control. It seeks to inform readers about an issue and present ideas and options on how it might be managed. It does not necessarily represent the position or philosophy of the Institute of Internal Auditors—Global and the Institute of Internal Auditors—Australia.

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Bruce has been a member of the IIA since 1984 and was an IIA-Australia Board Director from 2012 to 2018. He spent nearly 30 years within the financial services sector, which included extensive internal auditing responsibilities in Australia, United States and United Kingdom spanning commercial banking, merchant banking and central banking. He ultimately held CAE roles at the State Rail Authority of NSW, Integral Energy Australia, and the Australian Taxation Office. He is currently a company director and audit committee chairman and independent member.

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As the chief advocate of the Internal Audit profession, the IIA serves as the profession's international standard-setter, sole provider of globally accepted internal auditing certifications, and principal researcher and educator.

The IIA sets the bar for Internal Audit integrity and professionalism around the world with its 'International Professional Practices Framework' (IPPF), a collection of guidance that includes the 'International Standards for the Professional Practice of Internal Auditing' and the 'Code of Ethics'.

IIA—Australia ensures its members and the profession as a whole are well-represented with decision-makers and influencers, and is extensively represented on a number of global committees and prominent working groups in Australia and internationally.

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