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The Institute of
Internal Auditors
Australia

Whitepaper

Collaborative Reporting

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Background

Purpose

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.

Background

Audit, risk and compliance specialists have specific roles to play within their entity, and each role demands its own unique expertise. But in modern times, audit and risk committees need a well-coordinated approach that produces insightful information in order to fulfil their increasing obligations.

Audit, risk and compliance specialists are increasingly expected to work together to interpret and report on the patterns emerging in their collective work.

“An active and informed audit committee provides the ultimate independent and objective oversight of the corporate control environment, including focus on emerging trends and risks.” Ford Motor Company⁽ⁱ⁾

Discussion

Issue

A dilemma for modern audit and risk committees is that their role and responsibilities have expanded significantly over the past decade, but the reporting efforts applied by audit, risk and compliance specialists have not always kept pace with the committee's emerging needs and expectations.

The committee often receives a great amount of reporting, but the absence of collaboration amongst the specialist areas means that the committee is left to its own devices to interpret the shadows that fall across the various separate reports.

History

The IIA Global Advocacy Platform espouses, amongst others, that organisations should have a strong and effective audit committee or its equivalent, together with an internal audit activity that is properly structured, operates in accordance with the International Professional Practices Framework (IPPF), and be required for most organisations.

In Australia, the importance of effective audit committees and internal audit functions is reflected in different guidance and policies covering both the private sector and public sector. Recent examples include:

- > Listed companies - The ASX Corporate Governance Principles and Recommendations (4th edition February 2019) – recommendation 4.1 (audit committees), recommendation 7.1 (committee to oversee risk), and recommendation 7.3 (internal audit function).
- > Public sector in NSW – Internal Audit and Risk Management Policy for the General Government Sector, TPP20–08 (December 2020).

Other practical guidance and reference materials are contained in IIA Global Public Sector Insights covering policy setting for public sector auditing⁽ⁱⁱ⁾ and independent audit committees⁽ⁱⁱⁱ⁾, and in audit committee good practice guidance^(iv).

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The roles and responsibilities of audit and risk committees have expanded significantly over the past decade to accommodate the increasing needs of shareholders and public sector stakeholders. The range of groups reporting to audit and risk committees has similarly expanded as illustrated in Exhibit 1.

“In twenty-first century business, it’s not uncommon to find diverse teams of internal auditors, enterprise risk management specialists, compliance officers, internal control specialists, quality inspectors, fraud investigators, and other risk and control professionals working together to help their organisations manage risk. Each of these specialities has a unique perspective and specific skills that can be invaluable to the organisations they serve ...”.

Institute of Internal Auditors^(M)

Exhibit 1 – Common Sources of Information for Audit and Risk Committees



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The Chief Audit Executive (CAE) is directed by Standard 2050 of the IPPF to coordinate activities with other assurance providers. There are four contemporary concepts that can help facilitate this.

- › Assurance maps offer an effective way of documenting and communicating this coordination.
- › The three lines of defence model provides an effective way to enhance communication on risk and control by clarifying essential roles and duties through management control (first line), risk and control oversight functions (second line), and independent assurance (third line).
- › Root cause analysis helps to identify why an issue occurred, rather than just reporting on the issue itself.
- › Stakeholder relationship management involves the identification of key stakeholders and their priorities and interests as a means of ensuring internal audit efforts are appropriately aligned with the needs of their organisation.

Overall Assurance

Notwithstanding the various sources of information provided to the audit and risk committee, an overall interpretation of the results of the separate reports enables the committee to determine the effectiveness of the risk and control framework and how well it is operating in practice.

This type of analysis also helps the committee to determine trends and patterns that may require closer monitoring and scrutiny over the next year. Ideally, the audit, risk and compliance specialists will collaborate with a view to delivering overall assurance, otherwise one area of the group ought to take the lead in establishing a macro perspective.

Exhibit 2 – Providing Overall Assurance



One way of meeting the contemporary needs of the audit and risk committees is to embrace the concept of co-reporting. Through this approach, specialist areas identify common areas and work together to produce meaningful consolidated reporting on specific technical areas.

For instance, an energy company might have new safety regulations that it needs to comply with which span the responsibilities of different specialist areas, such as the compliance officers, internal auditors, enterprise risk management specialist areas, and corporate investigators. These groups working together can provide a consolidated perspective to the audit and risk committee on what the regulations mean from a risk management perspective, and how the three lines of defence will be applied to educate staff, ensure full and active compliance, and deliver independent periodical assurance.

“A multi-report conclusion or opinion - which may be called a ‘macro’ opinion - goes beyond summarising. Such a conclusion or opinion interprets the summary: it is the application of professional judgement to the trends and themes. Most audit committees expect such conclusions or opinions based on the work done; some expect an even broader conclusion on the overall state of internal controls.” Sally Cutler^(vi)

Exhibit 3 – Examples of Co-reporting

Who the CAE could Co-report with	Potential topics for Co-reporting
Compliance groups	Emerging regulations and action to meet compliance deadlines
CFO or controller	Emerging areas of financial risk and steps being taken to mitigate them
Management	Emerging issues within their areas of the organisation
Outside experts and consultants	Emerging industry trends

The chief audit executive is also well-placed to leverage the insights obtained from co-reporting as an input to internal audit planning.

Collaboration

Individually, audit, risk and compliance specialists contribute value to the entity by providing vital strategic safeguards. Collectively, these areas have the potential to boost their contributions by ensuring that the business realises its vision and achieves the objectives that the board or senior management has set. But where to start?

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Exhibit 4 contains several examples with insights and tips that may well provide the motivation to these specialist areas to refine their art of collaboration.

Exhibit 4 – Examples^(vii)

Examples	Rectifying Underlying Issues to Deliver Improved Outcomes
1 – De-mystifying Investigation Data	Investigation data was flawed, and there was no meaningful analysis. Fixing the underlying data problems enabled the interpretation of patterns and a greater understanding of root causes. Case-based corruption prevention strategies were introduced.
2 – Drawing the Threads Together	Discrete specialist groups did not routinely collaborate with each other, and it was left to the audit and risk committee to draw the threads together. The specialists were directed to collaborate on introducing a statement of business ethics. The successful outcome encouraged them to work more closely together, to better align their work, and to maintain regular coordination meetings.
3 – Themes Reporting	It was difficult to interpret the patterns and trends because each audit report was seen as a separate and isolated narrative. The introduction of themes-based audit reporting delivered a more powerful story. The reporting against themes helped the enterprise risk management specialists to identify risk hotspots, and for compliance officers to establish where compliance was effective.
4 – Cultural Perspectives	The audit, risk and compliance specialists were caught off guard when asked for their insights on the corporate culture. They had no firm basis to respond. The specialists worked together to establish a structured process that would enable them to provide a fact-based response on the corporate culture. The audit and risk committee chairman was delighted to have meaningful insights on the culture. The structured assessment process led the specialists to fine-tune their work programs.
5 – Strategic Insights	The audit and risk committee chairman was hamstrung in promulgating his first annual report to the chief executive officer because of the nature of reporting being provided to the committee. Reporting requirements for the ensuing year were mapped, and a suitable meeting calendar was produced to identify when specific reports were required. The chief executive officer found the new and improved committee report to be of much greater value, and it was used as an input to the strategic planning process.

Five Action Steps

The establishment of collaborative reporting (on audit, risk and compliance activities) can be achieved where the Chief Audit Executive implements the following action steps.

1. Establish a mandate and provide clarity of roles for collaborative reporting by:
 - a. Reviewing the internal audit charter and amending, if necessary, to ensure that the chief audit executive has responsibility to play a coordinating role with other audit, risk and compliance areas.

- b. Amending internal audit's stakeholder relationship program to ensure that it adequately embraces collaboration with other audit, risk and compliance areas.

2. Determine the core oversight functions of the audit and risk committee that might benefit from collaborative reporting by:
 - a. Reviewing the audit and risk committee charter against better practice models, and analysing the assigned roles and responsibilities to determine which ones are core.
 - b. Establishing a reporting matrix that aligns to the audit and risk committee's core roles and responsibilities and identifying which audit, risk or compliance area will be required to provide primary reporting.
3. Establish a high-level 'themes-based' reporting approach consistent with the audit and risk committee's core roles and responsibilities, and allocate co-reporting themes amongst the audit, risk and compliance areas.
4. Establish appropriate co-reporting protocols, including:
 - a. Reasonable quality control arrangements for the risk and compliance areas that are sufficiently robust for an independent third line of defence area to rely upon as a source of reliable information.
 - b. Regular coordination meetings between audit, risk and compliance areas to determine and interpret patterns and trends, and how these will be reported to the audit and risk committee.
5. Produce co-reporting with other audit, risk and compliance areas through collaboration. Seek feedback from the audit and risk committee periodically on the usefulness of the reporting and refine as necessary.

Conclusion

Summary and Options

Audit, risk and compliance specialists are expected to apply modern techniques to produce insightful information that helps their audit and risk committee fulfil its role. But this can't be done by applying a 'siloed' approach.

Whilst audit, risk and compliance are somewhat different and distinct professions, there is an increasing expectation

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that they will collaborate more to shine the light on the areas that need the attention of the audit and risk committee.

It matters little whether a small one-person environment is involved or a large well-staffed function, the role and expectations on audit and risk committees and the specialists that support them is the same ... it's just the volume that differs.

Audit, risk and compliance specialists need to think about the collaboration opportunities across their specialist areas with a view to implementing steps to strengthen the relationships and, ultimately, deliver enhanced reporting.

Conclusion

There are clear benefits to be gained where the audit, risk and compliance specialists actively work together to interpret and report on the patterns emerging in their collective work.

Greater collaboration and better interpretation of patterns is a modern art that will help the audit and risk committee and the chief executive to protect the bottom line and achieve the business objectives (private sector entities) or statutory objectives (public sector entities).

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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.

Author's Biography

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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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About the Institute of Internal Auditors–Australia

The Institute of Internal Auditors (IIA) is the global professional association for Internal Auditors, with global headquarters in the USA and affiliated Institutes and Chapters throughout the world. 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'.

The IPPF provides a globally accepted rigorous basis for the operation of an Internal Audit function. Procedures for the mandatory provisions require public exposure and formal consideration of comments received from IIA members and non-members alike. The standards development process is supervised by an independent body, the IPPF Oversight Council of the IIA, which is appointed by the IIA–Global Board of Directors and comprises persons representing stakeholders such as boards, management, public and private sector auditors, regulators and government authorities, investors, international entities, and members specifically selected by the IIA–Global Board of Directors.

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.

The IIA was established in 1941 and now has more than 180,000 members from 190 countries with hundreds of local area Chapters. Generally, members work in internal auditing, risk management, governance, internal control, information technology audit, education, and security.

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