

# **Basics: When Management is Unresponsive**

ARTICLES | JOSH MARGRAF, CIA, CISA, CFE | OCT 09, 2023

**Internal audit's effectiveness depends on management's willingness to address findings.**

Management must have a positive attitude that is open and committed to improvement in order for internal audit to be effective and successful.

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As an internal auditor, it is satisfying to see how findings and recommendations help organizations improve. It feels good knowing the effort put into audit work can enhance operations. However, internal audit's effectiveness greatly depends on management's willingness to address findings and recommendations. Symptoms of poor tone at the top can impact internal audit's ability to be successful. Internal audit can look to these indicators to gauge how effective it can be in the organization.

### **Similar Root Causes**

Persistent issues that are prevalent and overlap different audits (e.g., little documentation of internal controls or no clear policies or procedures) may indicate management is slow to, or does not, address significant issues. During multiple audits at one organization, I discovered the root cause of performance issues and noncompliance with procurement requirements was the lack of detailed policies that clearly outlined procedures and identified the staff responsible for

performing them. Staff, from accountants to project managers, did not have sufficient guidance for carrying out their responsibilities. They did not know how to document and review contractor invoices or assess consultant performance, and there was no clear accountability. Management did not examine the thoroughness of the policies or whether they were effectively implemented.

Internal audit can identify root causes by reviewing prior audits, risk assessments, and audit plans for persistent issues, and then summarizing the results in a special report that shows the frequency of findings, their similarities, and associated risk areas. The report should be formatted to best suit the organization, such as a briefing or flash report, to have the best chance of acceptance by management or the governing body. In another instance, I used a recurring report to update the audit committee on findings and open recommendations. I also reported annually on risk areas, including causes of prior findings. These reports demonstrated a continued need for staff guidance on procedures as a root cause. Management indicated policies were being updated or drafted but did not specify a time frame for completion. Although a special report can call further attention to the need for improvements, management must be willing to act. Without fixing root causes, underlying problems will remain and result in similar findings and recommendations.

### **When Risks Outweigh Resources**

If internal audit regularly identifies multiple high-risk areas during annual audit planning but management refuses to increase audit resources (e.g., staff or funding) and instead encourages a focus on lower risk areas, audit effectiveness will be diminished. Throughout my career, I have routinely identified high risks. For example, I once discovered an external party cashed forged checks in the company's name. When discussing the issue with management, I was told that fraudulent checks were not internal audit's concern, and law enforcement would investigate. However, management never explained how someone obtained a check to forge and did not provide investigation results.

Internal audit's annual risk assessment used these types of findings to identify high-risk areas and request additional resources.

Management refused to increase resources because historically internal audit reviewed vendor lists, petty cash, and employee expense reimbursements, with few findings. Rather than request more resources, substituting low-risk audits with audits of high-risk areas can help ensure coverage of significant risks. Doing so may require a management or audit committee champion to help develop a strategy for expanded audit coverage.

Because of the limited resources, I regularly discussed with the chief information officer (CIO) how internal audit could address areas of concern, such as IT contract oversight, as part of planned audits or by other means. Internal audit also invited the CIO to provide updates on IT activities at each audit committee meeting. Internal audit needs high-level support to target high-risk areas. If management prefers audit efforts focused on low-risk areas, internal audit may not be able to effectively address or develop recommendations to mitigate the bigger risks.

### **Failure to Address Hotline Reports**

An ethics hotline is a convenient way for employees to report wrongdoing anonymously. However, its worth relies heavily on management's response to it. Although hotline reports may not signify good news, they provide insight to areas for improvement. At one organization where I monitored hotline reporting, I noticed that once the organization started using a third-party vendor for report intake, the hotline received more reports within the first few months than any time previously. Reports ranged from unfair promotion practices, to employee labor mischarging, to ethics violations. This not only demonstrated that staff were aware of and using the hotline, but it also identified unaddressed issues. When I presented the hotline statistics and reports, management showed little concern, claiming the staff was simply venting.

Not every hotline report warrants a full investigation, but it should be reviewed and discussed to determine the extent something is wrong

and can be fixed. I had to work through general counsel to ensure reports received adequate attention and fact finding. Management is not addressing underlying staff concerns if the number of hotline reports is higher than prior periods and similar issues are regularly reported. Further, if management shows indifference toward hotline reporting, it also is likely to dismiss audit findings.

## A Commitment to Improvement

Even skilled auditors' success is limited if management has little interest in addressing findings and recommendations. It is possible for management to change, and internal audit can find ways to help management address risk; however, such efforts require time and resources that internal audit may not have.

According to *The Politics of Internal Auditing*, by Patricia Miller and Larry Rittenberg, effective and lasting change within an organization can be difficult to make from the bottom up. For internal audit to be effective, the tone at the top should reflect an attitude that is open and committed to improvement. Experiencing any of the aforementioned issues can signify the audit work is not the problem. To realize their full potential, internal auditors may want to take their skills to organizations more attuned to internal audit's value.

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