The Other Side of the Fence

Two former auditors share their perspectives on the profession and lessons learned from the management ranks.

BY KENNETH D. ROWE AND ERIC J. JOHNSON

EXECUTIVES AND MANAGERS WITH internal auditing in their professional lineage should be proud of the contributions auditors have made to the modern organization. Without a skilled internal audit department, survival in today’s increasingly complex business environment would be much more difficult. Like us, many business managers owe a portion of their organization’s success, and their own career growth, to the audit function.

We both began our careers in internal auditing and subsequently moved into management positions. Since then, many of our former audit colleagues have asked how the transition has affected our view of the audit profession. The short answer is that our perception has not changed significantly. If anything, we’ve developed an even greater appreciation for the value of a quality internal audit function.

Another question we often hear is, “What would you do differently if you moved back to internal auditing?” Although we wouldn’t change much, the move did reinforce many of the lessons learned through our experience in the audit profession. Of these, seven lessons, in particular, may benefit other internal audit professionals as they seek to improve both their credibility in the organization and their relationship with management.

1. BUILD RELATIONSHIPS

Effective auditors recognize the value of developing relationships within the organization. Internal auditors’ understanding of the organization’s people, culture, industry, and inner workings is perhaps their greatest asset, and it is largely acquired through interpersonal interactions.

Becoming more involved in the organization requires effort. Regular visits with managers, appearances at key events, and attendance at staff meetings are often worthy investments of time. Getting to know managers will help them develop a sense of trust in auditing’s judgment. Moreover, greater involvement and interaction can also help auditors develop a better understanding of management’s concerns. For example, suppose a manager mentions during an organizational meeting attended by accounts payable personnel that vendors call his or her department frequently to complain that they haven’t been paid. By attending this meeting, the auditor can observe whether other managers echo this complaint or if it appears to be an isolated incident. Information gleaned from the discussion may then lead to a review of accounts payable to determine whether a control breakdown has occurred.

Objectivity does not require isolation — auditors can be simultaneously independent and involved. Remaining separate from operational decision making does not preclude auditors from sharing information, offering suggestions, and acting as a sounding board when problems arise.

2. FIND SOLUTIONS

Auditors should focus more attention on finding solutions than on writing reports. Audit reports merely tell a story. If the audit process dwells excessively on existing conditions or weaknesses, opportunities for improvement may be overlooked.

Consulting engagements provide an excellent opportunity for auditors to share their unique expertise. Projects well-suited to auditing’s areas of proficiency include evaluating proposed controls in a system implementation, reviewing a suspected fraud, or just examining management’s concerns about a particular process. Auditors should try to accommodate as many consulting requests as possible, as they help build
the department's credibility and enhance its image throughout the organization.

3. ACT QUICKLY
Auditors should endeavor to keep managers abreast of any significant concerns affecting their respective areas, regardless of scheduled audit cycles. When an issue arises, the auditor should not simply file it away and then wait for the appropriate audit to deliver it as a finding. Instead, he or she should contact the appropriate manager right away. If the auditor encounters a particularly critical issue — such as potential evidence of fraud — management will likely appreciate prompt notification, as most problems are easier to contain within the early stages.

Some of auditing's discoveries may have a short shelf life. Sharing information quickly helps ensure problems can be remedied timely and cost effectively.

4. DO YOUR HOMEWORK
Successful auditors spend time researching client activities and preparing for discussions with managers. Adequate preparation saves everyone time and helps auditing leave a positive impression.

Still, when performing a review, auditors do not need to know everything about the area under examination. For example, during an audit of U.S. nonresident alien tax issues, no one would expect the auditor to know how many tax treaties exist between the United States and other countries. However, the auditor should know clients' basic objectives and understand the issues they face. A little research can go a long way toward facilitating the audit process and improving auditor-client relations.

5. EXPLAIN YOUR FINDINGS
Blindsiding managers with extensive written findings can quickly erode trust and damage relationships. Instead, auditors should deliver their findings and recommendations to clients in person before putting them on paper.

Verbal notification gives management the opportunity to share all relevant information about the findings before internal auditing commits its recommendations to writing. Often, this dialog will enable auditing to better craft its findings and provide more meaningful suggestions for improvement. Moreover, the advance notice will likely increase management's receptiveness to the report once auditing formally presents it in writing.

Practitioners should also keep in mind that findings do not have to present an avalanche of bad news. As internal auditors, we often undervalued audits that lacked significant findings. As managers, we recognize the value of discovering which areas do not require our attention. Whether or not weaknesses are identified, quality work performed by a credible audit staff can be a great assistance in setting priorities.

6. DELIVER HIGH-QUALITY REPORTS
Audit reports represent the culmination of the audit process. In most organizations, the reports are highly visible and distributed to both senior management and the audit committee. Therefore, when auditors reach this stage, the information they present must be accurate. Reporting errors may jeopardize the auditor's credibility and damage the department's reputation.

Auditors should also try to anticipate questions that may arise when readers examine the report. Senior managers and directors, for example, will likely want to know the ramifications of any findings and how they might impact both the immediate department and the overall organization. Readers should not have to infer answers or fill in gaps themselves.

In addition, auditors need to provide adequate context for the information they present. In many cases, readers' background information on reported items may vary considerably. After completing a draft of the audit report, auditors should put themselves in the client's shoes and ask what they would want to know if the information presented comprised everything they knew about the subject.

Lastly, auditors should ensure that the tone of the report remains as neutral as possible. Readers should be allowed to form their own conclusions based on the facts.

7. BE FAIR
Internal auditors should always strive to be fair when conducting their reviews. Audits with a reasoned approach. While auditors possess many qualities that make them valuable to the organization, perhaps none is more important than a reputation for fairness.

GOOD FENCES
So, what does life on the other side of the fence look like? In many ways, things look much like they did when we were in internal auditing. Job effectiveness and the success of working relationships still rely largely on our credibility in the organization. And gaining that credibility requires relationship-building and trust.

Whether you're an auditor or a business manager, a cooperative, team-oriented approach to doing business always yields the best outcome. The fence that separates auditing and management should serve only to delineate responsibility, not hinder progress and results.

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