

## Dear Q&A

### What should internal audit do when an internal audit report cannot be finalised because management has not provided responses about what they will do about the audit observations, or disagree with part or all of the report?

#### Answer

Organisations should have business rules or a protocol in place between internal audit and management. This should not be one-sided but include mutual obligations of both parties.

There should be a defined time period approved by the audit committee for management to provide responses, for example 10 working days. If this is not defined, management is within their rights to take as long as they like to respond. Some internal audit functions have a time period specified in their internal audit manual or audit methodology, but these are internal audit documents and not binding on management. It is better placed in the internal audit charter or an internal audit protocol – both documents should be approved by the audit committee.

If management contest the accuracy of internal audit observations, then this is a matter that should be addressed promptly by the internal auditor. If the internal auditor is shown to be incorrect, then the report must be amended. If it is a matter of opinion, then the internal auditor may, out of courtesy, include the management position in the report. Even so, the management response should be provided promptly.

Included in the internal audit charter or an internal audit protocol should be a clearly defined escalation process about what happens when management responses are not received within the specified time period. This would normally involve the chief executive officer in the first instance, with the audit committee the final decision-maker.

It is also worth thinking about why the situation with management has occurred. It is possible for internal audit functions to:

- › Facilitate discussion with management about possible remedial action rather than impose a specific recommendation – after all, the people doing the jobs know more about them than the internal auditor.
- › Change bureaucratic processes around internal audit reporting and how management responses are obtained.
- › Enable better communication and place less burden on management.

The IIA-Australia has issued a factsheet 'Internal Audit Protocol':

[https://iia.org.au/sf\\_docs/default-source/technical-resources/2018-fact-sheets/internal-audit-protocol.pdf?sfvrsn=2](https://iia.org.au/sf_docs/default-source/technical-resources/2018-fact-sheets/internal-audit-protocol.pdf?sfvrsn=2)