

Audit Action Tracking April 2022

Monitoring Progress

The *International Standards for the Professional Practice of Internal Auditing* (The Standards) require the Chief Audit Executive to monitor agreed actions arising from internal audit reviews until they are appropriately completed:

Standard 2500 – Monitoring Progress

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

2500.A1- The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

(International Internal Auditing Standards Board, 2016)

The Chief Audit Executive is an internal officer of the organisation who reports on these matters to the board audit committee (or equivalent).

The Institute of Internal Auditors – Australia surveyed Chief Audit Executives (CAEs) to explore the mechanisms by which follow-up activities were recorded. 57 responses were received across a wide section of the economy (Exhibit 1).

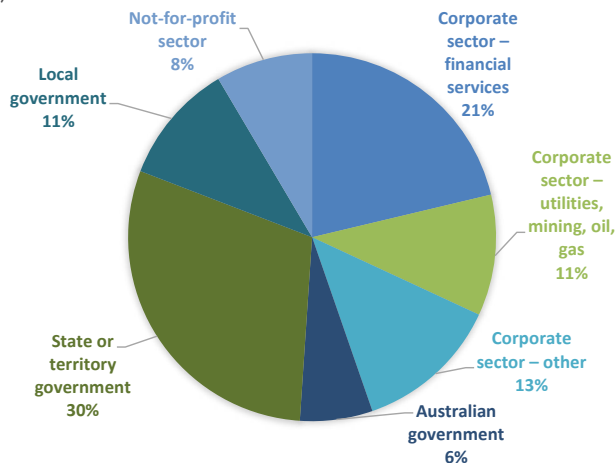


Exhibit 1 – Economic sector of respondents

Close-out Authority

Respondents were asked about whose authority was required to close-out an audit action. Nine respondents (19%) indicated that management could simply ask for closure on their own authority; 27 (57%) indicated that the permission of the chief executive officer and/or the audit committee was required. Six (13%) indicate that the permission of both chief executive officer and audit committee are required. All except two respondents (4%) indicated that while a manager could ask for closure on their own authority, it needed another manager (a second line manager or the CAE) to concur.

Exhibit 2 shows the level of reference required to accept risks.

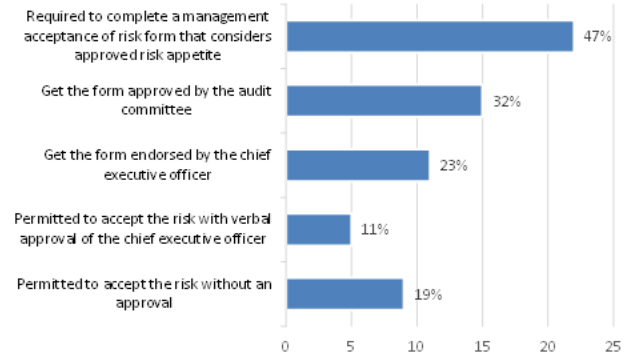


Exhibit 2 – Documented Acceptance of Risks

22 (47%) of respondents reported that management acceptance of the residual risk (post remediation) was required. In all cases where there is no requirement for formal documentation to accept risks, the close-out must be ratified: audit committee, chief executive officer, 2nd line executive, or CAE.

The ultimate decision for close-out does not ordinarily lie with the line manager (Exhibit 3). Ordinarily this is the CAE although other answers (Exhibit 2) indicate that for 38% of respondents this is in the form of a recommendation to the audit committee and/or chief executive officer.

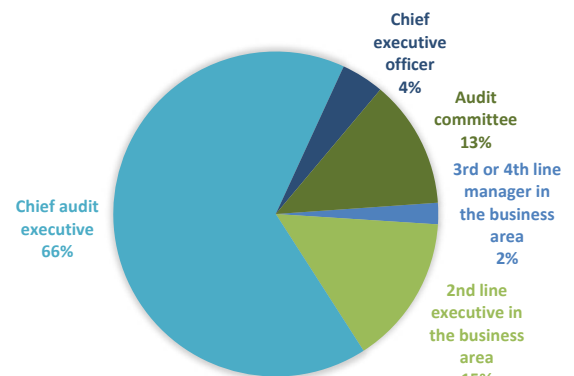


Exhibit 3 – Who may close-out an audit action?

We can conclude that most organisations have a level of formality about close-out of audit actions. In most cases this requires a formal request from the business area to accept the residual risk or accept that the initial issue has been addressed (The Institute of Internal Auditors - Australia, 2022). In the absence of such requests, closure usually occurs on the basis of a decision or recommendation by the CAE. The survey indicates that in 25% of organisations, audit actions can be closed without the input of the audit committee, the chief executive officer or the CAE.

There is some danger in these organisations that matters might not be appropriately resolved, and it is to be hoped that the relevant CAEs fulfill their duty under Standard 2600

Standard 2600 – Communicating the Acceptance of Risks

When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines

that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

(International Internal Auditing Standards Board, 2016)

Requirements for Evidence

While some organisations accept that management have completed the work necessary to close-out a recommendation, others require management to submit a portfolio of evidence before closure occurs. For some organisations the formality of this process is driven by the risk associated with the initial observation. (Exhibit 4).

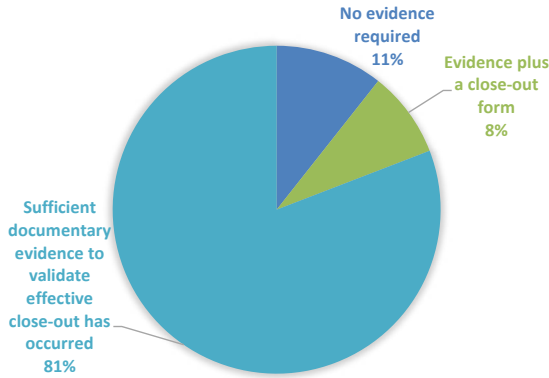


Exhibit 4 – Evidence Required for Closeout

Follow-up Reporting

The usual approach to monitoring of management action is to seek periodic updates. There are many approaches to timing (Exhibit 5).

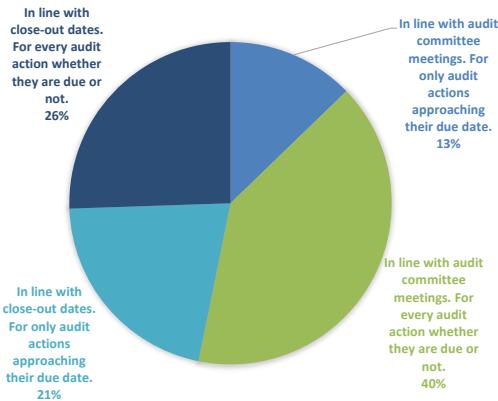


Exhibit 5 – Follow-up Timing

Action Date Extensions

Some organisations impose limits on the number of times that the target date for completion of an audit action can be extended. 66% of organisations allow dates to be extended more than three times (53% impose no limit at all). While there may often be good reason for moving a target date, continuous extensions imply a lack of commitment or an inability to properly plan work on the part of responsible management. Where meaningful limits are applied, the most common process is to allow one or two extensions (Exhibit 6).

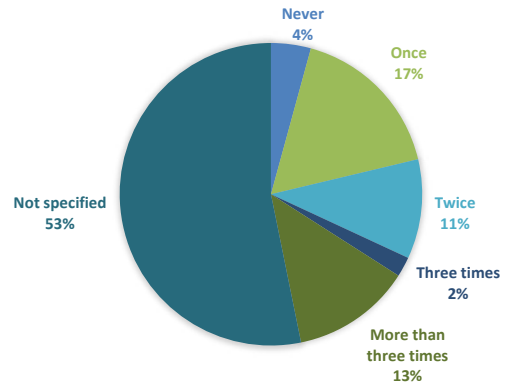


Exhibit 6 – Action Date Extension Limit

Conclusion

The way in which management address audit representations is indicative of the culture of the organisation. (Arzadon, Du Preez, & Sheedy, 2021, p. 27) (COSO, 2013). Respondents were asked to assess the management of their organisations in relation to completing audit actions. While nearly half reported that some members of management were slow to close-out actions, it was pleasing to see that half the respondents reported that management in their organisations focus on closing out actions by their due date. Only one respondent indicated that management in their organisation pay little regard to completing actions.

Audit actions are, in general, kept open until a formal process involving a senior manager or the audit committee determines that they can be closed. Closure usually involves the provision of appropriate evidence.

Useful References

- Arzadon, E., Du Preez, R., & Sheedy, E. (2021). Auditing Risk Culture: A practical guide. Sydney, NSW: The Institute of Internal Auditors - Australia. Retrieved from <https://iia.org.au/technical-resources/publications/auditing-risk-culture---a-practical-guide>
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- The Institute of Internal Auditors - Australia. (2022). Factsheet: Audit Action Close-Out. Retrieved from IIA-Australia: https://iia.org.au/sf_docs/default-source/technical-resources/2018-fact-sheets/fact-sheet---audit-action-close-out.pdf