Factsheet: Getting Audit Actions Implemented

Updated 2022

What are Audit Actions?

Internal audit works across organisations and is therefore in a privileged position to highlight (a) what should be the state of play (b) what is actually the state of play (c) suggest what can be done to remediate issues or improve the way business activities are done.

When it comes to remediation or improvements, these usually take the form of recommendations contained in internal audit reports. Management then implements actions to address and close-out the audit recommendations.

Are All Audit Actions Tracked?

Every time an audit, review or evaluation is commissioned in an organisation there are typically improvement actions to be implemented by management. An internal audit role is often to monitor and track these to make sure they are properly implemented in a timely way. Without this internal audit role, the cost and effort involved in audits, reviews and evaluations is potentially wasted if things do not change for the better.

All remedial and improvement actions should be tracked, with progress reported to senior management and the audit committee from reports containing recommendations from:

- Internal audit.
- External audit.
- Reviews by scrutineers and subject matter experts.
- ICT reviews.
- Evaluations.
- Significant enquiries.
- Royal commissions.
- Safety Audits.
- ISO Audits.

Tips

- Adopt a holistic approach to manage action tracking to encompass all sources of assurance.
- Set-up a formal process to ensure all recommendations from all sources are actively tracked and reported.
- Educate management in the process.
- Regularly report progress to senior management and the audit committee.

What Should be Included in an Audit Action?

Management responses and proposed improvement actions should contain:

- Agreed, partially agreed or not agreed.
- If not agreed, why not.
- Action to be taken – these do not need to include lengthy comments or explanations as clarity of the action to be taken and management commitment is usually all that is required. Where a technology solution is required, confirmation should be included from the chief information officer that this is on the ICT work program and is funded.
- Responsible person.
- Timing.
- Interim control arrangements to be relied upon where there is a long lead time, such as waiting to close-out an improvement action through implementation of a technology solution.

Tips

- Have a standard format for management responses to audit recommendations, ideally in an approved internal audit protocol or organisation policy.
- Educate management how to effectively respond to audit recommendations contained in internal audit reports and for establishing realistic audit action implementation timeframes and target dates.

Are they the Right Audit Actions?

It is important audit actions to be implemented by management are pragmatic and fit-for-purpose. They also need to pass the 'cost–benefit test' meaning the cost to implement needs to be commensurate with benefits to be achieved. For example, to develop a costly new ICT system to close-out a low-risk audit recommendation would not pass the cost–benefit test.

It is also important they are agreed by management and the internal auditor. Superficial audit recommendations are one reason audit clients often feel dudded by an internal audit report.

At the end of the day, people in the business who perform the jobs are the experts – not internal auditors. While internal auditors can audit a process, they do not possess the level of knowledge the person doing the job will have. it is reasonable for management to dispute a proposed action devised by the internal auditor and negotiate an alternative action. Because of this, internal auditors should collaboratively work with audit clients when formulating audit recommendations to make sure they come up with the best recommendations that are practical, workable and cost-effective. A good way to achieve this is for internal audit to facilitate a workshop with the business at conclusion of an audit to discuss what the audit found and what would be the most effective actions for remediation and process improvement.

Tips

› Apply robust root cause analysis to identify the true cause of problems identified by the audit.

› Facilitate a workshop with audit clients to identify the best audit recommendations and audit actions to be implemented by management.

Do Management Know What To Do?

Internal auditors assume management knows how to respond to audit recommendations, but this is not always the case. The old adage 'you don't know what you don't know' is true here.

Tips

› Educate management how to effectively respond to audit recommendations contained in internal audit reports.

› Internal audit should provide guidance and assistance to audit clients on how to best provide a management response to an audit recommendation.

› Management should never blindly accept an audit recommendation – this generally leads to bigger problems later if the recommendation is not fit-for-purpose or the management response does not specifically address the matter to be fixed. Face-to-face discussions between the internal auditor and the audit client will result in better outcomes than trying to elicit management responses backwards and forwards through e-mail.

Will an Audit Action Stand the Test of Time?

A big problem can be the way audit recommendations are written. They may be vague or too brief, or not specifically address the problem to be solved. Where an action is not implemented within a reasonable period of time, the intent of the action can become difficult to decipher in the present day. This can be exacerbated when there is management turnover and a new manager has to implement an action agreed by a predecessor.

Tips

› When written, carefully examine every audit recommendation to determine it is clear and unambiguous – and will be understandable later to someone unfamiliar with the audit.

› Try to have the internal auditor who performed the audit be responsible for tracking implementation progress.

› Where an audit recommendation remains outstanding for a long time, it is possible it has been overtaken by events and is no longer relevant – the audit committee should be the arbiter on removal from the tracking system of high-risk and medium-risk recommendations, and could possibly delegate this function to the chief audit executive for low-risk recommendations.

Is There a Simple Process for Tracking Audit Actions?

Many organisations have convoluted or clunky systems for tracking audit action implementation that users find frustrating to use, especially when they rely on Microsoft Excel spreadsheets. There are audit management systems that can do this, with enhanced functionality including automatic follow-up e-mails. Though investment in a follow-up system needs to be commensurate with the number of actions to be tracked.

Tracking systems often record only internal audit actions and do not adopt a holistic approach to include actions from external audit, other reviews, ICT reviews, evaluations, significant enquiries, royal commissions, etc.

What this means is that senior management and the audit committee are not getting the full picture of assurance across all lines of assurance and especially Line 2. Management often prefers it this way rather than assurance reports and recommendation tracking being available more broadly to senior management and the audit committee.

Tips

› If the tracking system is intuitive and easy to use, people will be more amenable to using it.

› Mature organisations capture all audit and related actions from all assurance sources and track them holistically.

› Senior management and audit committees need access to all assurance sources to do their jobs properly – this includes details of all remedial and improvement actions awaiting implementation.

Is There a Healthy Management Culture Around Implementing Audit Actions?

Internal audit effectiveness will be impacted if either of the following are present:

› Ineffective audit committee oversight and failure to critically examine progress to implement audit recommendations.

› Poor 'tone at the top' from the chief executive officer and senior management.

Management failure to implement audit actions in a timely way is a clear indicator of poor management culture.

Tips

› Make audit action implementation a standing agenda item for executive leadership team meetings.

› Make audit action implementation a standing agenda item for audit committee meetings.

- Where high-risk audit actions are not receiving adequate attention from management, the audit committee should direct the senior manager responsible to attend the next audit committee meeting and explain why it isn't being done in a timely way.

Who Should Approve Timing Extensions for Audit Actions?

Management will often request extensions to previously agreed timings for implementation of audit actions.

There should be a 'business case approach' to the granting of any extensions. This should align to a formal internal audit protocol document approved by the audit committee that clearly defines both management and internal audit obligations and business rules in relation to delivery of internal audit services.

Tips

- There should be a formal policy about management requesting timing extensions for audit action implementation.
- The audit committee should be the final arbiter for timing extensions.
- There should be a small number of opportunities (one or two) for management to request extensions and after that the action can never be rated 'on track'.
- Reports on audit action implementation tracking should (a) always show the original implementation date – there should be no new baseline date (b) show every change with 'strikethrough' – no change dates should be deleted.

Who Should Approve Audit Action Close-Out?

There should be a formal process for management to request close-out of audit actions and this should include documented evidence supporting close-out. Some organisations require management to complete a close-out form and provide evidence with the submitted form.

Tips

- The decision to close-out should be:
  - Put forward by the responsible manager.
  - Supported by appropriate evidence.
  - Endorsed or otherwise by the chief audit executive.
  - Approved or rejected by the audit committee.

Conclusion

If internal audit is to achieve its mission to 'enhance and protect organisational value', it is imperative that management actions from internal audit reports are properly implemented in a timely way.

If this does not happen, internal audit may as well not bother to conduct audits as it will be having little impact and wasting budget and resources.

Useful References

Factsheet 'Internal Audit Benefits', Institue of Internal Auditors - Australia

Factsheet 'Internal Audit Protocol', Institue of Internal Auditors - Australia

Factsheet 'Root Cause Analysis', Institue of Internal Auditors - Australia

White Paper 'Reporting on the Status of Audit Recommendations, Institue of Internal Auditors - Australia