CHAPTER VI

MONITORING & FOLLOW-UP PROCEDURES

> *IIA Standard 2500 - Monitoring Progress*
>
> *The Chief Internal Audit must establish and maintain a system to monitor the disposition of results communicated to management.*
>
> *IIA Standard 2500.A1 - The Chief Internal Audit 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.*

1. Introduction

1.1 The Auditing standards require Internal Auditors to monitor and report to the Chief Executive Officer whether Management has taken effective action to implement remedial measures as per audit recommendations. The Internal Auditor has to also determine and report whether the measures taken have successfully removed the underlying causes that were the subject of the audit report. In order to accomplish these requirements, CIAs should establish a system to monitor and follow-up processes

1.2 Internal Auditors should carefully review IIA Practice Advisories 2500-1: Monitoring Progress, and 2500.A1: Follow-up Process. .

1.3 Management is responsible for implementing the audit recommendations that have been made by the CIA or the External Auditor. Organizations with good management practices should have established processes and procedures to manage the implementation of recommendations made both by the internal auditor and the external auditor. For instance, a specified individual at a sufficiently senior level in the organization or a committee of senior officers should be tasked with the responsibility to:

(i) Review all audit recommendations, evaluate their impact on the organization and assign implementation responsibilities to specific line managers or others.

(ii) Review proposed action plans.

(iii) Ensure, where necessary, the availability of adequate resources to implement accepted recommendations.

(iv) Receive and review regular progress reports on progress made in the implementation process.

(v) Report regularly to the Chief Executive Officer on actions taken, and when necessary request resolution of issues and problems, including availability of resources.

1.4 In organizations where such a system exists, the Internal Auditor can use the system to monitor the status of implementation and does not have to duplicate the system. However, in the absence of such a system, the Internal Auditor will have to undertake full responsibility for the monitoring function and recommend that management establish an appropriate system.

1.5 If the guidelines for reporting in Chapter V were adhered to closely, then at the time of the issue of the Final Report, the CIA would, in most cases, already have Management's proposed action plan and implementation timelines. If action plans were not agreed to at the Final Report stage, the CIA should persist until one is obtained. The action plan would provide the basis for all subsequent follow-up processes.

2. Classifying the Status of Implementation

2.1 CIAs and IADs should use a standardized classifications system for monitoring and reporting the status of implementing the recommendations. A uniform system will also help consolidate the status across all IADs, particularly if higher authorities request such information. The classification of the status shall be as follows:

Table VI-1 – Status of Implementation of Recommendations

Status	Condition
1. Not started	Determine reasons for delay
2. In progress	Determine stage of progress and when completion is expected.
3. Implemented, not verified	The Auditee has reported completion but the IAD has not verified underlying causes have been actually eliminated.
4. Implemented and verified	The Auditee has reported completion and the IAD verified its completeness.
5. Implemented and verified, but not satisfactory	IAD has verified that the underlying causes have not been eliminated.
6. Cancelled	Recommendation cancelled on mutual agreement with IAD because changed circumstances have made it irrelevant
7. Rejected	Auditee has rejected implementation and has decided to assume responsibility for risk.

3.   Data Base of Audit Recommendations

3.1 CIAs should maintain a database of recommendations to facilitate monitoring, reporting and follow-up process using a computerized spreadsheet in the form shown below:

Table VI -2 – Database of Audit Recommendations

Recommendation	Status as at				
	date	date	date	date	date
Report 1 – Title of Report					
Recommendation 1 **(The recommendation should be verbatim)**	1 Note	2	3	4	5
Recommendation 2					
Recommendation 3					
Report 2 –Title of Report					

Note: the numbers indicates the status of implementation as assigned in 2.1 above.

3.2 The database should be filled using the number in the first column in Table VI-1 above on the basis of progress reports received from Auditees / Managers. Reports on the implementation of recommendations should be issued on the basis of the information available in the database.

4.   Monitoring Process

4.1 Monitoring is based on Management's assertion with respect to the status of implementation.

4.2 CIAs should request the Chief Executive Officer to issue directives to all senior managers, who are responsible for the implementation of the action plan along with a list of outstanding recommendations to submit reports on the implementation status

4.3 Where the number of reports and outstanding recommendations are of a manageable size, the CIA may chose to meet with the responsible officers to inquire and record the progress made.

5.   Follow-up Process

5.1   Follow-up is a process by which internal auditors:

(i)   Evaluate the adequacy, effectiveness, and timeliness of actions taken by Management on reported observations and recommendations.

(ii)   Ascertain whether actions taken on observations and recommendations remedy the underlying conditions.

(iii)   Determine whether senior Management has assumed the risk of not taking corrective action on reported observations.

5.2 The CIA should determine the nature, timing, and extent of follow-up, considering the following factors:

(i)   Significance of the reported observation or recommendation.

(ii)   Degree of effort and cost needed to correct the reported condition.

(iii)   Impact that may result should the corrective action fail.

(iv)   Complexity of the corrective action.

(v)   Time period involved.

5.3 The Annual Audit Plan should provide resources for follow-up activities.

5.4 Where the CIA judges that Management's written response indicating that action has been taken is sufficient when weighed against the relative importance of the recommendation and the factors mentioned in paragraph 5.2 above, then the follow-up may be undertaken during the next planned audit engagement. In all other cases, the CIA should schedule and implement a proper verification of Management's remedial actions at the earliest possible time. The CIA should use his professional judgment in determining the extent of action required to undertake the verification.

5.5 The CIA should plan the verification using the same process as an engagement but confine the verification work specifically to the targeted areas. The CIA should also report the results of the verification to the senior managers and the Chief Executive Officer.

5.6 The CIA should ensure that all follow-up actions are appropriately documented in the same manner as an audit engagement.