# STANDARD ON INTERNAL AUDIT (SIA) 390 MONITORING AND REPORTING OF PRIOR AUDIT ISSUES

# Contents

This Standard on Internal Audit (SIA) 390, "Monitoring and Reporting of Prior Audit Issues," issued by the Council of the Institute of Chartered Accountants of India should be read in conjunction with the "Preface to the Standards on Internal Audit," "Framework Governing Internal Audits" and "Basic Principles of Internal Audit" issued by the Institute.

# 1.   Introduction

1.1   This Standard deals with the responsibility of the Internal Auditor in monitoring and reporting of prior audit issues, usually in the form of an "Action Taken Report (ATR) of previous audits".

1.2   The term "Monitoring and Reporting" used in this Standard refers to the periodic tracking of issues raised during prior audits and evaluation of the corrective actions undertaken by the auditee to resolve them and to report any open and pending matters to the management and those charged with governance (e.g. the Audit Committee).

1.3   Scope: This Standard applies to all prior internal audits where audit issues remain open, pending the implementation of audit recommendations within pre-agreed timelines.

# 2.   Objectives

2.1   The specific objectives of this Standard are to ensure:

(a)   Proper monitoring and closure of open issues from prior audits;

(b)   Independent validation of corrective actions taken by the auditee;

(c)   Escalation of any concerns in case of delays in closure of issues; and

(d)   Timely reporting of status to those charged with governance.

2.2.   The overall objective of this Standard is to ensure that the auditee mitigates the risks highlighted in the audit observations through timely corrective actions or that a conscious decision is taken to accept the risks, in case recommendations are delayed or not implemented.

# 3.   Requirements

3.1   The Chief Internal Auditor is responsible for continuously monitoring the closure of prior audit issues through a timely implementation of action plans included in past audits. This shall be done with a formal monitoring process, elements of which are pre-agreed with management and those charged with governance (refer Para 4.1). The responsibility to implement the action plans remains with the management.

3.2    After receiving confirmation from the auditee regarding the implementation of corrective actions, additional audit procedures shall be performed by the Internal Auditor to confirm that the issues have been adequately addressed. Sufficient and appropriate audit evidences shall be obtained and documentation shall be maintained (or updated) to confirm either effective closure of the issue, or reasons for its delay or deferral (refer Para 4.2).

3.3    In case of delays or ineffective implementation of the agreed corrective actions, the Internal Auditor shall escalate such delays and concerns to the appropriate levels of management. However, if new facts come to light justifying the ineffective or delayed implementation, the Internal Auditor may agree upon a new time-bound action plan. In such a situation, the follow-up timelines may be reset, or the issue may be deferred to the next audit and a plan to carry-forward such audit recommendation(s) may be agreed upon with management (refer Para 4.3).

3.4    The internal auditor shall periodically report to the management, and the Audit Committee, the status of prior issues (generally in the form of an "Action Taken Report"), including providing a confirmation of closure based on additional procedures, ageing of issues pending closure and reasons for any delays.

## 4.    Explanatory Comments

4.1    **Monitoring of Prior Issues (refer Para 3.1):** The management is responsible for timely implementation of corrective action plans to address prior audit issues as per the agreed time-lines. The Chief Internal Auditor, or designate, will undertake a follow-up with the auditee, after the lapse of agreed time schedule for implementing the agreed actions, so as to evaluate the status of resolution. An automated process, which continuously alerts all parties, may be implemented by the management to ensure an effective follow-up. In situations where the prior audit issues were raised by an external service provider (internal audit firm), the succeeding audit firm will seek the help of the Chief Internal Auditor or the management to obtain any details required to assume the responsibility of monitoring and tracking the Action Taken Report.

4.2 **Closure of Prior Issues (refer Para 3.2):** For critical or sensitive issues (e.g., those rated high risk or with fraud risk), follow-up audit procedures shall be performed to ensure that the risk has been mitigated to an acceptable level. For medium risk issues, documentation proof of the implementation of the audit recommendations may be acceptable. For low risk issues, a written note confirmation from management may be sufficient. However, the documentation for all the three categories of risks shall be maintained as per the Standard on Internal Audit (SIA) 330, "Internal Audit Documentation".

**Note**: If on the basis of additional audit procedures and evidence collected, the corrective actions appear to be sufficient to address the issues, the Internal Auditor may close the observation and issue a closure report. However, in case of ineffective or non-implementation of the recommendations, the Internal Auditor shall communicate the same as per the escalation procedures (refer Para 4.3). If despite such escalation, the recommendation remains pending, the Internal Auditor shall either obtain a written confirmation that the management accepts the risks, or issue a note of unaddressed risks, consequent to non-implementation of the audit recommendations.

4.3 **Escalation Procedure (refer Para 3.3):** When the Internal Auditor observes delay in the agreed time schedule for implementation, the Internal Auditor shall intimate the auditee and agree to a new time schedule. On further delays in timelines of implementation, the Internal Auditor shall escalate details of delays to management as per a pre-agreed escalation protocol. Status updates, including ageing of pending issues and delays in issue resolutions, should be shared periodically with management and the Audit Committee.

4.4 **Documentation:** The Internal Auditor shall document the working papers according to the Standard on Internal Audit (SIA) 330, "Internal Audit Documentation", which shall include:

(a) The monitoring plan as agreed with management, including escalation procedures and protocol to be followed in case of delays.

(b) Auditee's confirmation of either complete implementation of agreed actions, or reasons for part/non-implementation and thereby, acceptance of risks.

(c) The documentary evidence and working papers to support additional audit procedures performed to confirm effective closure of prior issues.

(d) Escalation communication with corresponding management responses.

(e) Periodic status reports (ATR) issued to the management and those charged with governance.

## 5. Effective Date

5.1 This Standard is applicable for internal audits beginning on or after a date to be notified by the Council of the Institute.