



DEPARTMENT OF FINANCE
Internal Audit & Compliance Division



**STANDARD OPERATING PROCEDURES (SOPS)
ON THE IMPLEMENTATION AND FOLLOW - UP OF AUDIT
RECOMMENDATIONS**

MAY 2025

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List of Abbreviations and Acronyms

AC	Audit Committees
DoF	Department of Finance
IACD	Internal Audit and Compliance Division
IA	Internal Audit
PFMA	Public Finance Management Act
SOPs	Standard Operating Procedures
GoPNG	Government of Papua New Guinea
FMM	Finance Management manual

A. Introduction

1.1 Background and Context

Internal Auditing is a cornerstone of good public sector governance¹. By providing unbiased, objective assessments of whether public resources are managed responsibly and effectively to achieve intended results, auditors help public sector organisations achieve accountability and integrity, improve operations, and instill confidence among citizens and stakeholders. The public sector auditor’s role supports the governance responsibilities of oversight, insight, and foresight.

Having oversight ensures public sector entities are doing what they are supposed to do and serves to detect and deter public corruption. Insight assists decision makers by providing an independent assessment of public sector programs, policies, business processes, operations and results. The foresight identifies trends and emerging challenges. Internal Auditors use tools such as financial audits, performance audits, investigations and advisory services to fulfil each of these roles.

The audit follow-up is a continuous process ensuring that corrective actions are effectively implemented as recommended. This process verifies that remedial actions are not only executed but done effectively and efficiently in order to properly to minimise recurrence of audit issues.

Time lags in audit follow – up have major consequences. Firstly, they leave internal control anomalies unattended; secondly, they dilute the importance of audit quality by undermining the motivation of internal auditors and weakening the audit process (when auditors can reuse may of the pending audit issues for their current audit instead of digging deeper into new issues)

This Standard Operating Procedures (SOPs) supplements a public sector obligations under the PFMA and FMM Vol 5 to define how Internal Audit and the auditees/stakeholders should work together to achieve the key goals of audit follow-ups, that is, timely resolutions of audit observations and agreement on the recommendations, implementation of the recommendations through an effective tracking system, and dissemination of the audit follow –ups data including the sections imposed on auditees.

The SOPs can be used by all relevant stakeholders—including the Internal Audit & Compliance Division, Government Departments and Agencies, Auditee Liaison Officers, and Audit Committees (ACs).

1.2 Objective of the audit follow-up Standard Operating Procedures

Audit follow – up is a process which verifies that corrective actions have been adequately agreed upon and accomplished as scheduled. It determines that the follow – up actions not only provide remedies for the respective audit issues but also serve effectively in preventing or minimising future recurrence.

¹ <https://ia.theiia.org/standards> – guidance of Public Sector Governance

The three (3) objectives for audit follow –up

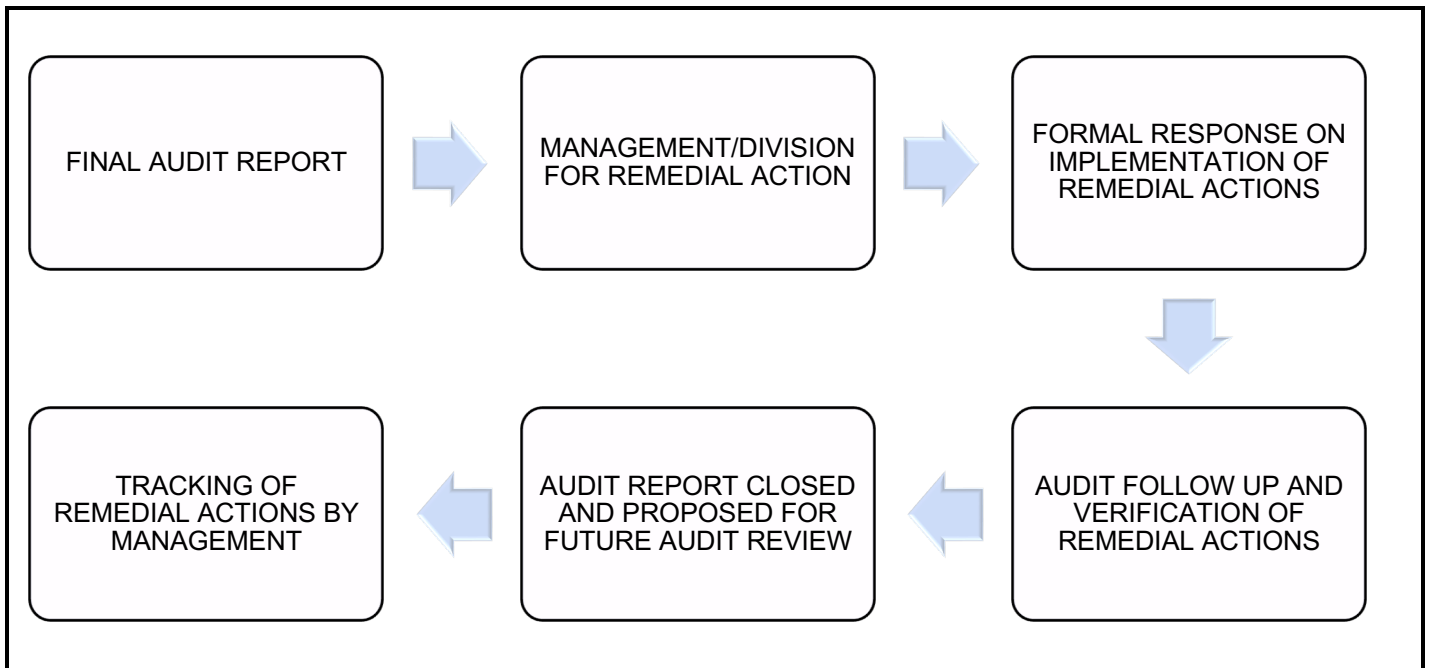
- Determine the status of audit issues and suggested recommendations to confirm executive commitment to implement recommendations already agreed upon during the audit process, or to come up with executive commitments to solve issues through the audit follow-up mechanism.
- To confirm the implementation of the management/divisions by verifying the remedial actions taken.
- To analyse and disseminate audit follow-up information to improve the overall governance and accountability environment.

The SOPs on Audit Follow – up are to improve and clarify the audit follow-up processes to all relevant stakeholders/divisions by detailing the follow-up procedures, responsibilities and actions of concerned parties/auditees.

The SOPs bring procedural clarity on how:

- a) the internal audit issues and recommendations are implemented,
- b) management/auditees’ commitment to implement remedial actions are documented,
- c) the actual implementation of those actions is tracked; and
- d) the results of the follow-up processes are disseminated by the auditees. The SOPs will also address the audit issues and recommendations emanating from AC, predominately based on the reports by DoF IACD.

Figure 1: Audit Cycle of Internal Audit Report



B. Governance and Accountability Arrangements for Audit Follow -up

1.0 Compliance

- The SOPs apply to entities under the scope of the PF(M)A – Public and Statutory Bodies including Constitutional entities
- Compliance with these SOPs is mandatory in accordance with Section 117 of the PFMA.
- If an auditee is unable to comply, they must submit a written request to the Finance departmental head stating their reasons.

2.0 Legal & Regulatory Framework

The legal and regulatory framework for Audit follow-up procedures strictly align with:

- Section 117 of the PFMA
- Government of PNG Financial Management Manual, Volume 5
- The Internal Audit Charter
- The Audit Committee Charter

C. Implementation of Audit Recommendations

C.1 Assess Key Risks

Risk identification and mitigation should be an annual process and generally, you can use brainstorming, process walk-throughs, or prior audit findings to spot vulnerabilities (e.g. procurement, payroll). You can also look at other agencies or similar agencies overseas on identified key risks.

Part of this process is also evaluating risk likelihood and potential impact (financial loss, lack of service delivery or reputational harm).

C.2 Select & Design Control Activities

Based on the risk assessment, choose the best preventive, detective, directive, and corrective controls (and a combination of these). In doing so, consider the cost–benefit of each control—some high-risk areas might need stronger controls.

Preventative controls

Preventative controls are those that are designed to prevent undesirable events such as loss, errors, fraud, theft, misuse, inefficiencies, ineffectiveness, waste, etc and generally anomalies and irregularities. The following table provides some examples of preventative internal controls.

Detective controls are those measures that are designed to detect in a timely manner any breakdowns in the preventative controls. It would allow timely actions to recover any loss, rectify any anomalies and irregularities, reduce and prevent any further occurrences.

The cost and impact of operating an internal control measure should be assessed against the associated benefits.

C.3 Control weaknesses

One of the purposes of an internal audit is to identify weaknesses in the internal control system, the cause of the weakness, and the effect of the weakness on the agency in order for appropriate actions to be taken. It is useful to distinguish between:

- system weakness - a situation where there is insufficient, or lack of, internal control mechanisms in the system; and
- operational weakness – a situation where there are control mechanisms but are not working (e.g. a Certifying Officer not checking the claims properly).

C.4 Implement & Communicate

Once these controls are identified, document each control (e.g. flowcharts, SOPs, finance forms) and train staff on roles, procedures, and the importance of following them.

For example, the Finance Management Manual is a designed internal control – a collection of directive controls – and are implemented into daily operations (e.g., sign-off procedures, logs, IFMS system authorizations).

C.5 Categorisation of Audit Observations and Recommendations

Categorisation of audit observations/issues and audit recommendations are the most important building blocks for the audit follow-up process, data analysis and dissemination. Auditors are required to categorize their audit observations as defined in the following categories:

Table 01

Category/Audit findings	Narrative
Records Management Issues/Records not kept or produced/Absent of supporting documents	Failure to maintain or produce required documentation

Standard Operating Procedures (SOPs) for Follow –up on Audit Recommendations

Inaccurate financial reporting	Errors in accounting methods or financial statements
Expenditure Control weakness	Non-compliance with legislative frameworks
Management of Assets and Registers	Loss or unaccounted cash/assets
Procedural non compliance	Non-adherence to internal controls or guidelines
Internal control weakness	Lack of proper checks and balances
Other(s)	Includes payment, procurement, and system-related matters

Audit recommendations are similarly categorised for tracking Executive Management commitments during the follow-up process.

1.2 Audit Recommendations Categories:

Auditors are also required to sort their audit recommendations into the following categories. These categories are also used to classify Executive management commitments for new actions during the audit follow up process.

Audit should never recommend a ‘fine or penalty’ that is not their responsibility.

Table 02

RECOMMENDATION TYPE	Narrative
Production, improvement and verification of records	Submission of required documents for audit verification
Fine/penalty imposed	Financial or HR-related penalties for non-compliance
Recovery of funds/assets	Return of misappropriated funds or assets
Departmental/administrative enquiry or HR actions	Internal reviews for corrective measures
Improvement of Internal Controls	Strengthening procedural safeguards
Improvement on timeliness of financial reports	Ensuring timely financial disclosures
Referral to Police Fraud Squad	Handling cases with potential criminal elements
Others	Miscellaneous recommendations

2.0 Audit Follow-Up Tracking Template

An Audit Follow-Up Tracking Sheet serves as the primary record-keeping tool, documenting each audit issue and its resolution. This sheet is updated regularly and may be maintained in MS Word, MS Excel, or an automated database accessible to relevant stakeholders.

The Tracking template will also be the standard management response template, and will be issued with the final audit report to the auditees.

Template 1 - Audit Follow-up Tracking Sheet

Name of Auditee:									
Audit Issue					Risk Category	Remedial Action Taken			
Audit Rept No	Audit Rept ref:	Audit Issue category	Description of audit	Amt if applicable	H/M/L	Remedial Action/Improvements	Verified/Continue	Amt (Materialised)	
1	01/2025	Ineligible expenditure	Salary budget for vacancies used to buy vehicles	80,000	high	Letter dated by management	By Senior Auditor To: AS Audit	80,000	

*(a) Records not kept or produced/Absence of supporting Documentation (b)Inaccurate Financial Report (c) Ineligible expenditures (d) Missing cash or assets (d)Procedural non-compliance (e) Internal Control Weaknesses

Template 2 – Follow-up and Status of Implementation of Audit Recommendations

Note: The respondent/s must fill Part B only to respond to Part A of this form. Part C will be used by IACD for the assessment

Name of Division:											
Audit Period:		20xx to 20xx									
Report Type: Financial/Operations/Compliance				Name of Audit:		Procurement Audit					
				Date:							
PART A IACD				PART B Management or Division Responsible				PART C IACD Assessment – Remedial Action Taken			
Ref No	(a) Category of Audit findings/ observation	(b) Title/Short description of the audit findings/ observation	© Auditors Recommendations	(d) Category of audit recommendations	(e) Management Action	(f) Timeli ne	(g) Responsible officer (Designation of the person	(h) Remedial Action Implemented (Evidence provided) and date	(i) Confirmation of evidence and date	(j) Status of Implementation and Remarks (if any)	
1	Procurement Irregularity	Composition/ Tender Committee not consistent with regulations and business processes	The composition of tender processes should be in compliance with regulations and set business processes	Preventative Control	Management will reinstitute the Procurements processes to comply with PFMA and NPC ACT	60 DAYS	Head of Procurement FAS FRCD	The NPC has per letter dated xxx January 20xx Been recommended by Management (Refer attached)	Evidence received and confirmed by IACD on April 2025 (Refer attached)	Fully Implemented	

D. Role of Internal Audit in the Audit Follow – up Process

The internal audit (IA) function within the public sector entity should have a system that provides the structure and discipline needed to ensure aggressive and continuous follow up processes until all audit recommendations have been resolved and correctly implemented. The internal audit function should also assess whether the entity/auditee also has a system that adequately meets the basic responsibilities for resolving and implementing audit recommendations.

a) Tracking of Audit Recommendations

The responsible management is required to response within three (3) months upon the acknowledgement of the receipt of an audit report. When tracking the audit recommendations, the internal auditor would issue written follow-up letters on three occasions on monthly basis.

This is to ensure that both the internal auditor and management responsible are engaged in resolving issues highlighted in the audit reports. The response of the responsible management will be monitored closely and captured in the audit recommendation matrix and provided to the executive management and the internal audit committee for their deliberation.

b) Determining The Adequacy of Actions Taken On Audit Recommendations

The audit follow-up team to assess whether the recommendations agreed/endorsed by the Secretary were correctly implemented and yielded the intended results. This requires the internal auditor to verify the management response by the auditee to ascertain that that actions taken by management have corrected the problem to which the audit recommendations were directed.

- For more significant audit recommendations, implemented action should be tested.
- For critical audit recommendations that have not been implemented within a reasonable time, another audit or strategy such as follow up – on audit could be planned and implemented to maximize the likelihood of achieving intended results.

c) Taking Additional Steps to Get Audit Recommendations Implemented.

When status monitoring identifies dormant audit recommendations due to management resistance/objections, lack of follow up by previous audit team (process owners) or implementing difficulties, the audit follow up team should determine why actions have not been taken.

The next move is to develop with management, agreeable alternatives that will meet the objectives to which the recommendations was directed. Alternatively, it may become apparent that the environment has changed such that the problem/issue no longer exist or the recommendation is no longer relevant or feasible.

d) Following Up On Audit Issues for Which the Process Owner Is No Longer in Office

Standard Operating Procedures (SOPs) for Follow –up on Audit Recommendations

The effective system for implementing audit recommendations is supported by an audit committee that monitors managements implementation of audit recommendations, prioritising recommendations that are overdue or that pose significant risk or exposure to the department

In accordance with the Audit Committee Charter, the Audit Committee should meet on quarterly basis to monitor the progress of the audit recommendations and its implementation processes.

8.0 Roles & Responsibilities

PROCESS OWNERS	ROLES & RESPONSIBILITIES
DEPARTMENTAL/AGENCY HEAD	<ul style="list-style-type: none"> – Deliberate audit findings and Endorse Audit Recommendations for implementation
DIVISIONAL HEAD	<ul style="list-style-type: none"> – Ensure the correct implementation and provide formal management responses to IA within the required audit period – Liaise with their Auditee Liaison officers to implement and provide management responses to audit findings and recommendations
INTERNAL AUDIT	<ul style="list-style-type: none"> – Assess whether the entity/auditee has a system that adequately meets the basic responsibilities for resolving and implementing audit recommendations
AUDITEE LIAISON OFFICER	<ul style="list-style-type: none"> – Acts as the point of contact between audit teams and process owners
INTERNAL AUDIT FOLLOW UP TEAM	<ul style="list-style-type: none"> – Conducts verifications, monitors implementation, and reports findings
AUDIT COMMITTEE	<ul style="list-style-type: none"> – Follow up on key Audit Findings – Reviews implementation status and provides feedback to the Internal Audit Team

9.0 Audit Recommendation Business Process Flow Chart

The follow-up process involves systematic steps to ensure audit findings and recommendations are effectively implemented:

Step-by-Step Process

