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# PROCESS TO FOLLOW-UP ON AUDIT RECOMMENDATIONS

**The Audit Committee recommends the following:**

1. **A management response tracking system that will make the current status of all issued audit recommendations readily available to the CAO and Audit Services, be developed;**

2. **A management response tracking report become a standing report on the agenda for each regularly scheduled Audit Committee meeting;**

3. **The 28 outstanding items identified on page five of the February 2008 Audit Services Branch Report be included in the management response tracking report submitted to the next meeting of the Audit Committee; and**

4. **The recommendation contained in the following report, January 24, 2008, from the Chief Administrative Officer, be adopted:**

## 1. RECOMMENDATION

It is recommended that:

1. Council receive this report for information.

## 2. PURPOSE

This report summarizes the Audit Services process for follow-up on audit recommendations and outlines the roles of the Regional department heads and Chief Administrative Officer to ensure management responses are acted upon and audit issues are addressed.

## 3. BACKGROUND

At the November 1, 2007 Audit Committee direction was given to prepare a report on Regional practices to follow up on:

i. corrective measures taken by management in response to Audit Report findings, and,
ii. timeliness of compliance to audit recommendations.

## 4. ANALYSIS AND OPTIONS

### The audit process includes follow up on expected and/or delinquent responses

Upon completion of an audit, Audit Services develops a draft report with observations and recommendations and forwards to the responsible area (Commissioner/Director) for comments. The department prepares a management response in reply to each recommendation. These management responses, included as part of the audit report to Audit Committee, include quarterly timeframes and form the basis of corrective action that either has been taken, or will be taken, to address audit issues.

As part of the annual Audit Plan, the Audit Services Branch dedicates a portion of their time to follow-up of outstanding audit recommendations. The approved 2008 Audit Plan allocates a total of 70 resource hours or 2.9% of the total 2,400 resource hours per year available to Audit Services. This allocation of 70 hours per year has been consistent since 2006.

Near year-end, Audit Services contacts Departments (Commissioners/Directors) to confirm the status of issued recommendation(s) of previous audits relating to their area. In some cases, Audit Services directly validates the completion of management actions through further investigation and/or detailed testing. Audit Services updates the Chief Administrative Officer (CAO) on the status of issued audit recommendations, both complete and outstanding.

In addition, the Audit Plan may also contain projects directed by the Audit Committee as follow-up to previous audits. These audits re-assess a function or service, and determine whether previous issues raised:

a) remain in non-compliance,
b) continue to have a high incidence of occurrence, or
c) continue to be of risk to the Region without adequate mitigation in place.

### The primary responsibility rests with senior management to ensure management responses are completed and issues satisfactorily addressed

In reaction to audit recommendations, departments prepare a Management Response that is included as part of the audit report to Committee. Departments are responsible to undertake the necessary actions to fulfil their commitments within the agreed upon timeframes. Departments that cannot implement the original intentions of the Management Response are to meet with Audit Services to resolve and develop an agreed upon solution. Commitments that still can’t be met should be escalated to the Chief Administrative Officer for discussion and development of a strategy to address outstanding issues.

## Satisfactory and timely follow-up on audit concerns is part of annual performance assessment and monitoring

Audit Services periodically updates the Chief Administrative Officer on the status of issued audit recommendations (recently completed and outstanding). Outstanding audit items are discussed as part of regular one-on-one meetings between the CAO and Commissioners. The CAO also uses this information as part of the senior management annual appraisal process. Similarly, department heads incorporate specific responsibilities in individual performance planning for their applicable staff.

## Annual tracking suggests that 80% of audit recommendations are addressed at the time of audit follow-up

Management Responses typically include a timeframe commitment for completion. Timelines may vary depending upon issue complexity and the impact a management response may have to others areas in the corporation. Timelines are often estimated when a recommendation suggests the need to explore alternatives and process improvement opportunities.

Historically, York Region has completed about 80% of Management Responses at the time of Audit Services follow-up. This rate of completion compares favourably with other public and private sector organizations, and is considered to be at the high end of timeliness compliance.

Table 1 below summarizes York Region's recent trend of addressing audit recommendations issues through completion of Management Responses.

**Table 1**
Summary of Audit Recommendations Addressed

| Audit Services Follow-up Report | Total Number of Original Audit Recommendations | Management Responses Complete | Percentage of Audit Recommendations Addressed |
|---|---|---|---|
| February 2008 | 117 | 89 | 76% |
| May 2007 | 151 | 123 | 81% |
| March 2006 | 132 | 105 | 80% |

In its annual *Outstanding Audit Recommendations Follow Up Report* to Audit Committee, Audit Services lists items as "not yet complete" for outstanding issues not yet addressed regardless of management response timeframe commitments.

Although completion rates for management responses are generally 80%, the remaining 20% of management responses may not necessarily, at the time of reporting, be "overdue" as the initial commitment to complete the corrective actions may not have yet reached the due date

### Follow-up on audit recommendations is subject to continuous improvement

Emphasis will be placed to continually improve the audit recommendation follow-up process. Some of the improvement plans include:

1. Development of a management response tracking system that will make the current status of all issued audit recommendations readily available to the CAO and Audit Services,
2. Increased regularity of one-on-one meetings between CAO and Commissioners, to include discussion of outstanding audit issues and development of strategies to address,
3. Formal evaluation of audit follow-up as part of the Commissioner's annual performance appraisal, and;
4. Identification of audit recommendations that require process improvement corrective actions (versus those recommendations that are incident related / non-compliance issues) and address as part of continuous improvement actions led by the Office of the CAO.

## 5. FINANCIAL IMPLICATIONS

Resources used to follow-up on audit recommendations are included as part of the 2008 Business Plan and Budget and include Audit Services resources allocated through the Audit Plan and resource time dedicated from the CAO, the Office of the CAO, Commissioners and Directors as an integral part of their responsibilities.

## 6. LOCAL MUNICIPAL IMPACT

The current process York Region uses for follow-up on audit recommendations has no direct impact on local municipalities.

## 7. CONCLUSION

York Region uses an established process for follow-up to audit recommendations. Emphasis will be placed for continuous improvement of this process to address audit issues in a timely and effective manner.

The Senior Management Group has reviewed this report.