

CITY OF HAMILTON

**CITY MANAGER'S OFFICE
Audit Services Division**

TO: Chair and Members Audit, Finance and Administration Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: April 6, 2011	
SUBJECT/REPORT NO: Annual Follow Up of Outstanding Audit Recommendations (AUD11021) (City Wide)	
SUBMITTED BY: Ann Pekaruk Director, Audit Services City Manager's Office	PREPARED BY: Ann Pekaruk 905-546-2424 x4469
SIGNATURE:	

RECOMMENDATION

- (a) That Report AUD11021, respecting the Annual Follow Up of Outstanding Audit Recommendations, be received; and
- (b) That the Annual Follow Up of Outstanding Audit Recommendations process, as detailed in Appendix "A" of Report AUD11021, be approved.

EXECUTIVE SUMMARY

All recommendations included in Internal Audit reports to Committee and Council are accompanied by a response from management. The proposed annual follow up process of outstanding audit recommendations is a periodic update on the status of implementation of the management action plans contained in audit reports.

The annual follow up process is designed to be a positive assurance process in which Internal Audit prepares a report on the actions taken by management to address recommendations made in the past. The process is explained in detail in Appendix "A" to this Report AUD11021.

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This type of process is considered a best practice. It ensures that Management is held accountable for the implementation of action plans to which it has committed and it provides valuable and timely information to members of the Audit, Finance and Administration Committee as part of its responsibilities for the oversight of the control environment.

Alternatives for Consideration – See page 3.

FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: None.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

It is normal practice for Internal Audit to conduct follow up reviews within a 12-18 month period following issuance of the original report in order to determine whether action plans committed to by department management have been implemented.

For audits performed since 2005, Internal Audit has performed a follow up on 428 recommendations. Fifty-eight percent (58%) of the recommendations have been fully completed in the 12-18 month period, while forty-two percent (42%) remain in various states of incomplete implementation – not completed, initiated or in progress. Under current procedures, Internal Audit has taken no further action or follow up on these items and it is not known or verified if any subsequent action toward full implementation was taken.

POLICY IMPLICATIONS

None.

RELEVANT CONSULTATION

Internal Audit consulted with the City of Toronto's Auditor General's Office regarding its follow up process.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

As indicated in the Internal Audit Mandate, the City's Internal Audit division is guided by the *International Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors. Standard 2500.A1 states "The chief audit executive 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." This can be accomplished by tracking the status of outstanding recommendations, requesting annual progress updates from management, performing annual follow up audits and regularly reporting results to Committee and Council.

All Internal Audit reports to Committee and Council contain a commitment by management to address the audit recommendations by way of the management action plans. Follow up reviews allow management to demonstrate that action has been or will be taken. Internal Audit undertakes a follow up review of each audit report, usually 12-18 months after the issuance of the original report. The status of the implementation is rated mainly as not completed, initiated, in progress or completed and these results are reported to Committee on an individual basis.

The follow up process of outstanding audit recommendations being proposed in Appendix "A" of Report AUD11021 is meant to be an extension of the current follow up process above to allow for an annual Committee update on the status of the implementation on each management action plan which was not rated as completed in the 12-18 month follow up process and/or continues to be in a non fully implemented state.

ALTERNATIVES FOR CONSIDERATION

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

Council could choose to not approve any further action subsequent to the first follow up review in the 12-18 month period after the original issuance of the audit report. This would mean that Council and the City were willing to accept the risk of not implementing the recommendation. This is not recommended due to the added risk and the loss of management accountability in carrying out its commitment to action plans.

CORPORATE STRATEGIC PLAN (Linkage to Desired End Results)

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability, 3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development, 6. Environmental Stewardship, 7. Healthy Community

Financial Sustainability

- ♦ Delivery of municipal services and management of capital assets/liabilities in a sustainable, innovative and cost effective manner.

Depending on the follow up audit subject, any of the other focus areas may be applicable.

APPENDICES / SCHEDULES

Appendix "A" to Report AUD11021

ap:tk/dt

APPENDIX "A"
ANNUAL FOLLOW UP OF OUTSTANDING
AUDIT RECOMMENDATIONS

Management is responsible for addressing audit findings and recommendations and being aware of the status of their resolution. Internal Audit, however, is responsible for establishing procedures and processes for follow up of audit recommendations to determine whether action plans committed to by management have been implemented.

Internal Audit's annual follow up of audit recommendations is as follows:

1. Upon approval of an original audit report and management's responses by the Audit, Finance and Administration Committee and Council, the recommendations and other pertinent information about the report are recorded in a database maintained by Audit Services.
2. After the first follow up has been completed as per the existing practice and the results reported to Council, the status of each recommendation in the database will be updated to that as determined in the follow up review. At this point, an outstanding recommendation will generally be one that has not attained the "Completed" status. (Status of "Alternative Implemented" or "No Longer Applicable" are also acceptable alternatives for a "Completed" status.)
3. After this initial follow up, on an annual basis, Audit Services will run a report from the database which will be sent to the City Manager and the appropriate senior management representatives to notify them, in writing, of all recommendations which continue to have a non completed status (May).
4. General Managers or their designates are required to provide a written status report on all their outstanding recommendations to Audit Services within a four (4) week period. The database is updated accordingly. (June)
5. Upon notification that action has been taken to fully implement a recommendation, Audit Services will take the necessary steps to verify that the action taken warrants a "Completed" status. (July/August)
6. Audit Services will prepare a summary status report to the Audit, Finance and Administration Committee and City Council. The City Manager and the General Managers will also receive copies of their updated status summaries. (October/November)