

**INTERNAL AUDIT RECOMMENDATIONS AND ACTIONS GUIDELINE**

# **Overview**

This template aims to support the internal audit function. It is an internal document to guide:

* the facilitation of management responses to (draft) internal audit reports;
* to acknowledge that these management responses become actions as a result of an internal audit;
* to support the capture of internal audit findings, recommendations, and actions in a central location for the purposes of monitoring and reporting through an Internal Audit Actions Register;
* the governance of an Internal Audit Actions Register, including the closing of items.

The name of the Register, or whatever method that is used to facilitate audit actions, is for each council to determine. This template is merely an option, or elements of it, to consider.

The main premise is that all agreed audit actions are captured in a central location and there is a guide on how to consider creating management responses that subsequently become the actions to progress out of an audit.

External Audit

An option is to also include External Audit findings, recommendations, and actions out of the annual Closing Report. This is to encourage one point of truth for audit actions and also provide the opportunity for overlap where this may occur.

Administration of the Internal Audit Actions Register

Council may wish to also develop a procedure for the custodian of the Register, which will depend on how and who these are reported to the relevant oversight body (Audit Committee, CEO/ELT, Council).

The procedure will need to capture how the Register is disseminated to officers for updating, method of reporting, techniques to capture comments, close items, etc.

# **Related Templates**

This Template guideline should be read in conduction with the Governance Advisory Service Internal Audit Policy and Charter Template.

It is not necessary that the Internal Audit Policy and Charter Template be used by council, however it may provide further context and internal support/guidance.

# **References/acknowledgements:**

This template has been developed referencing the *Local Government Act 2009,* Queensland Government’s Internal Audit & Audit Committees Guidelines, [Financial Accountability Handbook - Volume 2 Governance](https://s3.treasury.qld.gov.au/files/FAH_Volume_2_Governance.pdf), [Queensland Treasury’s Audit Committee Guidelines: Improving Accountability and Performance](https://www.treasury.qld.gov.au/resource/audit-committee-guidelines-improving-accountability-performance/) and other available reports/documentation. Special reference to Isaac Regional Council.

*This resource has been prepared in partnership between LGMA and the Department of Housing, Local Government, Planning and Public Works through the Governance Advisory Service.*

# **TEMPLATE**

It is acknowledged that Councils will format to their own inhouse style guide when converting this template into their Policy or Document Management Framework

# **INTERNAL AUDIT RECOMMENDATIONS & ACTIONS GUIDELINE**

An effective internal audit function will assist Chief Executive Officers (CEOs) and senior management to improve the effectiveness of operations (including the cost effectiveness) and to manage risks.

Internal audit can significantly add value to a local government’s internal control, risk management, and governance processes. Internal audit assesses both the financial and non-financial performance of the local government.

# Aim

The aim of this guideline is to

* acknowledge that internal audits are opportunities for business improvements;
* provide guidance to officers in matters to consider when responding to audit findings and recommendations;
* outline the expectations for the implementation of internal audit recommendations; and
* outline the overall facilitation of progressing internal audit finding, recommendations and actions.

# SCOPE

This guideline applies to members of the <Executive Leadership Team>, all Managers and those with responsibilities for implementing risk treatments outlined in the Internal Audit Actions Register.

# DEFINITIONS

|  |  |
| --- | --- |
| **Term** | **Meaning/Definition** |
| Council | means <council name> Council |
| Internal Audit Actions Register | Register that captures all Internal Audit findings, recommendations and agreed actions. The purpose of the Register is to monitor and reporting the progress of actions to Executive Management, Audit Committee and/or Council. |
| Risk Owner | a Council employee (usually a Director and/or Manager) tasked to manage a particular risk and is accountable for doing so |

# GUIDELINE

The internal audit function provides Council with independent and objective assurance that it is following best practice in carrying out business in a way that is in the best interests of the community it represents. Internal audit also contributes to effective risk management, control and governance processes which help to instil stakeholder and community confidence in the council’s ability to operate effectively.

Council’s <responsible department name> is responsible for maintaining the Internal Audit Actions Register and ensuring that risk owners undertake regular review and monitoring of the risks for which they are responsible. This will ensure a coordinated approach to the oversight and management of outstanding audit recommendations across Council.

## Benefits of Managing Internal Audit Recommendations and Agreed Actions

The effective systematic management of audit recommendations helps to:

* Ensure that Council policies, operations, systems and procedures:
  + comply with relevant legislation and standards
  + are carried out with optimum use of resources;
* Ensure that any risks to the achievement of Council’s strategic goals and objectives are identified and managed effectively; and
* Foster innovation and improve quality and productivity of work.

Failure to implement agreed actions arising from internal audit findings exposes the organisation to risk.

Following up on these actions help to prevent this becoming an issue.

**Note**: when preparing responses to internal audit recommendations in draft reports, the Director or Manager can challenge the findings and recommendations if there is further evidence to assist the internal auditor in their final recommendations.

The following provides a guide in how to complete/draft agreed actions that will form the final report and become the response and commitment to resolve any deficiencies or opportunities for improvement.

## Completion of Agreed Actions

The effective and timely implementation of agreed management actions can result in mechanisms that:

* Improve and deliver more efficient levels of service delivery;
* Deliver improved operational consistency;
* Increase Council’s likelihood of achieving its goals and objectives;
* Ensure resources are used more efficiently and effectively;
* Improve responsiveness and flexibility;
* Demonstrate increased accountability and transparency;
* Achieve better decision-making processes;
* Develop good internal governance processes;
* Achieve and maintain compliance with all laws, regulations, internal policies and procedures;
* Safeguard our assets;
* Deliver more reliable, timely and accurate financial and management reporting;
* Maintain business continuity.

It is recognised that competing priorities, budget limitations and other factors may prevent implementation of agreed actions within the specified timeline or as previously designed to mitigate risks. To ensure that implementation of agreed actions are addressed and effectively communicated, the following outlines the actions required according to risk rating.

| **Risk Rating** | **Action** | **Reporting** | **Timeframe for implementation of Corrective Action** |
| --- | --- | --- | --- |
| **Extreme**  Unacceptable | IMMEDIATE action required  Prioritised and Urgent Action Required  Risk must be reduced regardless of cost unless extraordinary circumstances apply. | Risk owner to escalate to CEO if immediate or interim actions cannot be taken or if additional resources are required.  This table is to be populated to meet the expectations of individual councils risk profile/appetite – i.e. refer Enterprise Risk Management Framework or Matrix | Immediate\*  Agreed management actions to be implemented within ?? |
| **High**  Risk Tolerable | Prompt Action Required  Risk tolerable if all reasonably practicable steps to reduce it are taken. | Risk owner to report to EMT/Director if interim action cannot be implemented to reduce risk or if additional resources are required. | Immediate\*  Agreed management actions to be implemented within ?? |
| **Medium**  Risk Tolerable | Planned Action Required  Risk is tolerable if all reasonably practicable steps to reduce it are taken. | Risk owner to advise Manager/Team Leader if interim action cannot be implemented to reduce risk or if additional resources are required. | Within 14 days\*, but no more than three months  Agreed management actions to be implemented within |
| **Low**  Acceptable | Manage by Routine Procedure | Report as per Audit & Risk Annual Work Plan | Agreed management actions to be implemented by due date |
| Business Improvement | Implement agreed management action by due date | Report as per Audit & Risk Annual Work Plan | Agreed management actions to be implemented by due date |

When developing actions to recommendations and to ensure that agreed actions are implemented on time, consider the following:

* Determine the deadline for each action, in particular those that are ‘not negotiable’ such as regulatory dates.
* Build in adequate lead times for agreed action dates to ensure the actions can be delivered by the due dates.
* Consider linkages to other key Council documents e.g. Corporate Plan, Operational Plan, Budget etc.to determine dependencies for implementation of actions
* Ensure that adequate resources are available, trained, and able to complete the tasks in order to meet the deadlines.
* If deadlines cannot be met, notify the appropriate parties in advance. Determine if the deadline is negotiable. Commit to the new date and be willing to do whatever it takes to meet it.

## Audit Recommendations Timeframe Extension

Council is committed to implementing audit recommendations in a timely manner. When setting agreed implementation dates for the completion of agreed management actions to address the recommendation we will ensure that timeframes are realistic and achievable. When deadlines are not met, the risk of the following occurring is increased:

* inefficiencies could result;
* fines or penalties could be imposed;
* prospective projects or customers could be lost; and
* other operational processes could be negatively impacted.

It is recognised, however, that circumstances can occur which impact of the delivery of agreed actions within the specified timeframes. The approval process for seeking an extension to the timeframe for the implementation of an audit recommendation with a risk rating of low, medium or high only is as follows:

* First extension – risk owner to document the revised date in the Internal Audit Actions Register and clearly document the reason for the request e.g. to align with business unit deliverables during Q4, awaiting budget allocation etc.

Consider the appropriate process for your council

* Second and final extension – risk owner to seek an extension from EMT/Audit Committee by submitting a written report and outlining the background, actions taken to date, what resources will be applied to achieving the agreed actions, the reason for the request and the revised completion date.

Requests for extensions to audit recommendations with an extreme risk rating will need to be sought from the Audit and Risk Committee by submitting a written report outlining the extenuating reasons for the extension and the revised completion date.

Council’s <responsible department name> must be advised of all requests for extensions prior to them being submitted, so that accurate records of timeframes and actions can be recorded.

## Closing out Risks

Regular monitoring and review of risks is an important factor in the mitigation of risks and to ensure that recommendations are implemented.

A request for close out of risk will require the risk owner to document within the register their justification for closing out of the risk and outlining what actions have been taken and how they believe this addresses the risk. The risk owner will also be required to provide to the <responsible department name> any supporting documentation to validate their request for close out of the risk. This documentation will be provided to the Internal Auditor for review.

Where the decision has been made not to implement an action in response to an audit finding, the risk owner will be required to clearly document within the risk register their justification for not progressing. This may be due to:

* Lack of relevance (i.e. timeframe)
* Change in Council direction
* Lack of resources (i.e. personnel, budget or both)
* Changes in legislation
* Other reasons

The justification must be clearly outlined and supporting evidence provided to the <responsible department name> for submission with the request.

Any request for close out of the risk will be presented to the next Audit Committee meeting scheduled to review the Internal Audit Actions Register. The Internal Auditors may then confirm that the actions taken adequately address the risk with no clear need to improve the controls and decide to remove the risk from the Risk Register, to be managed as a ‘business as usual’ activity. Following review, the Internal Auditor may also decide to increase or decrease a risk rating or request for further action to be taken before agreeing to close out the risk.

The Audit Action will not be archived within the Register until:

1. The Internal Auditor has undertaken a review of evidence and supports claim; and
2. The Internal Audit Actions Register has been presented to the Audit Committee advising of the status of the item.
   1. At which time, post meeting, the item will be archived (filtered) within the Register with appropriate references of dates for recording purposes.

There will only be one Internal Audit Actions Register which will filter closed audits through the status column. Duplication of the Register must not occur, as there must be on point of truth for reporting and recording purposes.

If there is no Audit Committee, at minimum the EMT must have oversight

## Audit & Risk Committee Monitoring and Review

The review of the Internal Audit Actions Register will be reported to the Audit & Risk Committee on a regular basis in accordance with the Annual Work Plan adopted by the committee.

It is important to note, that regardless of Annual Work Plan, the Committee reserves the right to request a particular audit recommendation be reported at any meeting.

## Tips and Hints

### Be Clear

* Commit to specific actions/tasks/processes to remedy the weakness identified by the auditors.
* Do not allow room for interpretation of your intentions.
* Supply supporting evidence (where appropriate)
* Incorporate the who, what, when, where and why approach in your comments

### Set achievable targets

* Be realistic with any agreed dates for implementing your control improvements
* Be generous without being excessive
* Ensure that you have the resources to achieve the target
* Consider what dependencies exist (e.g. what else needs to occur before you can address the weakness)

### Allocate Budget

* Confirm whether you already have budget or whether you need to include a budget bid
* Identify all costs including equipment, IT, procedural changes, additional personnel
* Escalate budgets with the risk register as your supporting justification

### Allocate Resources

* Designate an individual or individuals who will be responsible for implementing the control changes
* Ensure personnel have the authority/delegation to make the changes happen
* Discuss at team meetings to increase awareness of the work that needs to happen
* Continue to regularly track progress

### Work with Others

* Consider whether/how your intended actions affect others and whether a team approach may be best
* The <Governance team> are here to help you achieve and can provide background information and guidance on the successful implementation of controls

## Internal Audit Actions Register

The Internal Audit Actions Register will be the official point of truth for all internal audit findings and actions.

The Register may be expanded to include External Audit Findings and Actions to create one source of truth for monitoring and reporting.

The Internal Audit Actions Register custodian will be the <department/branch/position>, however, the Chief Executive Officer is the owner.

# References

* *Local Government Act 2009*
* *Local Government Regulation 2012*
* Audit Committee Policy
* Audit Committee Charter
* Internal Audit Policy & Charter
* Internal Audit Plan
* Internal Audit Actions Register