

Closure of Open Management Actions

1. Introduction

International Standards for the Professional Practice of Internal Auditing ('the Standards'), **Standard 2500** requires that *"The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management."* **Standard 2500.A1** requires *"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."*

Currently, the "Vision" system is used by Internal Audit at UQ to record, monitor and report on any outstanding management actions relating to audits or systemic issues.

In addition, **Standard 2600** requires that *"When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organisation, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board"* (Senate).

These standards, to which UQ Internal Audit is required to conform, form the basis for the proposed approach within UQ to the closure of open management actions arising from Internal Audits.

2. Concepts of Recording and Tracking Management Actions

The primary outcome of an audit is assurance to the stakeholders, via the Senate Risk and Audit Committee - or the opposite of assurance, a warning about a problem. Whenever the audit cannot give assurance, there is an audit finding. Before each recommendation, the audit report first describes and explains the gap between reality and expectation. That gap is usually called the audit finding.

Audit recommendations describe a desirable change required to address a key risk. Each recommendation is a proposed real-world change to what management does. Essentially this is provided to assist management address weaknesses or deficiencies within internal controls to mitigate key risks. Audit recommendations themselves are not mandatory directions for management, but are a suggestion as to how that gap may be addressed. Management is accountable for closing the gap identified by the audit, or for showing that there is no gap to close.

Each audit finding has an Internal Control Rating and an ERM¹ rating. The Internal Control Rating is based upon the adequacy of internal controls to address key risks in the context of the area or process audited. The ERM rating is based upon the risk impact and likelihood of the control gap in the context of UQ as a whole. The purpose of the risk ratings is to report to management the seriousness of the finding as well as the need for prioritisation.

It is important for management follow through on any action commitments made at the time of the audit, or to show that they have done something better for stakeholders to address

¹ Based on UQ's Senate-approved Enterprise Risk Management Framework and Risk Matrix.

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risk. Tracking audit actions is about management following through on the commitments they have made themselves.

The Senate Risk and Audit Committee will be most concerned that the underlying deficiency is corrected, so the finding is no longer in existence - whether or not the correction follows exactly the steps promised by management in responding to the audit. Management has the discretion to address the deficiency in ways different from the auditor's recommendation. Management may also later correct the gap in ways different from the first management commitment, if there are benefits in doing so.

3. Standard and Exceptional Bases for Closure

There are a number of potential bases for closure which, in themselves, are not sufficient grounds for closure of audit actions. These would include:

- **Too much time has passed.** The onus should be on management to show that the finding no longer has any rationale.
- **Commitment to a future change that will address the issue.** That can be a valid response to the recommendation, but it is not a sufficient basis for closing the action at that time. Evidence of strong progress towards implementation is required.
- **A change in the situation that nevertheless allows the fundamental deficiency to continue.** The change might be a new IT system or a re-structure, neither of which address the fundamental finding.
- **Change of responsible manager, or a broader restructure.** This does not in itself result in the issue being resolved.
- **Inadequate resources, funding, or management support for implementation.** Such factors can be legitimate, however escalation of decision-making regarding action closure will be required. An important audit recommendation may also become the necessary driver for increased resources, funding or management support.

The following table illustrates the difference between what Internal Audit would consider proper and valid reasons for closing open actions in the normal course of business, versus what we would consider as non-standard or exceptional bases. We believe that it is appropriate for Internal Audit to have the discretion to approve closure of actions categorised under "Standard Bases", whereas requests for closure under "Exceptional Bases" will need to be escalated.

Standard Bases	Exceptional Bases
<i>Original issue is resolved (to stakeholder satisfaction) and no longer warrants any action.</i>	<i>The original issue is not actually resolved to reasonable stakeholder satisfaction, but management no longer wishes to be accountable for implementation of the recommendation.</i>
Examples include: 1. Issue is addressed along the lines recommended by the audit, with the intended benefit. 2. Issue is addressed through alternative courses of action, with the intended benefit.	Examples include: 1. A fundamental change in organisational priorities 2. Costs of implementing the action are now disproportionate to the benefits. 3. Management wishes to accept the risk for any other reasons, without further action.

Standard Bases	Exceptional Bases
<p>3. A change to the larger situation, such that the original finding and/or risk has become immaterial or irrelevant.</p> <p>4. A change in stakeholder expectations, such that there is no longer any deficiency driving the recommendation.</p> <p>5. Other actions taken have already addressed the underlying risk.</p> <p>6. Discovery that the original audit finding was not accurate or reasonable as a basis for the recommendation.</p>	

4. Standard Closure Process

The standard closure process applies to the “Standard Bases” for closure and is commonly applied where evidence supports that the risk represented by the original finding has been satisfactorily addressed through the management action taken or where circumstances have changed to the extent that the original risk or action is no longer relevant. This process is usually managed as a matter of course within the Internal Audit team, in accordance with the internal protocols and processes illustrated below.

A. Finding is addressed through management action

- ✓ Action owners and coordinators are allocated to each individual Action within Vision and Action co-ordinators are sent a system notification up to 45 days prior to the agreed due date to provide feedback to Internal Audit regarding progress against the agreed action.
- ✓ Lead auditors are responsible for assessing the information and documentation provided to support closure, before closing the action in Vision. Closure of actions must always be supported by evidence, explanations and documentation, which must be provided to Internal Audit.
- ✓ Decisions regarding closure of more significant actions may be escalated to the Associate Director Internal Audit for discussion and approval.
- ✓ The Associate Director Internal Audit draws management reports and monitors the closure of open actions on a regular basis.

B. Changes in circumstances render the original risk, finding or action no longer relevant

- ✓ Action owners and coordinators are allocated to each individual Action within Vision and Action co-ordinators are sent a system notification up to 45 days prior to the agreed due date to provide feedback to Internal Audit regarding progress against the agreed action.
- ✓ Lead auditors are responsible for assessing the information and documentation provided, particularly applying their wider knowledge of UQ and changes in operations,

to requests for closure due to changes in circumstances. Closure of actions must be supported by evidence, explanations and documentation, which must be provided to Internal Audit.

- ✓ Decisions regarding closure of these types of actions are often escalated to the Associate Director Internal Audit for discussion and approval.
- ✓ The Associate Director Internal Audit draws management reports and monitors the closure of open actions on a regular basis.

5. Exception Closure Process

In unusual and exceptional cases, management may approach Internal Audit to close open actions, despite them not having been resolved. These generally fall under “Exceptional Bases” for closure.

The senior executive responsible is required to confirm in writing that they are supportive of accepting the underlying risk and proposing closure. In assessing the appropriateness of a request to close an unresolved action, senior executives should consider:

- If the explanation is genuine,
- If the argument is valid, and
- Whether key University stakeholders (Senate, Government) would be satisfied with the decision to continue with the deficiency leading to the recommendation.

The Associate Director will consider the proposal, in the context of the following (not an exhaustive list):

- Other actions already completed relating to the same audit finding and risk;
- Changes in circumstances;
- The cost of addressing an audit finding in relation to the benefits;
- Whether the open action relates to a key control² or has University-wide implications (e.g. a systemic issue);
- The Internal Control Rating and UQ ERMF risk rating of the finding that the open action relates to;
- How the open action relates to UQ’s Risk Appetite;

If the Associate Director Internal Audit feels that the proposed open action closure will result in acceptance of a level of risk that may be unacceptable to the University, this must be discussed with the UQ Senior Executive Team (USET) and may be discussed with the Vice-Chancellors Risk and Compliance Committee (VCRCC). If USET supports the closure request, this will be referred to the Senate Risk and Audit Committee (SRAC) for approval.

Actions that are closed under Exceptional Bases by the Associate Director Internal Audit, where risks are not considered unacceptable, will be reported periodically to USET and SRAC.

Closure of any actions in Vision by Internal Audit must always be supported by explanations and documentation, including evidence of management’s acceptance of the underlying risk.

² Key Control – is a control which is required to provide reasonable assurance that material errors will be prevented or timely detected; the only control that covers a risk; and/or is a control that covers more than one risk or supports a whole process execution.

6. Other Strategies to Improve Closure Process

6.1 Interim Measures

In instances where an open action requires a significant and longer-term business change (such as implementation of an IT system), the auditors will work with management to consider shorter-term milestones or interim (manual) responses to partially address the risk. These shorter-term milestones or actions can also be tracked and monitored by Internal Audit and closed as completed, thereby demonstrating a proactive treatment of risk to the Senate Risk and Audit Committee.

6.2 Setting reasonable timeframes

Internal Audit has been proactively working with the business in the last few years to set more reasonable timeframes for completion of actions arising from Internal Audits. Management is encouraged to carefully consider reasonability and feasibility of timeframes proposed at the time of finalisation of the report. Any timeframes in excess of a year, will require interim feedback by management and evaluation by Internal Audit to ensure that actions remain on track. Based on the discretion of the Associate Director Internal Audit, requests for extension of due dates for key actions relating to high or critical risk findings, may be referred to the Senate Risk and Audit Committee for approval.

6.3 Resources

One of the barriers to closure of open audit actions is often funding and resourcing. Internal Audit is increasingly prompting management to consider staffing and budget implications in order to assess the realism of proposed closure timeframes. Management should, in turn actively consider agreed commitments regarding open audit actions, when establishing annual budgets.

Decision Tree: Closure of Open Management Actions

