

Peer Review Report: Follow-Up

Board of Regents

Audit Committee

July 8, 2009

The Issue

The March 2009 Quality Assurance Review of the Office of Internal Audit included the following recommendation:

Currently the Office conducts follow-up reviews only on “essential” comments that have been issued in a formal report. Since both “essential” and “significant” comments are included in final reports, we recommend the Office conduct follow-up reviews on all comments included in issued reports.

Policy Question

Should we change our current practice of only following up on “Essential” recommendations?

Our Current Practice

- We report both “Essential” and “Significant” issues in our audit reports
- We follow up only on those that are deemed “Essential”
- Follow up is performed approximately quarterly
- Follow up includes actual verification of the corrective action taken, and its sustainability

Our Current Practice

- We provide detailed information to the Audit Committee and University administration on the status of outstanding “essential” findings approximately quarterly
- Follow up consumes 1500 hours of audit resources (1 FTE) each year
- The ratio of “significant” audit findings to those rated as “essential” is 2:1

Professional Standards

The *Standards for the Professional Practice of Internal Auditing* require:

- *The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.*
- *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.*

Professional Standards

- Neither the *Standards* nor the related guidance specify or infer that follow up must be performed for all audit recommendations.

Benchmarking Information

- The benchmarking studies in which the Office of Internal Audit participates do not provide any conclusive trends for or against following up on all recommendations.
- Reporting and follow up practices vary considerably.

Varying Practices

- What is included in audit reports varies.
 - Organizational structure – system versus campus auditors
 - Reporting of only governance level findings
- What constitutes follow up varies.
 - Reliance on management representation to determine status of corrective action
 - Actual testing of corrective action

Options for Consideration

Option 1

Complete follow up on both “essential” and “significant” recommendations.

- Pros
 - Most comprehensive follow up process
- Cons
 - Would require at least 2X the work effort by OIA staff, resulting in fewer new audits being conducted
 - Would require additional time of University staff

Option 2

Complete follow up on “significant” recommendations, but rely on management representation .

Continue to perform testing on “essential” items.

- Pros
 - Would require less time than Option 1.
 - Would still require additional time by University staff
- Cons
 - Could led to false assurance
 - Would still impact other audit work

Option 3

Complete follow up on “significant” recommendations, but be more selective in what is reported.

- Pros
 - Would result in fewer recommendations to follow up on.

Option 3 (cont'd)

Complete follow up on “significant” recommendations, but be more selective in what is reported.

- Cons
 - Would limit the value of the audit process to local management.
 - Would add additional administrative time to the audit process
 - May prevent the identification of systemic issues
 - May preclude the assessment of risk from an institutional vs local perspective

Option 4

Maintain the status quo

Other Enhancements to our Follow Up Process

- Provide senior administrators with additional follow up information
- Enhance Audit Committee follow up reporting to include information regarding corrective action which is past due
- Pursue opportunities to better differentiate between institutional and local risk
- Recalibrate the evaluation of “progress” from effort to mitigation of risk

Questions?
Feedback?
Next Steps