

Review of Emerging Issues in Government Auditing in the United States

Presented to MPIAF by: Stephen L. Morgan
CEO, EGAPP, Inc., egappmorgan@yahoo.com
August 23, 2013, Denver, Colorado

1



Recent and Growing Concerns: Is government auditing in trouble? Is it Armageddon for auditors and accountants?!

- We need to get more efficient now; we need to get better now; we need to have a significant impact now.
- As a staff function we are expendable!
- Given the potential for continuing deep cuts, government as we know it is permanently changing.
- If we go away now, we might not be missed.

2



Today's presentation is about hope and vitality—how to identify and respond to Emerging Issues now and in the future.

- The tone has changed to be more urgent but we are up to the challenge. **Right??!!**
- What can we do to ensure government auditing has a bright future as an interdisciplinary, knowledge profession relevant and essential to decision makers at all levels?

3



Presentation Outline – Review of Emerging Issues in Government Auditing in the United States

- I. Where does information on emerging issues come from and what are the processes to identify them?
- II. What are the imminent emerging issues or issues on the horizon?
(Feedback and Discussion from Everyone Today)
- III. What are the issues beyond the horizon that can be envisioned?
- IV. How can we respond as individuals, offices, and the government auditing profession?
- V. Conclusion

4



Exercise One: How do you currently identify emerging issues in government auditing and management as they pertain to your organizational environment?

--Discuss and share processes, tools, techniques, and other methods you use or your office uses to identify emerging issues.

--Which approaches work and why? (Report Out)

5

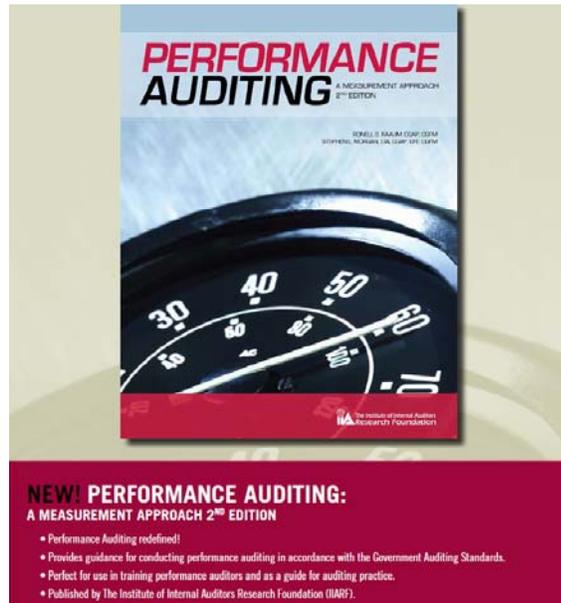


I. Where Does Information on Emerging Issues Come From?

- Research and books
- Contacts/networks
- Other audit and non-audit offices
- Professional organizations/Standards setters
- Conferences and training
- Our own offices and organizations

6





Available at:
www.theiia.org/bookstore



Contacts and Networks

- Social media
- Websites
- Election lines
- Tailgate parties/Friday afternoon socializing
- Connected 24/7—is it helping us identify emerging issues?

Professional Organizations Provide Audit and Accounting Guidance

- GAO issues professional standards updates and technical guidance through the Yellow Book website including regulatory and accounting updates
- IIA publishes the International Professional Practices Framework
- AICPA issues SASs and technical guidance
- GASB and FASAB issue accounting guidance and requirements in the USA

9



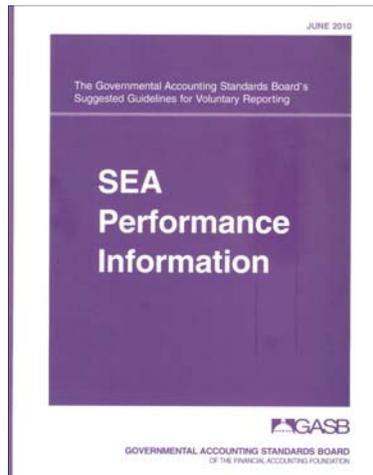
Prepare/Assure/Audit Performance Reports

Tools Available at
www.auditorroles.org

GASB: U.S. State & Local Government Reporting Guidelines

U.S. Federal GPRA Criteria:

- OMB
- AGA (SEA and CEAR)
- Mercatus Center



Guardians of Public Trust

Risks and Opportunities Facing Government Auditors

Richard F. Chambers, CIA, CFE, CGAP, CRMA
President and CEO – Institute of Internal Auditors

Questions? Questions?

The Institute of Internal Auditors

Proposed Center for Government Auditing potentially for 2014

Richard F. Chambers, CIA, CFE, CGAP, CISA, CRMA

President & Chief Executive Officer

richard.chambers@theiia



Supplemental Guidance:
**PUBLIC SECTOR DEFINITION
AND THE ROLE OF AUDITING IN
PUBLIC SECTOR GOVERNANCE**

 *Global*

Processes to identify emerging issues in our own audit offices and in organizations we audit:

- **Individual planning/networking**
- **Project or program level planning**
- **Annual office or agency level planning**
- **Strategic or government wide planning**

13



II. What are the imminent emerging issues or issues on the horizon, many already on our radar screens?

- A. Expectations of government officials including those for auditors and managers**
- B. Exercise: What do you think the issues are using your prospective, analytical approach?**
- C. Imminent issues categorized**

14



II. A. Expectations of Government Officials

- “Management and officials entrusted with public resources are responsible for carrying out public functions and providing service to the public effectively efficiently, economically, ethically, and equitably within the context of the statutory boundaries of the specific government program.” (par 1.01)

GAS 15

EGAPP

Government Expectations Are to Identify the Issues, Establish Goals, and Solve Problems

MISSION PERFORMANCE GOALS			
<i>INPUT ECONOMY</i>	<i>PROCESS EFFICIENCY</i>	<i>OUTPUT EFFECTIVENESS</i>	<i>OUTCOME EFFECTIVENESS</i>
<ul style="list-style-type: none"> •Financial <ul style="list-style-type: none"> –Amount, timing •Physical <ul style="list-style-type: none"> –Quantity, quality –Timing, price 	<ul style="list-style-type: none"> •Productivity •Unit Cost •Operating Ratios 	<ul style="list-style-type: none"> •Quantity •Quality: products, delivery •Timeliness •Price/Cost 	<ul style="list-style-type: none"> •Mission&Outcome Goal Achievement •Financial Viability •Cost-Benefit •Cost-Effectiveness
CROSSCUTTING PERFORMANCE GOALS			
←----- Compliance with Laws and Regulations -----→			
←----- Resources - Safeguarding - Infrastructure -----→			
←----- Continuous Improvement -----→			
←----- Reliability, Validity, Availability of Information -----→			
←----- Underlying Values -----→			
←----- Customer and Stakeholder Satisfaction -----→			

16

EGAPP

What do we expect the auditors to do?

- Oversight
- Detection
- Deterrence/Prevention
- Insight
- Foresight

17



Audit Types and Processes

- Assurance/Accountability (Audit)
- Consulting/Assistance
- Integrity – Investigative Audits
 - Deterrence
 - Detection
 - Investigation
 - Follow Through

18



**Five Roles
Auditors
Play in
Government
Performance
Auditing,
Measurement
and
Management**
(www.auditorroles.org)



19

www.AuditorRoles.org

EGAPP

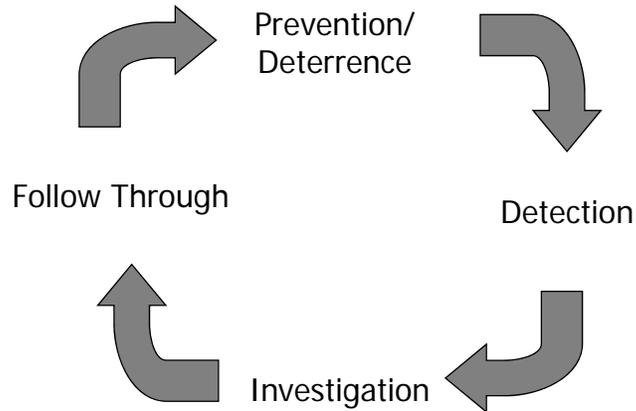
Consulting/Assistance Services

- Advisory assistance vs. decision making
- Design vs. implementation
- Adding value through expertise

20

EGAPP

Integrity Services/System: Audit and Non Audit Services



21

EGAPP

What do we expect the managers to do?

- **Financial and performance reporting to provide oversight and accountability**
- **Insight and foresight to support decision making, risk identification, and control**
- **Models to support performance improvements in systems and service delivery**

22

EGAPP

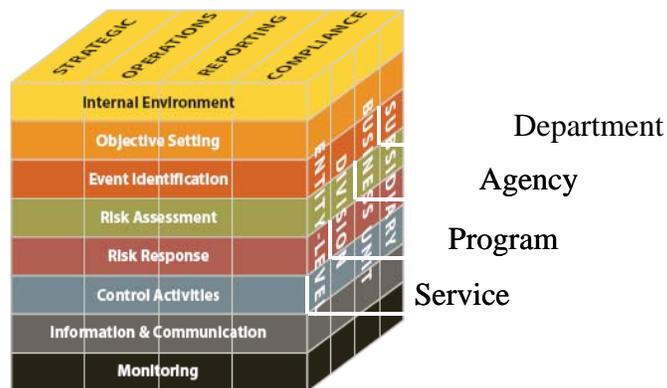
FINANCIAL REPORTING AND CONTROL

- Comprehensive Annual Financial Report
- Achieve “Clean” Auditor Opinions on the Reliability of the Financial Information
- Establish and Maintain Controls Over Assets, Liabilities, Revenues, and Expenditures

23

EGAPP

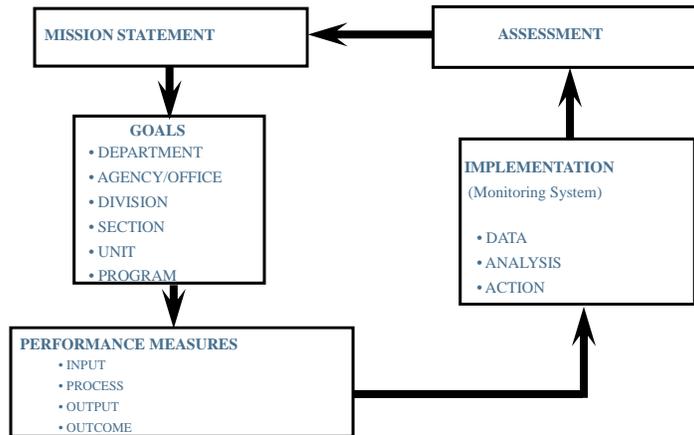
COSO/ERM Model in Government



24

EGAPP

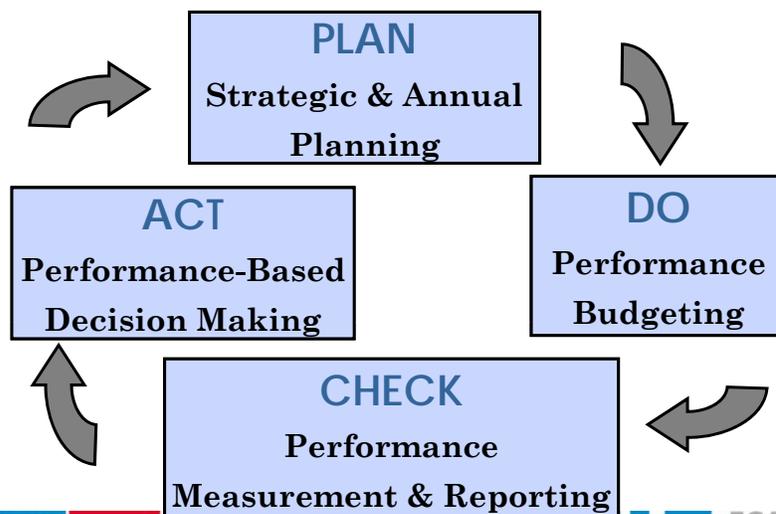
Monitor Government Performance Through Its' Measurement Systems



25

EGAPP

Manage Government Performance through Its' Accountability Systems



26

EGAPP

II. B. Exercise Two: Prospective, Analytical Exercise

- **What do you see as the emerging issues now facing auditors and managers internally in our offices and professions? (Report Out)**
- **What do you see as the emerging issues externally in the organizational environment that will have the greatest impact on our offices and profession? (Report Out)**

27



II. C. What are the imminent emerging issues in our organizational and societal environments?

- Governance
- Human Capital
- Knowledge/Information Management
- Economic and Financial Sustainability
- Accounting and Reporting
- Efficiency and Timeliness

28



Governance Issues Facing Government Auditors and Managers

- Reporting Structures: Independence and Objectivity
- Decision Making Processes
- Report to the Citizens: Public Accountability and Impact
- Ethical Cultures in the Workplace
- Barriers to Individual and Organizational Integrity

29



Human Capital Issues

- Diversity of the workforce (values, ages, ethnicities, cultures)
- Mobility of the workforce
- Motivation of the younger workforce to become long term audit/financial professionals
- Adaptability of the older workforce
- Competence of the entire workforce
- Level of funding for audit/financial resources—never enough
- Ever changing leadership group due to elections, appointment, retirements, and resignations



Knowledge/Information Management Issues

- Succession strategies
- Physical vs. virtual workplace
- Technology solutions: IT integration into all processes and services
- Technology challenges: disparate information sources, platforms, software, etc. that make collecting/validating data more difficult
- Impact of social media



Financial Sustainability Issues

- Need solutions—foster culture of tolerance and compromise by elected officials for the other party's views
- Funding (grants, education, & training)
- Entitlements (especially health care and pensions)
- Economic vitality (job creation and recovery programs)
- Intergenerational burdens (especially baby boom and global warming)
- Demand for resources (especially energy)
- Bottom line: Essential services vs. deficits



Government Accounting and Reporting Issues

- Recognizing liabilities now (accounting for promises made but not funded)
 - Pensions
 - Pollution remediation
 - Social insurance (especially Social Security)
- Integrating financial and performance reporting
 - Inputs
 - Outputs
 - Outcomes



Government Accounting and Reporting Issues-- Continued

- Citizen centric reporting
 - Transparency
 - "Easy to understand" financial and performance information
 - Customized analysis and reporting (websites)
- Convergent standards among levels of government and among nations
 - Generally accepted models
 - Compatible standards



Efficient and Timely Systems and Services Issues

- Public/private partnerships that work to create investment that provide better services
(examples are leasing, co-sourcing, and outsourcing)
- Streamlining the grants and contracts administration and reporting processes
- Reduce, eliminate, prioritize or better manage fiscal and program requirements



Ron Raaum's "Top Six" Imminent Issues (Ron designs courses for the Graduate School in Washington, D.C.)

- Impact of ongoing negative trade balances
- Investment to repair and rebuild roads, bridges, and other infrastructure
- Funding to pay for short and long term veteran disability and medical care
- Funding to support low wage workers and the unemployed, especially the structurally unemployed
- Solutions/funding to ease student debt burden
- Growing underground economy that reduces tax revenue (see marijuana)



Dr. Michael Granof's Top Three Imminent Issues (Michael is a "renowned" University of Texas Accounting Professor serving on GASB and FASAB)

- Unfunded pension liabilities
- Health care reform and sustainability
- Deferred maintenance and lack of sufficient infrastructure investment

37

EGAPP

Steve Morgan's Top Three (Steve hangs out at golf courses, beaches, and casinos)

- Forgiving student debt so graduates do not have to live with their parents
- Funding Baby Boomers who did not save for retirement— great food, housing, electronic devices, tailgate parties, entertainment in general
- Keeping inflation in check during our lifetimes
OK—sounds like I just want to have fun and organize a Longhorn tailgate party (ok—make that Buffalo—as long as we have “burgers and beer” there— so who is going and what are you bringing?

38

EGAPP

III. What Issues are Beyond the Horizon?

- **Exercise Three**
- **Discussion**
- **What we might imagine**

39



Exercise Three: Visioning—Feelings and Imagination Exercise

If you fell asleep and didn't wake up until the year 2033, what changes in government auditing would you see around you when you opened your eyes?

40



Issues Beyond the Horizon

- Auditing/Reducing corruption
- Auditing/Coordinating governance structures at the highest levels
- Auditing/Managing through intergovernmental and global partnerships
- Auditing/Managing with “worldwide best practices” and exceptional performance

41



Issues Beyond the Horizon—Cont.

- University level, interdisciplinary auditing and financial management curricula
- Manage and audit a “totally virtual workforce”
- Negative: Replace auditors and accountants with computers/androids/robots
- Positive: Auditors without “adjectives”
- Positive: Ethical and competent managers who anticipate and respond effectively to emerging issues

42



IV. How can we respond as individuals, offices, and as a profession?

- A. Skills, competence, and expertise of auditors and managers—we bring a lot to the table now (RIGHT!)
- B. Exercise Four: Suggested solutions from you today
- C. Suggested solutions from “audit and management experts” I queried before today
- D. Act now and “do something about it” auditors and managers

43



IV. A. Skills and Competence

- University Programs
- Certifications
- Technology Tools
- Ongoing CPE

44

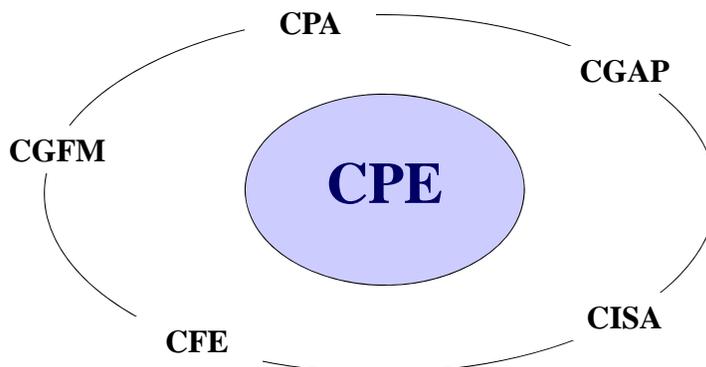


University Programs: Government Auditors and Managers Must Develop and Continuously Enhance “Integrated” Skills from Various Academic and Organizational Disciplines

- Performance
- Financial
- Information Technology
- Human/Managerial/Leadership
- Continuous Risk and Vulnerability Assessment
- Continuous Learning/Improving



Certifications Support Auditor/ Manager Growth and Development



**Technology Tools for Data Analytics:
Auditors and Managers Now Utilize These
Without Relying on Experts**

- **EXCEL**
- **SPSS**
- **ACL**
- **IDEA**
- **SAS**
- **GIS**

47

EGAPP

**IV. B. Exercise Four: Solutions to Ensure
the Long Term Vitality of Government
Auditing and Management**

- (1) How can auditors and managers contribute to societal or organizational solutions?
- (2) What improvements should be made in the government auditing and management professions?
- (3) What advice would you give to newly elected or appointed public officials on how to best use services provided by government auditors and managers?
(Report Out Just #3)

48

EGAPP

IV. C. Solutions suggested in my survey of “experts” prior to this conference

- **Benchmark to “global” best practices and performance**
- **Rejuvenate ourselves with enhanced skills, more visible contributions, and effective relationships with stakeholders especially those in leadership roles**
- **Use enhanced “critical thinking,” conceptualization (models), and professional judgment in everything we do (right and left brains)**

49



More solutions/suggestions

- **Don’t duplicate agency analyses; leverage what those in our environment are doing to become more efficient and move government forward together**
- **For auditors, provide a mix of program-wide, cross functional audits, and targeted audits**
- **No TLDNR--write shorter reports; use graphics and media; pursue timely, relationship building communication**

50



And more solutions/suggestions

- To fight fraud, look for conspiracy not just compliance
- Auditors and financial managers need to help high level decision makers know what they don't know (without getting fired in the process of being too helpful)
- Use or develop foresight models to see and respond to risks earlier—conduct more prospective analysis to support early intervention, deterrence, and prevention

51



Even more solutions/suggestions

- Conduct Emerging Issues Audits (EIA's) and Studies; for managers use models to look ahead and respond early
- Establish clearer and stronger legislative mandates for auditing and management
- Promote auditing and management through the social media since the local and national news doesn't seem to be reporting on solutions anymore—just more and more problems, especially any type of disaster

52



And even more solutions/suggestions

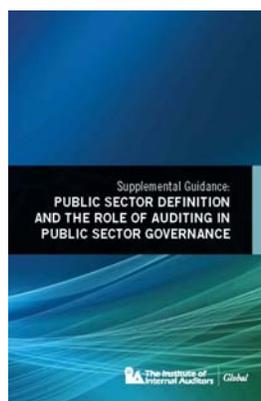
- Facilitate and accelerate “stakeholder access” to integrated performance and financial information on websites
- Further strengthen Audit and Finance Committees
- Use “partnership audits” or “joint management initiatives” to take on high visibility emerging issues
- Transform now by directly helping decision makers address government revenue and spending with reality based information

53

EGAPP

The IIA's View: Essential Elements for Public Sector Audit Organizations

1. Organizational independence
2. A formal mandate
3. Unrestricted access
4. Sufficient funding
5. Competent leadership
6. Objective staff
7. Competent staff
8. Stakeholder support
9. Professional audit standards



EGAPP

A “Call to Action” on June 13, 2013 to Implement Decision Tools to Address Fiscal and Program Requirements

- **Determine whether a requirement should be included in a law, regulation, or guideline**
- **Promote clarity through plain writing**
- **Obtain and protect good data**

SUPPORT EFFECTIVE DECISIONMAKING AT ALL GOVERNMENTAL LEVELS TO ELIMINATE UNNECESSARY REQUIREMENTS/PROGRAMS AND FULLY IMPLEMENT NEEDED REQUIREMENTS/PROGRAMS—WE CAN DO THIS!

55



IV. D. Auditors and Managers Identify and Respond Effectively to Emerging Issues

- **Auditors conduct high impact audits and follow up and follow through to ensure implementation of recommendations.**
- **Managers provide leadership and implement systems of control to anticipate and fully address emerging issues.**
- **Auditors and managers can work together to facilitate and make the tough decisions.**

56



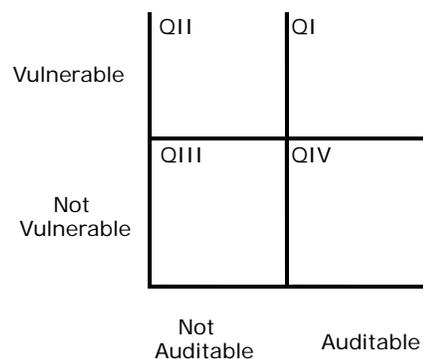
Do Something About It Auditors!

- If you are not auditing something important, why not?
- If you are not doing something important, why not?
- If your office is not providing important services, why not?

57

EGAPP

Audit Planning: Selection and Prioritization Under Constraints



58

EGAPP

Tough Decisions

- **Judgment & courage**

- Some people consistently identify the right programs to audit, the high risks & the high impact issues.
- Others develop mediocre issues - avoid controversy, do not take on the tough issues, lack insight, apply limited experience or knowledge, and ultimately audit the wrong programs. (Dave Hancox)

59

EGAPP

How do we achieve and measure impact?

- **Can audit be linked to improvements in measured performance of those programs being audited?**
- **Does audit result in direct cost savings or revenue enhancement?**
- **Can any quantitative or qualitative impact be attributed to the audit?**
- **Does the audit at least “tell a good story?”**

60

EGAPP

What Audit Success Looks Like

- Select the most important programs to audit
- Select the most important risks and vulnerabilities within the programs
- Develop significant effects through measurement and control based integrated performance auditing
- Base recommendations on underlying or "root" causes so the problem gets fixed or the improvement gets accomplished

61



Do Something About It Managers!

- **Do we follow accounting and reporting standards?**
- **Do we understand our options for making tough decisions?**
- **Do we use models for "best practice" financial and performance management?**
- **Do we leverage our communication options with our stakeholders?**

62



Key questions to ask about government programs

- What is the program?
- How much has the program done?
- How well has the program done it?
- Is anyone better off than before the program was created?

63

EGAPP

Program Definition and Performance Expectations



64

EGAPP

Understand Why Program Expectations Are Not Accomplished (or Are Accomplished)

- Theoretical framework is flawed, i.e., no direct cause and effect relationship exists between program and desired outcomes
- Intervening or external variables which negate, deflect, or mask the program's effect, i.e., GASB's emphasis on explanatory information
- Management systems/processes are deficient
- Program goals/expectations are unrealistic/unattainable
- Inputs/resources are inadequate
- Fraud, waste, or abuse gets in the way

65

EGAPP

Planning and Budgeting Model



66

EGAPP

www.AuditorRoles.org

Strategic Performance Budget Decision Model: In Reality: Varies with Fiscal Environment



67

www.AuditorRoles.org

EGAPP

Auditors and Managers Should Work Together to Serve Our Stakeholders

- **Accountability**—government auditors are not a substitute for management’s monitoring systems but we can help supplement and complement them
- **Transparency**—government auditors and managers ultimately work for the citizens
- **Integrity**—auditors and accountants have ethical standards that apply 24/7; we must do what is right every time
- **Equity**—auditors and managers do not support favoritism in providing government services

68

EGAPP

V. Conclusion

“Auditor or Manager of the Future” But the Future is Now!

- **Integrated, Interdisciplinary Skill Set**
- **Essential to the Mission and Decision Makers Including Policy/Elected Level**
- **Provide High Impact Information On Time and Under Budget**

Can YOU be an “auditor or manager of the future” now?

69

EGAPP

What to do now?

- Write down three things you are going to do to be an auditor or manager of the future now.
- Recognize no one solution will solve the problem—there is no “silver bullet.”
- To ensure a bright future, every government auditor and manager need better strategies for identifying and resolving emerging issues.

70

EGAPP

Thank You.

- **More questions.**
- **More comments.**
- **Thank you, again.**