

The Art and Science of Internal Control Assessment for High Impact Performance Auditing



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Presentation Overview



- The Power of Performance Auditing
- Cutting Through Audit Speak: Internal Control and Risk Assessment Defined
- The Science of Internal Control Assessment
- The Artistic Performance Auditor
- Go Bold
- That's All Folks!

The Power of Performance Auditing



Performance Auditing Defined

Generally Accepted Government Auditing Standards

“Provide objective analysis to improve program performance and operations, reduce costs and facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and improve public accountability.” (GAGAS 2011, par 2.10, A2.02)

- Clear as mud and that’s actually a very good thing...kudos Yellow Book peeps!
- A simple charge for performance auditors, indeed!

The Power of Performance Auditing



Performance Auditing Defined

Rendering Verdicts on Human Performance

- Identifying related consequences and significant causes
- Suggesting practical solutions for improving performance
- Importance of self-awareness
- Differences between performance and financial auditing
- Key performance audit standards
 - ✦ Independence
 - ✦ Evidence and Findings – “*Interpreting Reality*”
 - ✦ Professional judgment
 - ✦ Communication

The Power of Performance Auditing



Performance Auditing Value Proposition

“The Art of Being Relevant”

- A profession in a state of evolution
- Filling the objectivity void
- Increasing partisanship and gridlock, saturation of misinformation, complexity of public policy issues
- Lack of progress on critical public policy issues
- With opportunity comes responsibility
- Risk to profession for failure to seize opportunity

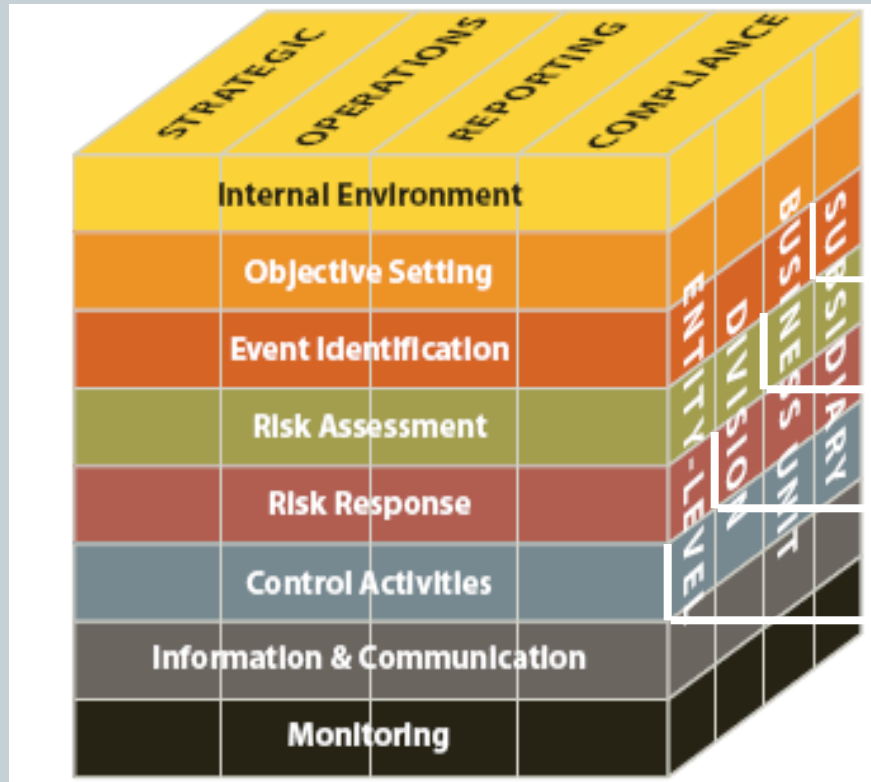
Internal Control and Risk Assessment Defined



Key “Risk” Terms and Definitions

- Internal Controls - Do Not Speak in Tongues
- Risk – The Auditor’s Existential Reality
 - ✦ Control Risk – To error is human
 - ✦ Inherent Risk – Some things are bigger than us
- Risk Assessment – The Holy Grail of Audit
- Risk Factors – Risk of Over Analyzing Risk Factors
- Audit Risk – To Be Relevant or Not to Be
- Risk Appetite – Auditing in a Very Gray World

The Science of Internal Control Assessment – The Auditor’s Rubik Cube



Department

Agency

Program

Service

The Science of Internal Control Assessment – The Auditors Rubik Cube



Melting the Cube

- Control Environment – Ye Olde Tone at the Top
- Risk Assessment – Don't Do What Donny Don't Does
- Control Activities – The Faux Comfort of the Appearance of Control
- Information & Communication – Root Cause #1
- Monitoring Activities – Who's on First and Who's in Leftfield?

The Science of Internal Control Assessment



The Dream of Public Sector Enterprise Risk Management

- Examples of Government Entities with Robust ERM Processes
- Root Cause Analysis for Lack of ERM in Public Sector
- The Importance of Strategic Planning and Performance Measurement Processes
- Ideas about Auditor Facilitation
- Tool Kit – “The Holy Green Book”

What is the Green Book?

Important facts and concepts related to the Green Book and internal control

RELATED TO GAO-14-704G

What is internal control?

Internal control is a process that helps an entity achieve its objectives. It is the first line of defense in safeguarding public resources.



Standards for Internal Control in the Federal Government, known as the Green Book, is the document that sets internal control standards for federal entities.

How does internal control work?

Internal control helps an entity



Who would use the Green Book?

Here are some examples of people who use it



Someone who manages programs for federal, state, or local government



Someone conducting a performance audit or a financial audit



Someone responsible for making sure that personnel follow policies and procedures related to any and all job responsibilities

How is internal control organized?



Standards for Internal Control in the Federal Government (the Green Book) is organized by the five components of internal control, and apply to staff at all organizational levels and to an entity's operations, reporting, and compliance objectives.

What makes up the five components?



Principles

Each of the five components contains several principles. Principles are the requirements of each component.

Attributes

Each principle has important characteristics, called attributes, which explain principles in greater detail.

The Artistic Performance Auditor



- Lennis Knighton's Vision
- Increasing Auditor Risk Appetite
- Willingness to Audit 3rd Rail Issues
- Different Types of Audits
 - Governance
 - Program Effectiveness
 - Public Policy Efficacy
 - Prospective Analysis
- Being at the Right Place at the Right Time
 - Proactive versus Reactive Paradigm Shift

The Artistic Performance Auditor

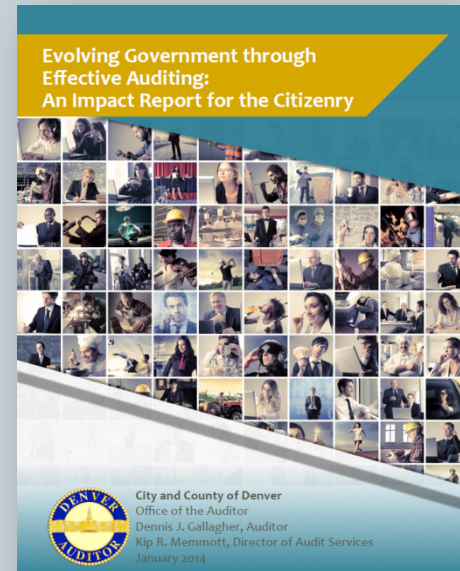


- Deliberate and overt performance audit strategy
- Professional judgment
- Multidisciplinary skill sets and viewpoints
- Numbers will not save you - Over-quantification of subjective matter
- Paradigm of looking backwards instead of forwards
- Understanding risk appetite
- Communication skills

Go Bold



- Innovative Methodologies
 - Social Justice Audits
 - Culture Audits
 - Citizen Surveys
- Measuring Impact
 - Internal Performance Metrics
 - Innovative Reporting Practices
 - ✦ Denver's Comprehensive Audit Impact Report for the Citizenry



That's All Folks!



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