



Emerging Issues (Trends) in Government Performance Auditing

**Presented to the SW/SE Intergovernmental
Audit Forum in Austin, Texas**

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August 10, 2017



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 staff functions we are expendable (except for payroll!).**
- Given the potential for very deep cuts, government as we know it could be permanently changing.**
- If we go away now, we might not be missed.**

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 performance auditing has a bright future as an interdisciplinary, knowledge profession relevant and essential to decision makers at all levels?

Training Today is Presented from the Perspective of Performance Auditing

(1) What is performance auditing?

(2) Why is performance auditing important?

(3) Why is performance auditing a global phenomena?

- Say good afternoon to each other and answer these three questions. Be prepared to report out on question three.**

POLL QUESTION ONE for “Emerging Issues in Government Performance Auditing”

Performance auditing is very different from traditional verification auditing and creates new information through the audit process.

Why is performance auditing expanding globally?

- a) Performance auditing is more fun than other types of auditing.**
- b) Performance auditing is interdisciplinary, supporting auditors who create new information, and ask questions that might lead to higher organizational performance.**
- c) Performance auditing does not follow well developed auditing standards.**
- d) Performance auditing does not address compliance with rules and regulations.**
- e) Performance auditors do not report to management.**

Performance Audits Defined in Yellow Book (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.***
 - Identify outstanding, adequate, and poor performance and the related consequences.
 - Suggest practical solutions for improving performance, as appropriate.

(GAGAS2011, par 2.10, A2.02)

Performance Audit Objectives

- **Program effectiveness and results**
- **Economy and efficiency**
- **Internal control**
- **Compliance**
- **Prospective analysis**
(par 2.11)

Performance Auditing Definition

- Performance auditing is an interdisciplinary, knowledge profession relevant and essential to decision makers at all levels.
- Based on auditing standards, performance auditors provide reality based information on the past, present, and future.
- Performance auditors verify/interpret existing information to ensure its veracity.
- Performance auditors create new reality based information to strengthen accountability.

POLL QUESTION TWO for “Emerging Issues in Government Performance Auditing”

Performance auditing may have different types of audit objectives.

Performance auditing objectives include all but one of the following:

- a) Compliance**
- b) Economy**
- c) Efficiency**
- d) Speculation**
- e) Prospective Analysis**

Presentation Outline – Emerging Issues and Best Practices in Government Auditing

- 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?**
- III. How can we respond to the complexity of emerging issues as auditors and managers?**
- IV. Conclusion**

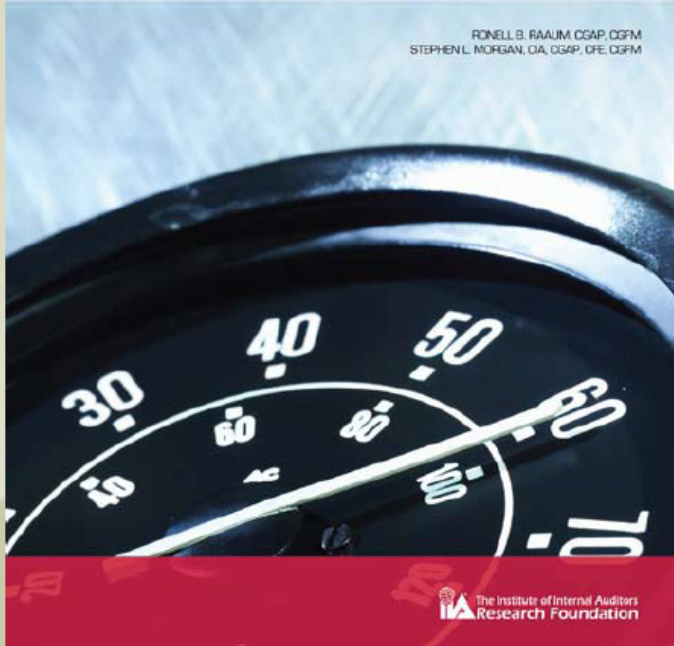
I. Where Does Information on Emerging Issues Come From?

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

PERFORMANCE AUDITING

A MEASUREMENT APPROACH
2ND EDITION

RONELL B. RAAUM, CGAP, CGFM
STEPHEN L. MORGAN, CIA, CGAP, CFE, CGFM



The Institute of Internal Auditors
Research Foundation

Available at:
www.theiia.org/bookstore

NEW! PERFORMANCE AUDITING: A MEASUREMENT APPROACH 2ND EDITION

- Performance Auditing redefined!
- Provides guidance for conducting performance auditing in accordance with the Government Auditing Standards.
- Perfect for use in training performance auditors and as a guide for auditing practice.
- Published by The Institute of Internal Auditors Research Foundation (IIARF).



PERFORMANCE AUDITING

MEASURING INPUTS, OUTPUTS, AND OUTCOMES

RONELL B. RAAUM, CGAP, CGFM

STEPHEN L. MORGAN, CIA, CGAP, CGFM, CFE

COLLEEN G. WARING, CIA, CGAP, CGFM

THIRD EDITION

Performance Auditing: Achieving Measurable Results and Accountability

December 14, 2016

EGAPP

Contacts and Networks

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

U. S. 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**

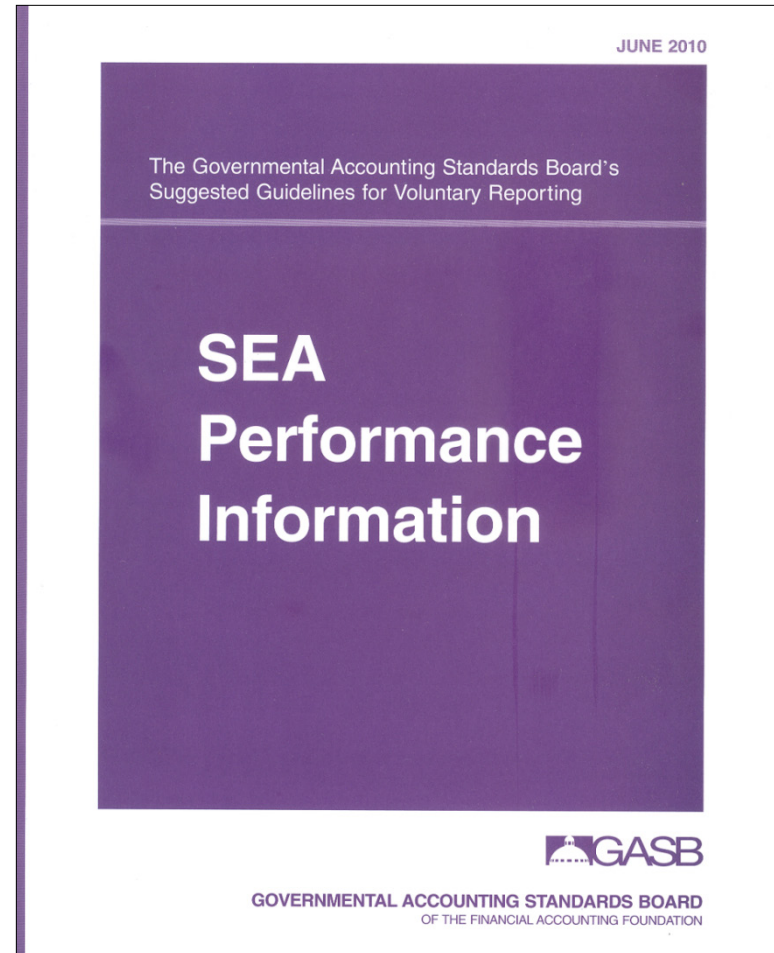
Prepare/Assure/Audit Performance Reports

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



IIA Guidance for the Public Sector

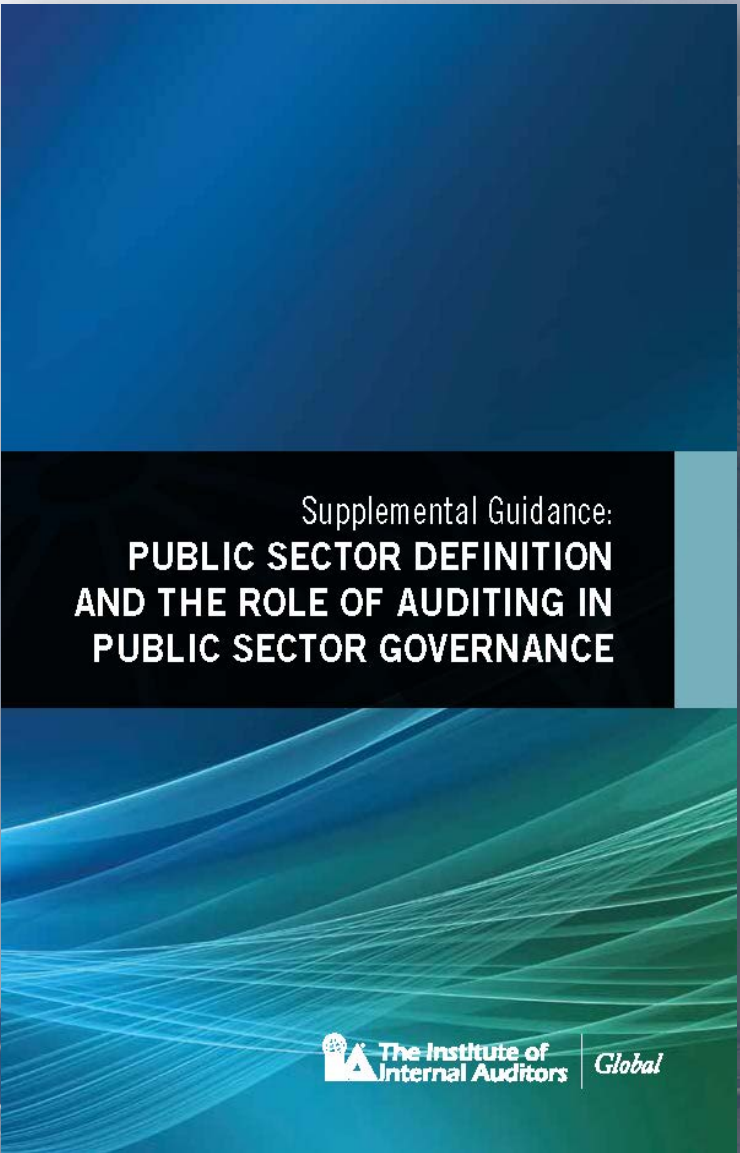
The Institute of Internal Auditors

American Center for Government Auditing (ACGA) Provides IIA Services to Government Auditors

Richard Chambers, CIA, CGAP, CCSA, CRMA

President & Chief Executive Officer

john.wszelaki@theiia.org



 **The Institute of Internal Auditors** | *Global*

POLL QUESTION THREE for “Emerging Issues in Government Performance Auditing”

Standards Setters sometimes provide information on emerging issues and best practices.

All of the following are standards setters in the United States except:

- a) IIA**
- b) GAO**
- c) ACFE**
- d) AICPA**
- e) GASB**
- f) FASAB**

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**

POLL QUESTION FOUR for “Emerging Issues in Government Performance Auditing”

Processes to identify emerging issues are varied and should be thoroughly explored.

The most effective approach to identify emerging issues is:

- a) Strategic planning**
- b) Annual planning**
- c) Random planning**
- d) Individual planning**
- e) Dreaming about planning**

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 government managers and auditors

B. Selected imminent issues/trends categorized and described

(What are your perspectives on selected emerging issues/trends?)

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, GAGAS)**

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			
<p>←..... Compliance with Laws and Regulations→</p> <p>←..... Resources - Safeguarding - Infrastructure→</p> <p>←..... Continuous Improvement→</p> <p>←..... Reliability, Validity, Availability of Information→</p> <p>←..... Underlying Values→</p> <p>←..... Customer and Stakeholder Satisfaction→</p>			

What do we expect the auditors to do?

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

Audit Types and Processes

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

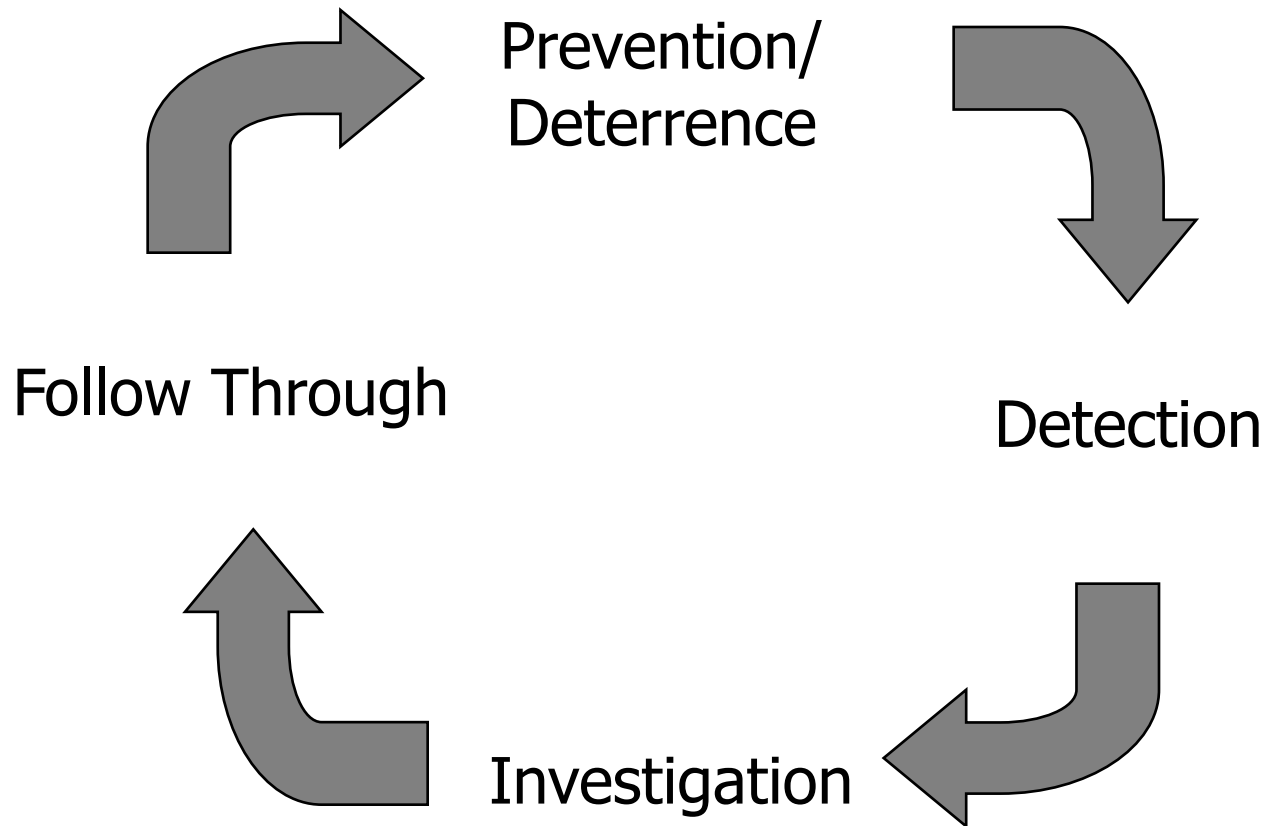
**Five Roles
Auditors
Play in
Government
Performance
Auditing,
Measurement
and
Management**
(www.auditorroles.org)



Consulting/Assistance Services

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

Integrity Services/System: Audit and Non Audit Services



POLL QUESTION FIVE for “Emerging Issues in Government Performance Auditing”

Expectations are high for auditors, managers, and public officials.

Which of the following most accurately reflects the roles of government auditors?

- a) Government auditing, assistance, and investigation**
- b) Government program management, decision making, and operational improvements**
- c) Audit and non-audit projects**
- d) Risk and vulnerability assessment for annual planning**
- e) Risk and vulnerability assessment for project planning**

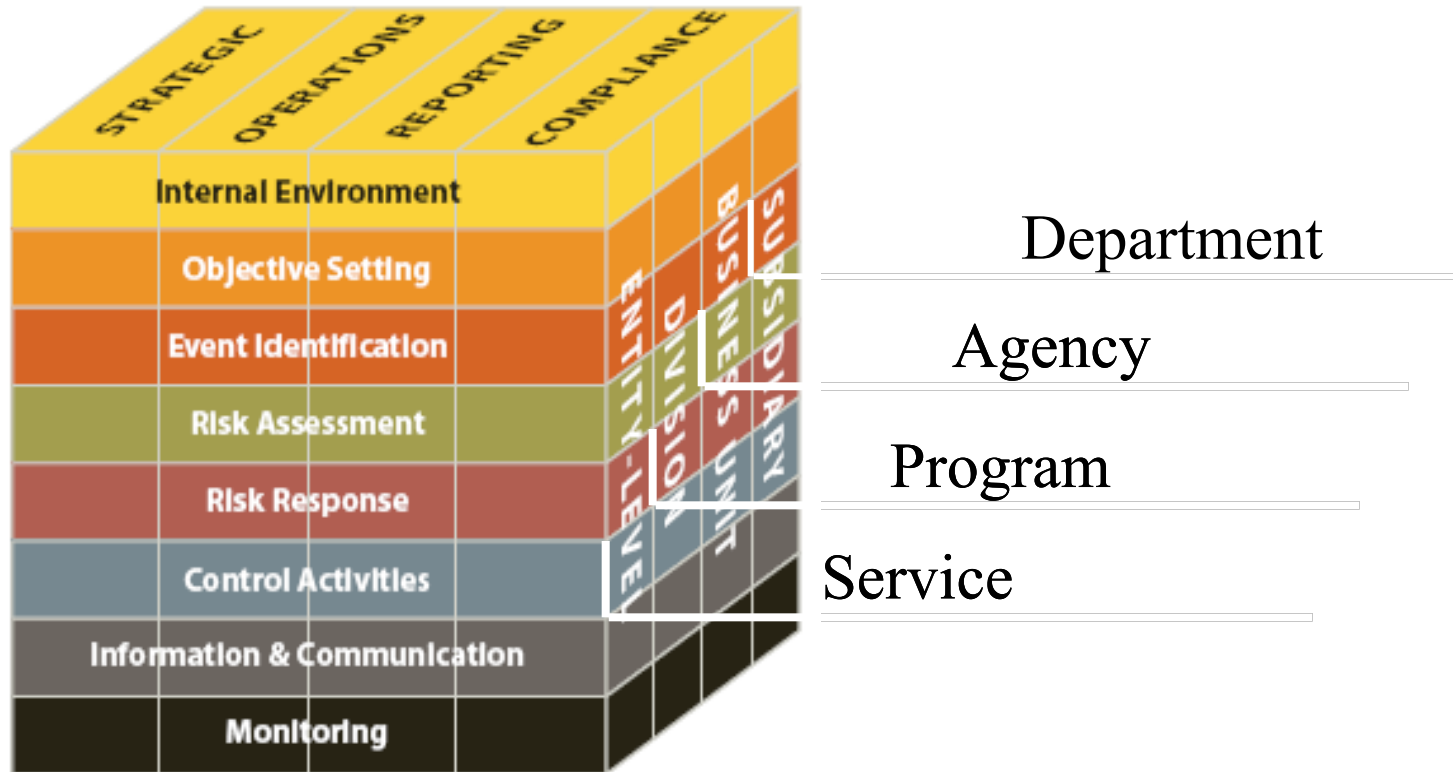
What do we expect government managers to do?

- **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**

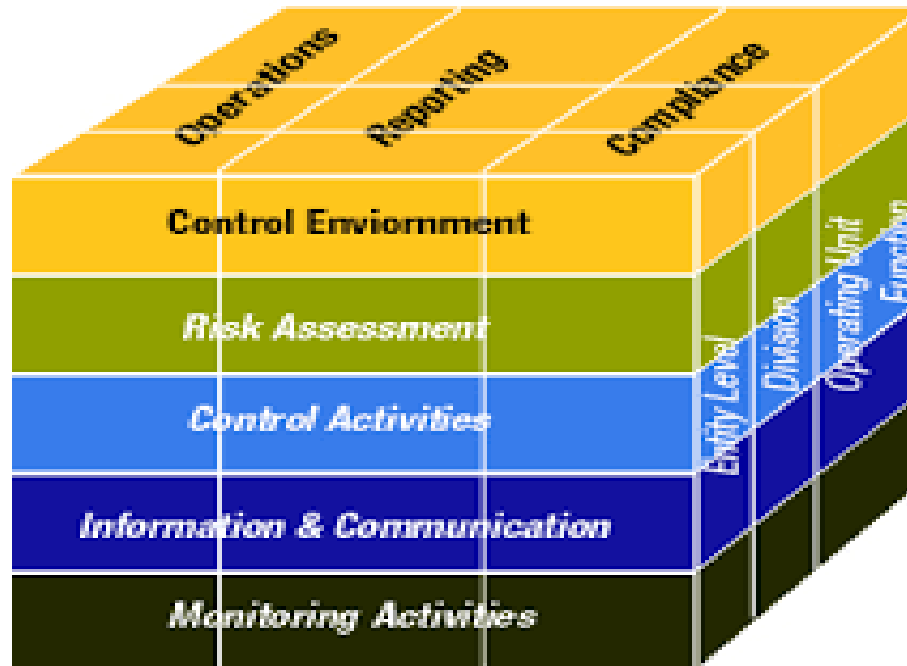
FINANCIAL REPORTING AND CONTROL

- **Comprehensive Annual Financial Report**
- **“Clean” auditor opinions on the reliability of the financial information**
- **Controls Over Assets, Liabilities, Revenues, and Expenditures**

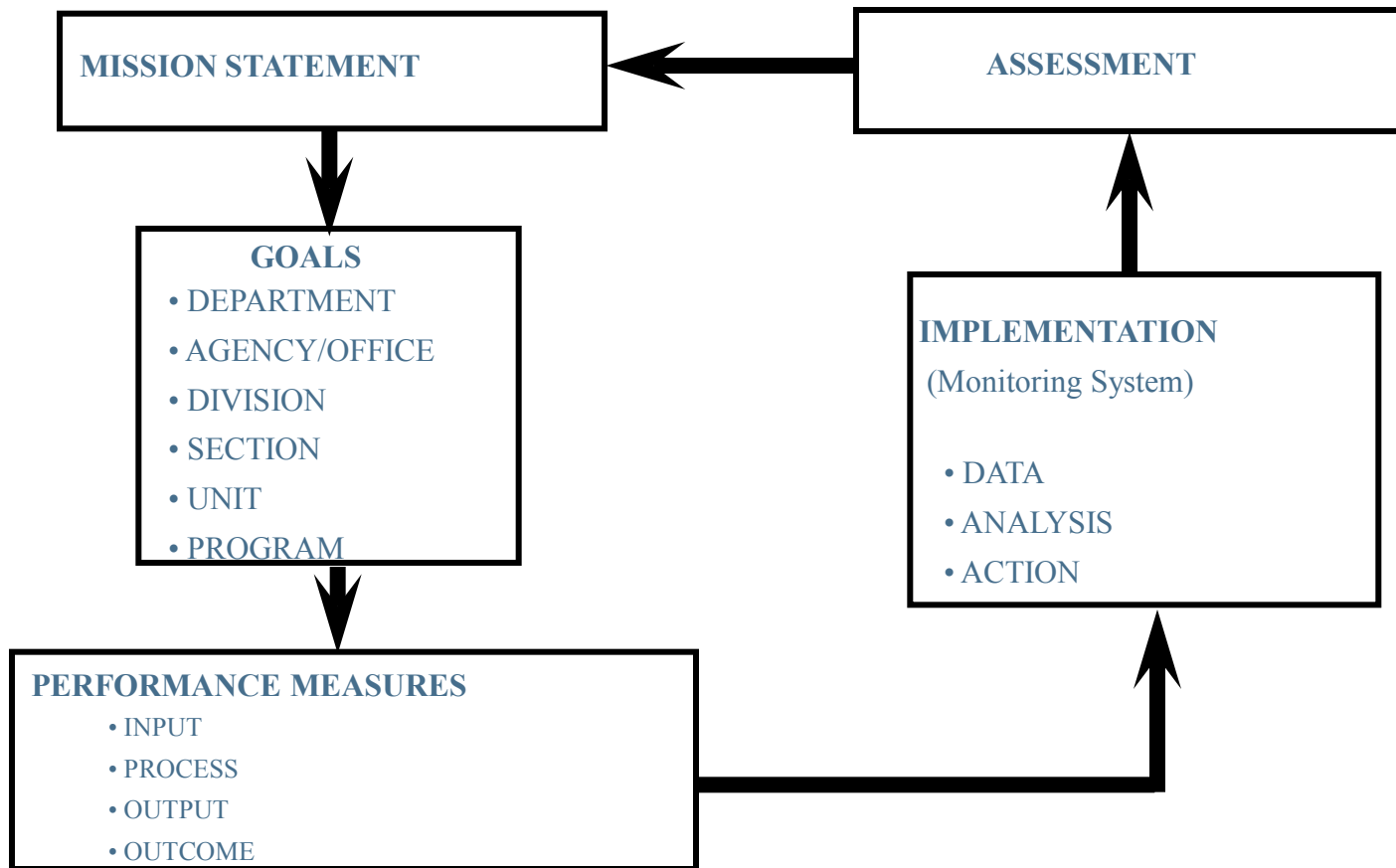
COSO/ERM Model in Government (Now Revised in Current GAO Green Book)



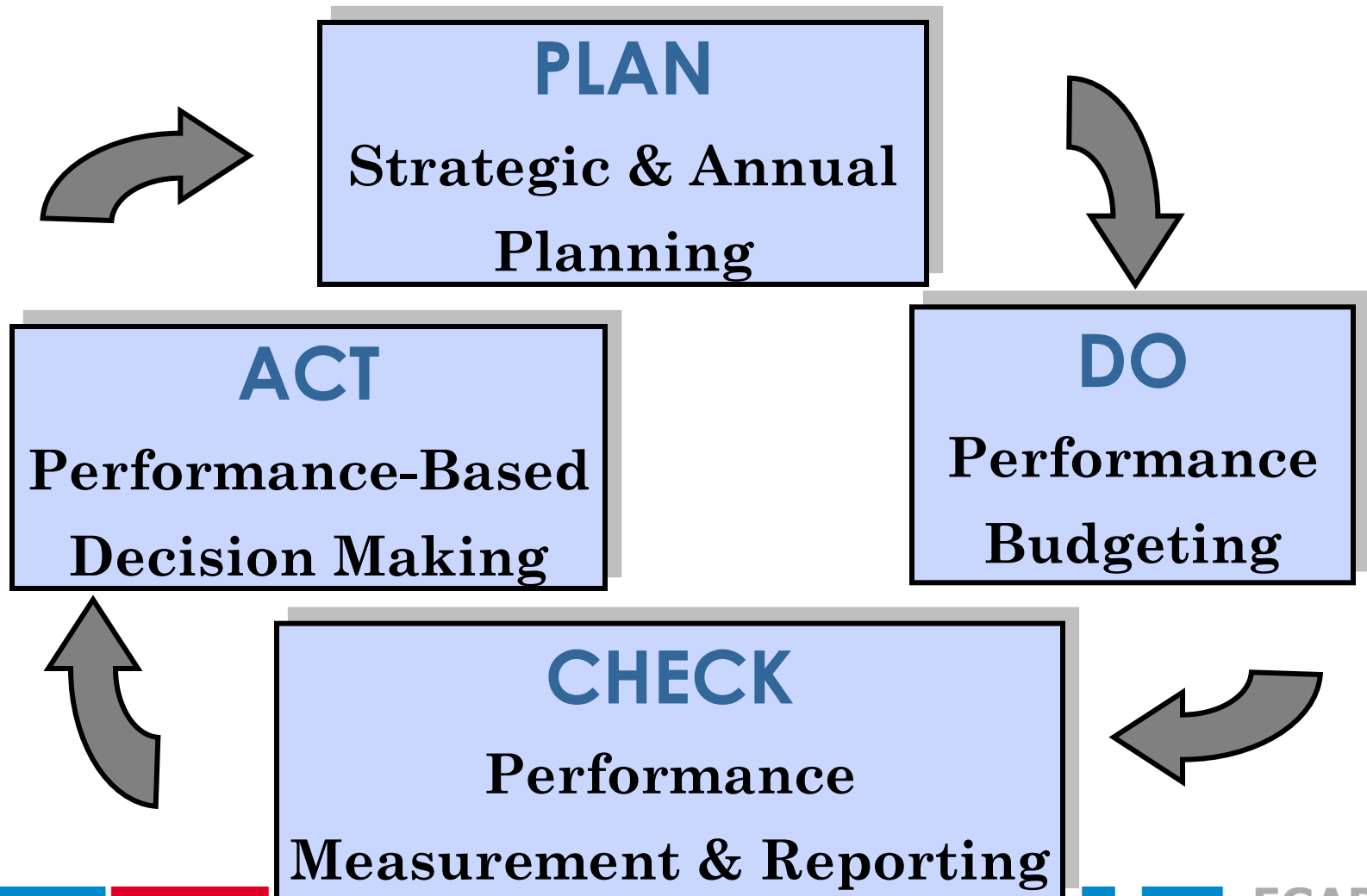
Revised COSO/ERM Model



Monitor Government Performance Through Its' Measurement System



Manage Government Performance through Its' Accountability System



POLL QUESTION SIX for “Emerging Issues in Government Performance Auditing”

Internal control models are essential to achieve expectations for efficient and effective government services.

Performance management systems focus on controls over:

- a) Outputs**
- b) Outcomes**
- c) Inputs**
- d) A, B, and C**
- e) Processes**

II. B. 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

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
- New editions of auditing standards

Governance: Independence is Essential to Achieving Audit Office Credibility

- **How can audit offices and auditors maintain independence when the political climate is extremely polarized?**
- **Within a polarized environment, auditors should still strive to maintain good relations with audit clients. What are strategies to accomplish this and still objectively present reality based on audit evidence?**

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

Human Capital: Focus on Managing the Retirement of the Boomers and the Entrance and Retention of the Millennials

- **Good Bye to the Baby Boomers**
- **Hello to the Millennials**
- **What are the implications of these shifts?**
- **Are the Millennials going to “save the world?”**

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
- Evolving, even revolutionary, impact of social media
- Privacy concerns
- Cyber security/cyber terrorism

More on Technology By Flora and Rai (IIA Download “Navigating Technology’s Top 10 Risks”)

- Cybersecurity
- Information Security
- IT Systems Development Projects
- IT Governance
- Outsourced IT Services
- Social Media Use
- Mobile Computing
- IT Skills Among Auditors
- Emerging Technologies
- Board and Audit Committee Technology Awareness

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

Financial Management Challenge: Focus on Funding Ever Increasing Public Safety, Health Care, and Retirement Costs

- **Is government growth the answer for increasing costs?**
- **Is government reduction the answer for increasing costs?**
- **What is fair to the retirees and to those active employees who help support them?**

POLL QUESTION Seven for “Emerging Issues in Government Performance Auditing”

Strong Financial Management is essential to address emerging financial issues.

Which of the following is not an imminent and significant financial issue for government in the United States?

- a) Funding federal inaugural parties**
- b) Funding or forgiving student debt**
- c) Funding the cost of increased security at all governmental levels**
- d) Funding neglected infrastructure**
- e) Funding pensions and other liabilities**

Government Accounting and Performance 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 Performance 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 including efforts to conduct program duplication audits

What Issues are On or Beyond the Horizon?

- **What are some examples of issues beyond the horizon which might not be on our radar screens now?**

Issues Beyond the Horizon

- Auditing and reducing corruption
- Auditing governance structures at the highest levels
- Auditing through intergovernmental and global partnerships
- Auditing with “worldwide best practices” and criteria for exceptional performance

Issues Beyond the Horizon—Cont.

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

POLL QUESTION EIGHT for “Emerging Issues in Government Performance Auditing”

Some audit issues are outside the scope of individual governmental jurisdictions.

Which of the following is an audit issue requiring intergovernmental and global partnerships?

- a) Assessing Citywide compliance with watering restrictions.**
- b) Finding tax savings among State agencies.**
- c) Determining the effectiveness of managing climate change.**
- d) Projecting crime rates in your community.**
- e) Determining hotel compliance with payment of bed taxes.**

III. How can we respond as auditors and managers to the complexity of emerging issues?

- A. Skills, competence, and expertise of government auditors and managers—we bring a lot to the table now (RIGHT!)

- B. Act now and “do something about it” auditors and managers

III. A. Skills, Competence, and Expertise

- University Programs
- Certifications
- Technology Tools
- Ongoing CPE

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

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

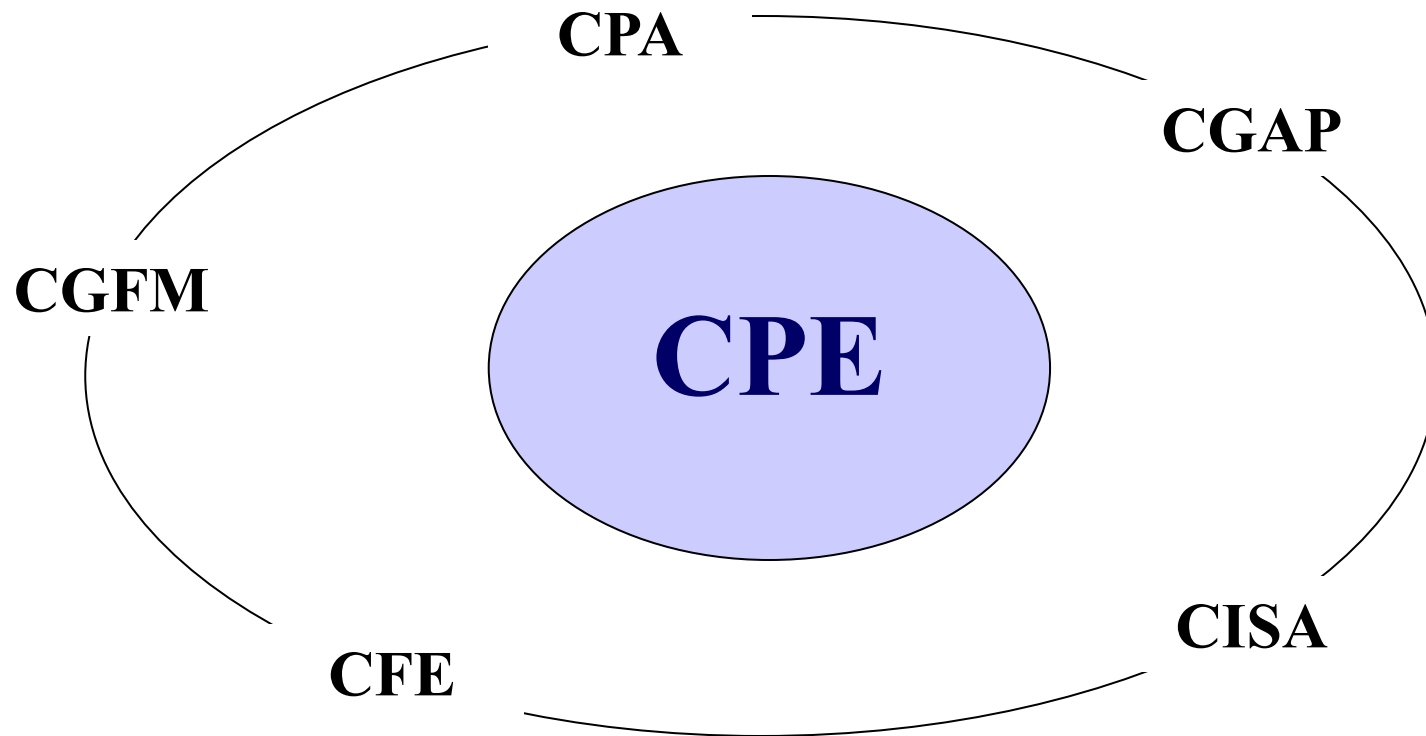
POLL QUESTION NINE for “Emerging Issues in Government Performance Auditing”

Auditors have skills, competence, and expertise to conduct value added audits of emerging issues.

Which of the following is not a skill needed or competence area needed to conduct effective performance audits?

- a) Project Management**
- b) Measuring performance if management does not have relevant and reliable measures**
- c) At least basic to intermediate IT skills**
- d) Communication and interpersonal relations skills**
- e) Capacity to conduct “magic shows” during entrance conferences**

Certifications Support Auditor/ Manager Growth and Development



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

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

POLL QUESTION TEN for “Emerging Issues in Government Performance Auditing”

A wide variety of improvements have been suggested to enable government auditors to more effectively identify and audit emerging issues.

The ideal “high impact” audit report:

- a) Is detailed enough to support physical evidence.**
- b) Contains sentences that can best be understood on “Twitter.”**
- c) Balances the needs and understanding of important audit clients.**
- d) Addresses the needs of the general public.**
- e) Gives everyone something to “sleep on.”**

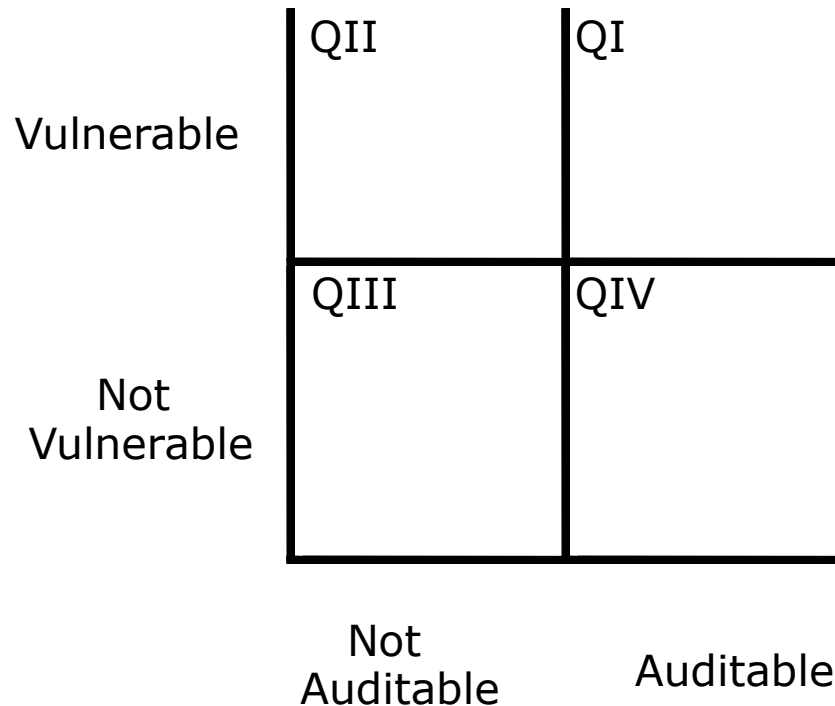
III. B. Auditors and Managers Identify and Respond Effectively to Emerging Issues

- 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 the tough decisions.**

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?**

Audit Planning: Selection and Prioritization Under Constraints



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)

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?”**

POLL QUESTION ELEVEN for “Emerging Issues in Government Performance Auditing”

Auditors should audit significant issues.

In today’s world auditors are expected to audit:

- a) Emerging issues**
- b) Past, present, and future issues**
- c) Past and present issues**
- d) Issues in the media**
- e) Issues they are interested in**

Auditors Should Understand and Emulate Best Practices

- **IIA sponsored a Canadian/American research project and issued in 2014 “Emerging Strategies for Performance Auditing” by Ron Foster and Tom O’Connor**
- **Conclusions based on responses from 84 major cities in the United States and 32 from Canada**
- **Average time spent by respondents on performance auditing was 48% in Canada and 58% in the United States**

Best Practices

- **Establishing a mandate for performance auditing within the audit charter;**
- **Establishing a formal audit committee with terms of reference/charter;**
- **Building understanding and support for the audit activity and performance audit function;**
- **Supporting the establishment of mature/robust governance processes;**
- **Making performance audit reports readily available to the public;**
- **Establishing risk-based, multi-year audit plans;**

Best Practices (Continued)

- **Selecting audit objectives that address all relevant aspects of performance;**
- **Scoping audits broadly enough to support accountability for results;**
- **Following accepted auditing standards;**
- **Actively building competencies and capabilities in performance auditing;**
- **Supporting involvement of the audit activity in professional associations; and**
- **Demonstrating leadership in performance auditing.**

POLL QUESTION TWELVE for “Emerging Issues in Government Performance Auditing”

Auditors offices should emulate best practices.

Which of the following is not a best practice for government audit offices?

- a) Reporting to the highest level decision makers**
- b) Complying with applicable auditing standards**
- c) Closing down selected performance audits so fraud can be “rooted out”**
- d) Selecting high risk or significant issues to focus audits on**
- e) “Getting them” every single day**

What Audit Success Looks Like In Summary

- 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

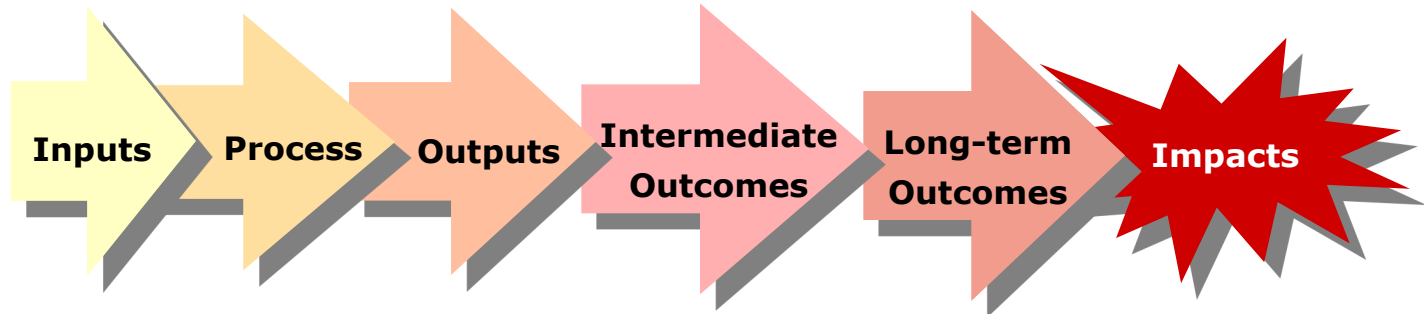
Do Something About It Managers

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

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?**

Program Definition and Performance Expectations



Input Economy	Process Efficiency	Output Effectiveness	Outcome Effectiveness
Financial <ul style="list-style-type: none"> Amount Timing Physical <ul style="list-style-type: none"> Quantity Quality Timing 	Productivity <ul style="list-style-type: none"> Output/input Unit Cost <ul style="list-style-type: none"> Input/output Operating Ratios	Level/Quantity Timeliness Quality Price/Cost Customer Satisfaction	Mission & Goal Achievement Financial Viability Cost/Benefit Customer Satisfaction
Crosscutting Performance Goals			

Compliance with Laws and Regulations

Reliability, Validity, and Availability of Information

Maintaining Underlying Values

- Individual Ethics and Integrity
- Societal Equity
- Cooperation and Partnership

Continuous Improvement

Planning and Budgeting Model



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



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

Auditors and Managers 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 managers 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

IV. 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 Level**
- **Provide High Impact Information On Time and Under Budget**

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

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.

Additional Training/Assistance to Be a Better Performance Auditor

- **EGAPP, Inc. provides training in all aspects of performance management and auditing. (Brochure Available) Email to: egappmorgan@yahoo.com**
- **Auditor Roles Project provides training in assessing/auditing performance management systems and measures. Assistance can also be arranged. E-mail: paul@RTMteam.net**

IIA/ACGA/EGAPP eWorkshops—see acga.theiia.org

- **September 12 and 14 eWorkshop on “Emerging Issues and Best Practices in Government Auditing”**
- **October 16, 18, 23, and 25 eWorkshop on “Auditing Performance Management Systems”**
- **November 28 and 30 eWorkshop on “Auditor Responsibilities for Fraud and Abuse Deterrence and Detection”**

Thank You.

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