

# **Performance Audit Survey: Developing Preliminary Findings and Audit Objectives**

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## **Reinforcing the Survey and Developing Performance Audit Objectives**

### **COURSE OBJECTIVES**

- I. Understand an overview of the performance auditing process
- II. Understand the performance audit planning process
- III. Reinforce the audit survey with program mapping, performance expectations, and preliminary findings and conclusions
- IV. Develop audit objectives and sub-objectives; suggestions for developing audit recommendations

# Module One: Overview of Performance Auditing

- ◆ What is performance auditing?
- ◆ Why is performance auditing important?

## The Performance Audit Planning Process

### Auditors Develop New Information and Verify Existing Information

“Performance audits are defined as engagements that provide assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability. (1.25) Performance audit objectives may vary widely and include assessments of program effectiveness; economy and efficiency; internal control; compliance; and prospective analyses. These overall objectives are not mutually exclusive. (1.28)

Source: Government Auditing Standards, 2007 Revision

## **Auditors Develop New or Verify Existing Information On Performance Aspects or Measures**

<b>Customer satisfaction</b>	<b>Mission/purpose achievement</b>
<b>Cost-benefit and cost-effectiveness</b>	<b>Return on investment</b>
<b>Profit</b>	<b>Financial condition</b>
<b>Quality</b>	<b>Timeliness</b>
<b>Quantity</b>	<b>Cost</b>
<b>Economy</b>	<b>Efficiency</b>

## **Professional Organizations Provide Audit Guidance and Technical Assistance**

- ◆ GAO issues professional standards updates and technical guidance through the “Yellow Book” website including regulatory updates
- ◆ IIA publishes the International Professional Practices Framework— the “Red Book” and related papers, advisories, practice guides

## 2007 Government Auditing Standards (Yellow Book)

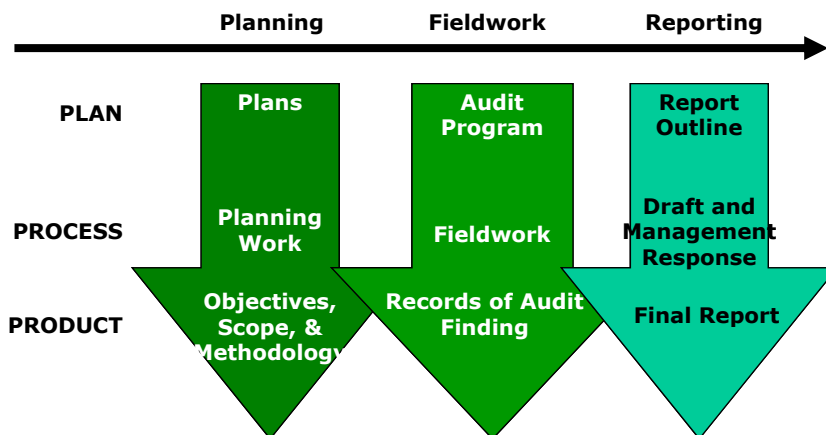
- ◆ Exercise: What Yellow Book chapters do you need to read and understand to conduct performance audits?
- ◆ What additional part of the Yellow Book provides guidance for performance auditing?

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The Performance Audit Planning Process

### Audit Process

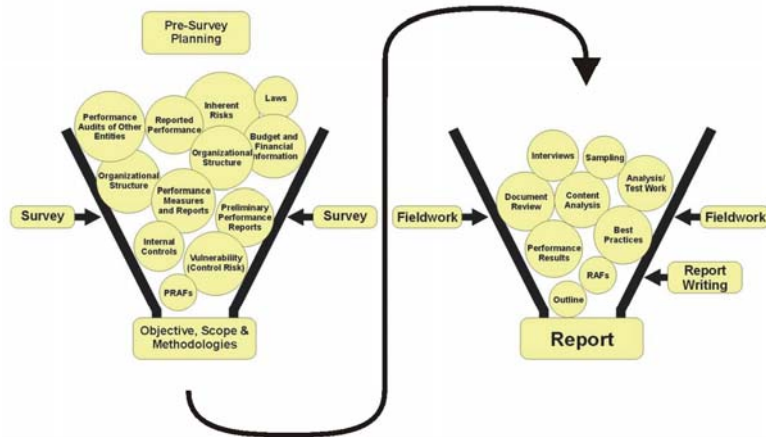


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## The Performance Audit Planning Process

### Audit Process – Alternative View



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## Performance Auditing Process

Audit Selection (Annual Planning)

- ◆ What should be audited?

Project Planning (Survey and Detailed Planning)

- ◆ What will we focus on and how will we do it?

Field Work or Findings Development

- ◆ What are we finding; what does it tell us?

Reporting

- ◆ What is our message; what can we conclude and recommend?

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## **How to Conduct a Measurement Based Audit**

- ◆ Identify the program's inputs, processes, outputs, and outcomes
- ◆ Identify program's performance expectations and actual conditions
- ◆ Develop and prioritize performance audit objectives based on risk and vulnerability assessment, client request, or another method to compare expectations to actual conditions
- ◆ Assess existing performance measurement system including relevance and reliability of measures

## **How to Conduct a Measurement Based Audit—Cont.**

- ◆ Develop and implement "ad hoc" performance measurement system
- ◆ Using selected performance expectations as "criteria" and performance aspects or measures as "condition," analyze program performance
- ◆ Identify causes of variances and develop audit recommendations

## What does “program” mean?

- ◆ Note: Per Yellow Book the term “program” includes government entities, organizations, programs, activities, and functions.
- ◆ Systems, offices, sub-systems, processes, initiatives, and sub-processes could also be included including those that are “cross cutting.”

## Follow Up and Follow Through

- ◆ Management has responsibility under COSO and definition of internal control
- ◆ Auditors may also monitor management’s status reports on findings and “actionable” recommendations
- ◆ Auditors may verify degree of implementation by follow up audit work

## Module II: Steps in Planning Performance Audits

- ◆ Audit Selection
- ◆ Audit Survey
- ◆ Detailed Audit Project Planning—  
Developing Objectives, Scope, and  
Methodology

### The Performance Audit Planning Process

## Outcomes of the Planning Phase

- **What do you want to know at the end of planning?**
  - *What is the question(s) we are trying to answer?*
  - *Why should the client care about the answer?*
  - *How do we answer the question(s)?*





## Audit Selection

- ◆ Usually based on annual or bi-annual or even longer planning horizon
- ◆ Usually based on risk assessment and needs of most important stakeholders
- ◆ May be supported by an elaborate and ongoing risk assessment process to identify potential high impact audit projects

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## Impact vs. Probability

I M P A C T	High	<u>Medium Risk</u>	<u>High Risk</u>
		<b>Share</b>	<b>Mitigate &amp; Control</b>
	Low	<u>Low Risk</u>	<u>Medium Risk</u>
		<b>Accept</b>	<b>Control</b>
		<b>PROBABILITY</b>	
		Low	High

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## Multi-Year Audit Planning: Why do we do it?

- ◆ Identify high risk programs, activities, or cross cutting functions within the government organization
- ◆ Provide information to assist the elected officials, board, or other governance structure in assessing risk
- ◆ Provide information to assist management in both assessing and addressing risk
- ◆ Provide input to prioritizing and selecting projects for the audit plan
- ◆ Can accommodate a multi-year approach to auditing extremely complex and/or related issues that cannot be completed within audit timeframe

## Audit Selection

- ◆ Exercise: Why was your current audit selected for 2010 and what is the purpose of the audit?

The Performance Audit Planning Process

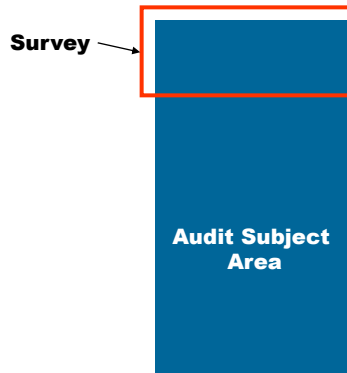
## Survey Process

**Focus:**

- Broad
- General/Basic

**Objectives:**

- Gain an understanding of report user needs, audit program or subject, and potential audit issues or concerns
- Identify and prioritize:
  - Potential audit issues
  - Preliminary audit objectives



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## Performance Audit Survey— Initial Scoping

- ◆ Needs of potential report users
- ◆ Nature of program being audited
- ◆ Potential audit issues/preliminary objectives: Sources of audit objectives

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## **Needs of Potential Report Users**

- ◆ Who are the potential report users?
- ◆ What are their needs?

## **Nature of the program**

- ◆ Mission, goals, products, services
- ◆ Laws, regulations, and requirements
- ◆ Resources and finances
- ◆ Performance measures/indicators
- ◆ Operations/processes/controls
- ◆ Information systems and data sources

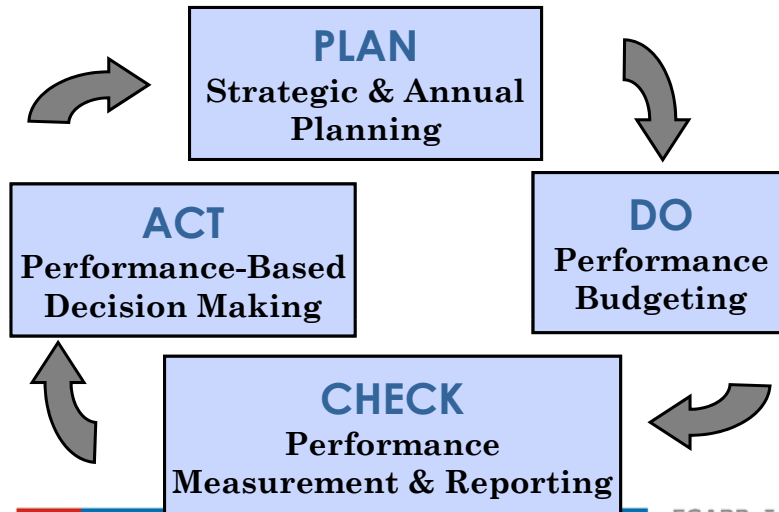
## Models Can Help Describe Program

- ◆ Performance Management
- ◆ Performance Measurement
- ◆ Relevance and Reliability Criteria
- ◆ Will cover in depth three more models in Module Three—I-P-O-O, Performance Expectations, and Audit Findings

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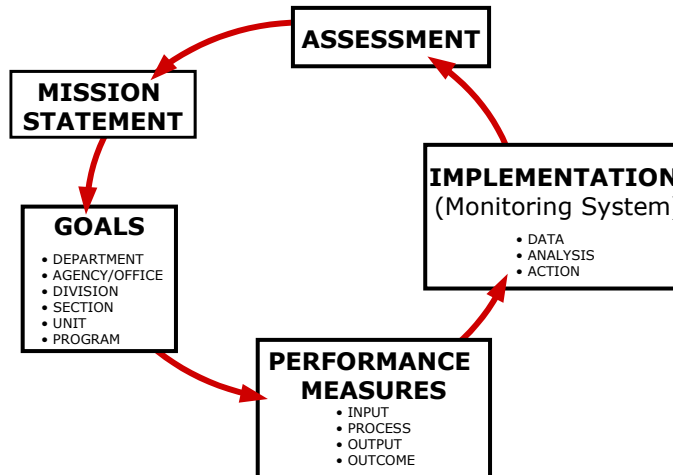
## Performance Management System



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## Performance Measurement System



## Self Assess or Audit Performance Measures Using Asserted Criteria

- ◆ **Relevance**—Measures should be aligned, complete, and useful
- ◆ **Reliability**—Each measure and its data should be accurate, valid, and consistent

***Practice 2a — Test relevance or reliability.***  
**Assessing the Relevance of Performance Measures: Sample Criteria**

**Measures should be:**

**Aligned**            Linked to mission, goals, objectives

**Complete**        Includes essential aspects of performance

**Useful**            Timely  
Understandable  
Comparable  
Responsive to change  
Meets broad needs of users

***Practice 2a — Test relevance or reliability.***  
**Assessing the Reliability of Performance Measures & Data: Sample Criteria**

**Each measure and its data should be:**

**Accurate**            Computed correctly  
Neither overstated nor understated  
Appropriately precise

**Valid**                Corresponds to the phenomena reported  
Correctly defined  
Data & calculation comply with definition  
Unbiased

**Consistent**        Consistent with previous periods  
Controlled by adequate systems

## **Identify Audit Issues/Preliminary Audit Objectives**

- ◆ Exercise: Where do audit objectives come from?

## **Identify Audit Issues/Preliminary Objectives: Auditor Judgment Regarding Conditions**

- ◆ Weaknesses in performance
- ◆ Risks/Vulnerabilities
- ◆ Stakeholder complaints/concerns
- ◆ Deviations from requirements/expectations
- ◆ Challenges to accomplishing mission
- ◆ Known problems
- ◆ Past fraud, abuse, unethical behavior



### **Where do audit objectives come from?**

- ◆ Mandated by legislation, regulations, contract, or grant
- ◆ Requested by stakeholders including oversight bodies, funders, clients, customers, and citizens
- ◆ Auditor judgment regarding expectations for government officials which will be used as audit criteria to develop performance audit objectives

### **Auditor Judgment Regarding Expectations or "Performance Criteria" to Compare to Condition**

- ◆ Auditor selects stated expectations (or subset) for stated performance aspects
- ◆ Auditor selects and "asserts" unstated expectations (or subset) for "asserted" performance aspects
- ◆ Auditor selects all or a sub-set of stated and unstated expectations for performance aspects based on a rationale/process/criteria

## Exercise

- ◆ What are examples of sources of unstated expectations?
- ◆ See page 36 in Performance Auditing: A Measurement Approach (2<sup>nd</sup> Edition)

## Auditor's rationale/process/criteria for selecting audit objectives

- ◆ Rationale/process/criteria must be objective and defensible.
- ◆ Selection may include objectives associated with the most egregious conditions; considered most important, highest impact, or most cost/beneficial; or timely for critical decision making.
- ◆ Rationale/process/criteria must be documented usually in OSM section.

## Form of Audit Issue/Preliminary Finding

- ◆ Usually some type of problem statement or concern containing a subject and one or more performance aspects (condition element)

Example: The new business loan **program's documentation requirements** have reduced small business **support** and **satisfaction**.

### The Performance Audit Planning Process

## Survey Outputs

- **Overview of program/activity**
- **Audit issues/preliminary findings**
- **Recommendations to pursue preliminary/potential audit objectives**

## What comes after Audit Survey?

- ◆ Refining/defining audit objectives
- ◆ Internal controls/fraud/compliance standards and requirements
- ◆ Scope and methodology for each objective
- ◆ Fieldwork steps for each objective and sub-objective
- ◆ Resources budget/timeline projections

## What will we cover for the rest of today?

- ◆ Reinforce Performance Audit Survey with the First Two Models:
  - Creating Program Maps
  - Establishing Program Performance Expectations to Use as Audit Criteria

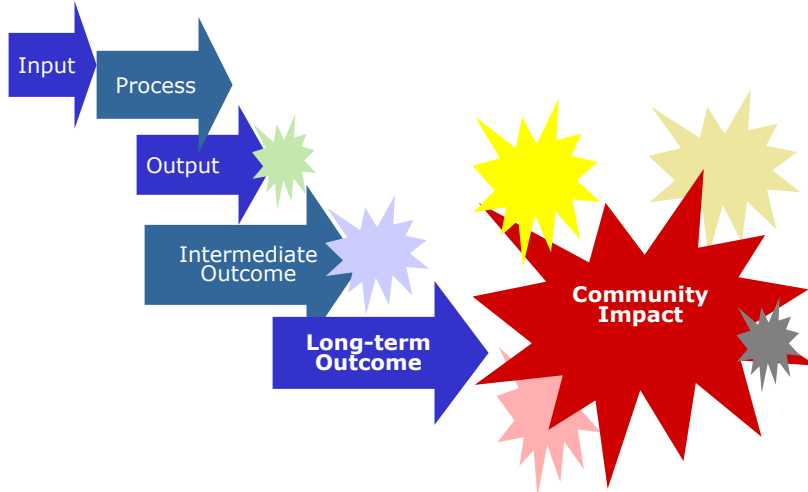
## **Module Three: Reinforce Performance Audit Survey**

- ◆ (1) Mapping programs using input, process, output, and outcome (I-P-O-O)
- ◆ (2) Understanding and using the performance expectations model to further develop audit objectives/sub-objectives
- ◆ (3) Developing preliminary findings to guide development of sub-objectives

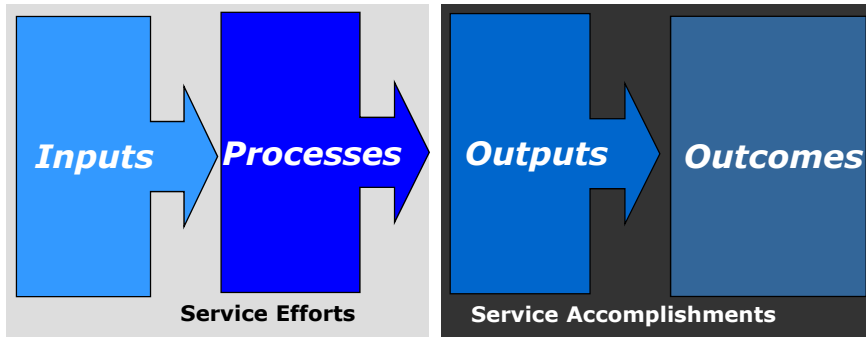
## **Module 3: (1) Mapping**

- ◆ All programs can be mapped
- ◆ Mapping can begin during survey
- ◆ Mapping must be completed by the end of the detailed planning phase
- ◆ Only programs relevant to the O,S,M should be completely mapped

## How Programs Are Intended to Work

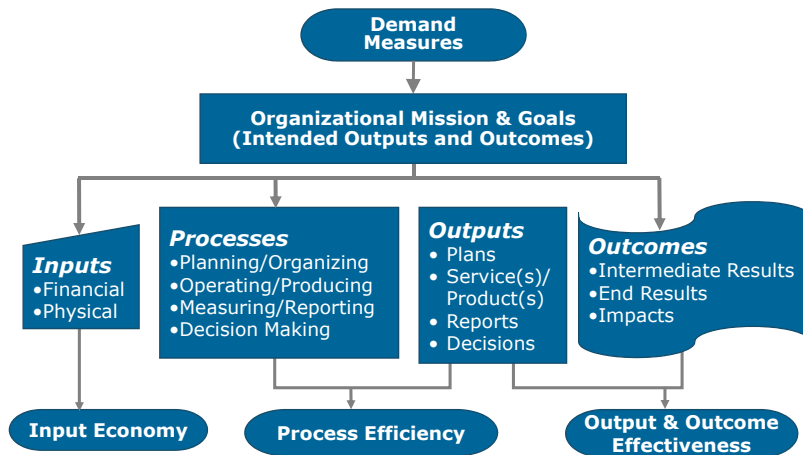


## Programs Consist of Service Delivery Systems Designed Based on Perceived or Actual Causal Relationships



Financial Inputs/Outputs	=	Unit Cost
Outputs/Physical Inputs	=	Productivity
Inputs/Outcomes	=	Cost Benefit and Cost Effectiveness

## Government Service Delivery Model (expanded)



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## Steps in Mapping a Program

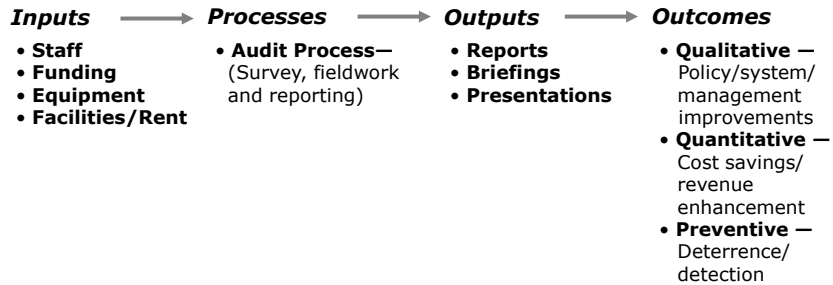
- ◆ Step 1: Beginning with outputs, define inputs, processes, and actual or intended outcomes.
- ◆ Step 2: Understand/document actual and intended cause/effect relationships between I-P-O-O.
- ◆ Graphically map the program.

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## Service Delivery System: Mapping the Auditing Program

### Audit Program or Office



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## Highway Patrol: Traffic Law Enforcement Program

Inputs	Process	Outputs (Services Delivered)	Outcomes (Results)

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**Exercise: Select a well known government program and map it.**

Inputs	Process	Outputs (Services Delivered)	Outcomes (Results)

**Module 3: (2) Government Expectations Model**

- ◆ Model can be viewed as providing stated and unstated performance expectations and aspects for any government program.
- ◆ Expectations provide audit criteria to compare to condition.

## Expectations of Government Officials

- ◆ “Government officials and recipients of federal moneys are responsible for carrying out public functions efficiently, economically, effectively, ethically, and equitably, while achieving desired program objectives.” (GAS—2007 Revision, page one)

## Government Performance Expectations Model

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

## Analyze/Audit Organizational Performance

Model Component	Expectation/Goal (Criteria)	Measure (Condition)
Input Economy	In FY 2010, decrease the purchasing office's personnel allocation by five positions.	Number of purchasing office positions deleted in FY 2010.
Process Efficiency	In FY 2010, provide vehicle preventive maintenance services at the unit cost \$500 or less per vehicle serviced.	Average vehicle preventive maintenance unit costs in FY 2010.
Output Quality (accuracy)	In FY 2010, reduce the restaurant critical inspection error rate by 10 percent.	Percentage reduction in the restaurant critical inspection error rate in FY 2010.
Output Quantity	In FY 2010, expand "green energy" electrical services to 1000 additional homes and businesses.	Number of additional homes and businesses in FY 2010 receiving "green energy."
Output Timeliness	In FY 2010, all Level 1 emergency calls will be responded to with a unit on site within six minutes.	Response times (range) to Level 1 emergency calls in FY 2010.
Outcome Effectiveness customer satisfaction	In FY 2010, increase convention center customer satisfaction rate from 4.5 to 4.7 on a 5.0 scale.	Change in convention center customer satisfaction rate during FY 2010.

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## Sources of Criteria for Establishing and Quantifying Performance Expectations/Goals

- ◆ Historical trends and baselines
- ◆ Program requirements or intent
- ◆ Customer expectations or demands
- ◆ Industry or sector standards
- ◆ Benchmarking within the organization
- ◆ Benchmarking outside the organization

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## Exercise

- ◆ What is the best source of criteria for establishing performance expectations?
- ◆ How do we determine if performance expectations are reasonable?

## Performance Categories and Aspects

Measuring government's performance involves gaining an understanding of the four major accountability goals discussed below. Government leaders, managers, and employees should define performance expectations, with appropriate public input, which cover each major performance goal. Systems should be developed to measure, monitor, and continuously improve performance, and ultimately hold all government organizations and employees accountable for meeting or exceeding the expectations.

**Input Economy** — obtaining inputs at the most economical price. Measures of how well governments acquire products and services of reasonable quality at reasonable costs (through competitive processes, where possible).

**1. Financial Measures**

- A. Amount - cost of products and services
- B. Timing - financing cost

**2. Physical Measures**

- A. Quantity - the right amount of products and services
- B. Quality - products and services equal to or greater than specifications
- C. Timing - delivery cycles or points (JIT), maintenance cycles, replacement strategy, etc.
- D. Price - the right (competitive) price for the products or services

**Process Efficiency** — measures of the government's ability to produce various levels of output at stated levels of input.

- 1. Productivity (output/input)
- 2. Unit Cost (input/output)
- 3. Operating Ratios - utilization of resources, backlog, cycle time, etc.

## Performance Categories and Aspect

(continued)

**Output Effectiveness** – measures of the delivery of products and services to customers.

1. **Level or quantity** - amount of products and services compared to capacity or need.
2. **Quality** - the adherence of products and services to quality specifications.
3. **Timeliness** - measures of timely delivery of products and services (expected finish date or ratio of on time accomplishment).
4. **Price/cost** - the price paid by the public compared to government cost to produce.

**Outcome Effectiveness** – making a difference, the impact of output. Measures of change in conditions or accomplishment due to a government's delivery of products or services.

1. **Mission and outcome goal achievement** - actual results compared to predetermined goals or benchmarks.
2. **Financial Viability** - short and long term prospects for "breaking even" or achieving financial viability requirements.
3. **Cost-Benefit** - cost divided by unit of benefit. A program could be beneficial for the cost but not be effective.
4. **Cost-Effectiveness** - cost divided by unit of effect. A program which is effective for the cost is beneficial.

See Appendix A

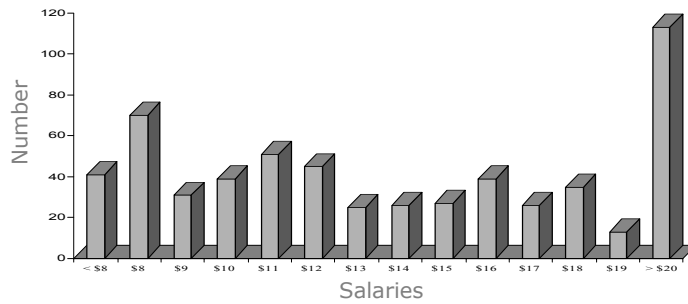
## Types of Performance Audits

**Auditing Input Economy – how can physical inputs be obtained at the lowest price while meeting quality and timeliness requirements?**

Program Performance – Risk and Vulnerability Organizational Models

## Input Economy (financial)

Salary Distribution Among Compensated  
“On Call” Employees – FY09



## Exercise

- ◆ What was the expectation or audit criteria for the on call/call back example?

## Types of Performance Audits

### Auditing Process Efficiency – how can unit costs be decreased or productivity increased?

- **Definition:** Relationship between input and output for a product or service. Productivity is expressed as output/input.

The goal of striving for efficiency is to produce the best output (product or service) delivered on time at the minimum cost. In other words, a process is efficient when the optimal relationship between inputs and outputs is achieved.

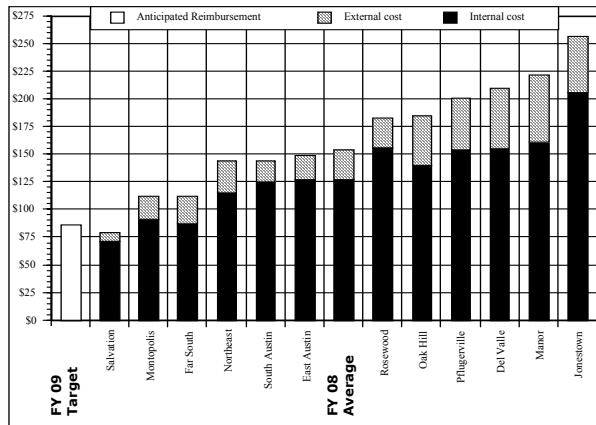
Efficiency “operating ratios” may be used as surrogates for the input/output relationships.

## Health Clinics (efficiency)

Health Clinics - Adjusted total cost comparison among clinics for billable and nonbillable encounters combined.

**External Costs:**  
City/County corporate overhead (payroll, human resources, treasury, controller’s office, etc.) along with capital improvement projects, rent, depreciation, etc.

**Internal Costs:**  
Physicians, nurses, medical supplies, pharmacy, etc.



## Exercise

- ◆ What was the expectation or audit criteria for the health clinic example?

### Program Performance – Audit Planning

## Types of Performance Audits

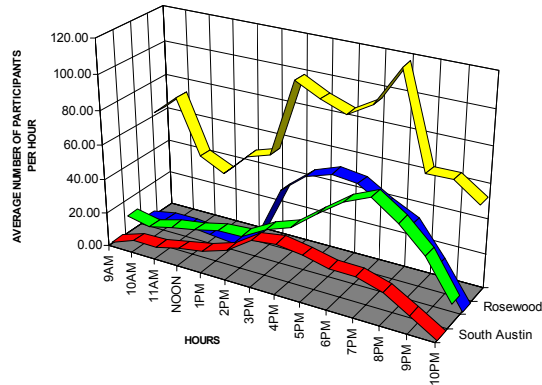
- **Auditing Output Quantity** – how many outputs were delivered compared to physical capacity, financial capacity, and customer need?
- **Auditing Output Timeliness** – are outputs being delivered on time? May include elapsed time, waiting time, response time, inactive time, and on time/on schedule.



Program Performance – Audit Planning

## Output Effectiveness (quantity)

### Recreation Center Participants



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## Exercise

- ◆ What was the expectation or audit criteria for the recreation center example?

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## Output Effectiveness (Timeliness) Formulas:

**Formula** – There are five potential methods for measuring timeliness. The formulas are straightforward arithmetic.

- **Elapsed time**  
formula: completion time - customer arrival time=elapsed time
- **Waiting time:**  
formula: service start – customer arrival = waiting time
- **Response time:**  
formula: service arrival time – time of call or request=response time
- **Inactive time (vs. working time):**  
formula: add the time for periods when no work is done
- **On time; on schedule:**  
formula: scheduled time - arrival time=on time  
scheduled time – completed time=on time

## Types of Performance Audits

### Auditing Output Quality – does the output meet quality requirement?

- **Accuracy** – define and meet accuracy specifications, such as accuracy in processing requests
- **Responsiveness** – willingness and readiness to understand and meet customer needs
- **Reliability** – ease of physical availability and accessibility of the service; knowledge of the service and its availability
- **Accessibility/Convenience** – politeness, respect, friendliness of contact personnel
- **Courtesy** – politeness, respect, friendliness of contact personnel
- **Credibility** – trustworthiness, believability, honesty, customer's best interests at heart
- **Utility** – meets minimum output requirements to satisfy most customers
- **Customer Satisfaction** – based on customer perceptions, does the output satisfy customer requirements?

## Auditing Outcome Effectiveness

### To what extent have expected outcomes been achieved?

- **Mission and Outcome Goals Accomplishment:** Extent to which mission and outcome goals are accomplished.
  - **Financial Viability:** Short and long term prospects for 'breaking even' or remaining financially viable.
  - **Cost-Effectiveness:** Extent to which the program is effective relative to costs.
  - **Cost Benefit:** Extent to which the program is beneficial relative to costs.
  - **Impact:** Extent to which the program actually caused the outcome.
  - **Customer Satisfaction:** Extent to which customers perceive outcomes are meeting their expectations.
- (outcomes may be "intermediate" in terms of making progress toward a desired "end" outcome or final result of the program)

## Outcome Effectiveness

*(mission & outcome goal achievement)*

### Audit Finding: DARE

*DARE as implemented in AISD pilot schools is not associated with reduced contact with TCJC.*

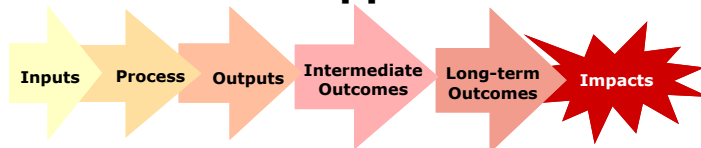
INDICATOR	DARE	NON-DARE
Number of students in sample	717	586
Percent of students with drug-related offenses resulting in contact with TCJC	4.9%	3.1%
Percent of students with non-drug offenses resulting in contact with TCJC	23.6%	18.6%

## Exercise

- ◆ What was the expectation or audit criteria for the DARE example?

### Program Performance – Audit Planning

## Program Definition and Performance Expectations—see Appendix B



Input Economy	Process Efficiency	Output Effectiveness	Outcome Effectiveness
<b>Financial</b> • Amount • Timing <b>Physical</b> • Quantity • Quality • Timing	<b>Productivity</b> • Output/input <b>Unit Cost</b> • Input/output <b>Operating Ratios</b>	<b>Level/Quantity</b> <b>Timeliness</b> <b>Quality</b> <b>Price/Cost</b> <b>Customer Satisfaction</b>	<b>Mission &amp; Goal Achievement</b> <b>Financial Viability</b> <b>Cost/Benefit</b> <b>Customer Satisfaction</b>

### 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**

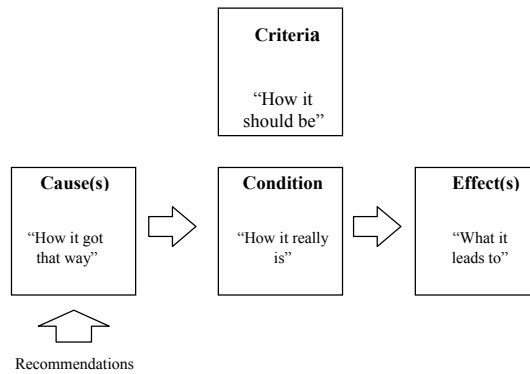
## **What will we cover tomorrow?**

- ◆ The Audit Findings Model
- ◆ Suggestions for Developing Audit Conclusions
- ◆ Refine/Develop Audit Objectives and Sub-Objectives
- ◆ Suggestions for Developing Audit Recommendations

## **Module Three: (3) Preliminary Findings**

- ◆ Generally consist of criteria and condition findings elements
- ◆ May include cause elements
- ◆ Used to support survey audit issues and preliminary objectives
- ◆ Used during detailed planning to help develop/refine audit objectives

## Elements of an Audit Finding



## Yellow Book Provides Guidance and Definitions (see Appendix C)

- ◆ 7.37—**Criteria** identify the required or desired state or expectation with respect to the program being audited.
- ◆ 7.74—**Condition** is a situation that exists related to the program (reality based on sufficient/appropriate evidence).
- ◆ 7.75—**Cause** identifies the reason or explanation for the condition.

## Findings Definitions

- ◆ 7.75--**Cause** may also be the factor or factors responsible for the difference between the situation that exists (condition) and the expectation or desired state (criteria).
- ◆ 7.76--**Effect** is a clear logical link to establish the impact of the difference between condition and criteria.

## Three Types of Findings—See Appendix D

- ◆ Descriptive, normative, and causal (we will focus on causal—why?)

Source: **8.14** “the extent to which the elements for a finding are developed depends on the audit objectives...a finding or set of findings is complete to the extent that the auditors address the audit objectives.”

## **Why Performance Expectations/Goals Are Not Accomplished (Cause Element)**

- 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 or unethical behavior get in the way
- Act of providence intercedes

## **Suggestions for Developing Audit Conclusions**

- ◆ Audit conclusions directly answer the audit objectives
- ◆ Based on assessment of facts and findings' significance; implications that flow from them
- ◆ Based on appropriate/sufficient evidence



## **Suggestions for Developing Conclusions—Cont.**

- ◆ Audit conclusions do not introduce new evidence or contain recommendations
- ◆ Do transition from the findings to the recommendations
- ◆ Do convince the report user that action is necessary if recommendations are made

## **Findings and Conclusions Exercise**

- ◆ Identify conclusion, criteria, condition, effect, and cause in the prison inmate case study—see Appendix E, Case One.
- ◆ Identify conclusion, criteria, condition, effect, and cause in the loan application case study—see Appendix E, Case Two.

## **Module Four: Developing Audit Objectives and Sub-Objectives**

- ◆ Audit Standards
- ◆ Characteristics of well developed audit objectives
- ◆ Steps to develop, refine, and prioritize objectives and sub-objectives
- ◆ Complete case studies by identifying audit issues and developing objectives and sub-objectives

## **What you want at the end of detailed planning...**

- A close-ended objective(s)
- Sub-objectives stated in terms of the elements
- Preliminary findings to go with the sub-objectives
- Methodologies to go with the objectives and tasks to go with the sub-objectives
- Budgeted resources and timeframes to complete tasks

## Audit Standards — Define/Refine the Audit Objective

### The Audit Objective...

establishes boundaries for the audit by clearly stating what the audit is to accomplish and it identifies the subject of the audit and the performance goal.

#### **YELLOW BOOK 7.08**

*The objectives are what the audit is intended to accomplish. They identify the audit subject matter and performance aspects to be included, and may also include the potential findings and reporting elements that the auditors expect to develop. Audit objectives can be thought of as questions about the program that the auditors seek to answer. (see 1.29, 1.30, 1.31, and 1.32).*

## Ask the Right Question

### Characteristics of Well Developed Audit Objectives

- Phrase as precisely worded questions or as "To determine whether..."
- Eliminate ambiguous, abstract, or unfocused terms.
- Clearly identify the subject being audited.
- Include an identifiable, auditable performance aspect.
- Separate objectives if more than one or two aspects of performance to be reviewed.
- Identify the specific elements of finding needed to meet the objective.
- Frame objectives that consider a realistic scope and methodology.
- Report must answer the audit objectives (conclusions).

## Define/Refine the Audit Objective

**Change open-ended objectives into close-ended objectives.**

### **Open-ended objectives**

- Identify the subject (or what) the audit is to examine
- Are vague in defining what the audit is to accomplish

## Define/Refine the Audit Objective (Continued)

**Change open-ended objectives into close-ended objectives.**

### **Close-ended objectives**

- Are answerable
- Identify what the audit is to examine
- Clarify what the audit is to accomplish

See Appendix F for explanation and exercise.

## Seven Steps to Develop/Refine Audit Objectives

## Seven Steps to Develop/Refine the Audit Objective

### Step 1.

**Confirm the primary report users.**

- What do they want or need to know?
- When they find out, what are they going to do?

## Seven Steps to Develop/Refine the Audit Objective

### Step 2.

#### Based on survey, list:

- Potential audit issues (conditions which may be concerns, problems, or expectations not met)
- Preliminary audit objectives

## Seven Steps to Develop/Refine the Audit Objective

### Step 3.

#### Understand/confirm the *subject*.

The audit subject will usually be:

- An organization
- A program, service, activity or function (food stamps, garbage collection, purchasing, etc.)
- An accountability or delivery system subject to audit
- Examples:
  - *Is the agency's goal setting process adequate?*
  - *Is the agency's payroll operation efficient?*
  - *Are the agency's customers satisfied with the program?*

## Seven Steps to Develop/Refine the Audit Objective

### Step 4.

**Decide what *performance aspect(s)* to include in the audit.**

- Purpose achievement
- Cost, cost/benefit, cost recovery
- Readiness
- Quality, quantity
- Population served
- Timeliness
- Customer satisfaction
- Price of resources purchased as inputs
- Quantity of resources used
- Service accuracy, consistency, reliability, comfort

## Seven Steps to Develop/Refine the Audit Objective

### Step 4. continued...

#### EXAMPLES:

- Is the agency's payroll operation too expensive in terms of **unit costs**?
- Is the agency's goal setting process producing goals which reflect **legislative intent**?
- Are the agency's customers satisfied with the **quality** and **timeliness** of the program's service delivery?

See Appendix G for exercise.

## Seven Steps to Develop/Refine the Audit Objective

### Step 5.

Prioritize audit objectives using one or more of the following methods or factors:

- Risk/Vulnerability/Auditability
- Client Needs
- Auditor Judgment Regarding Cost/Benefit
- Other Methods

## Audit Planning Decision Making and Prioritization Grid—See Appendix H

	QII	QI
Important		
Not Important	QIII	QIV
	Not Auditable	Auditable



## Seven Steps to Develop/Refine the Audit Objective

### Step 6.

Decide what **finding elements** to develop which will then be linked to sub-objectives.

- **Descriptive**
  - Condition
- **Normative**
  - Criteria, condition, and potential effect
- **Causal**
  - Criteria, condition, effect, cause

## Seven Steps to Develop/Refine the Audit Objective

### Step 7.

Develop **sub-objectives**.

- Sub-objectives are developed as a series of questions addressing each finding element you decided to develop. A separate question should be written for each finding element.

## Seven Steps to Develop/Refine the Audit Objective

### Step 7. continued

Develop **sub-objectives**.

- Sub-objectives will:
  - Address elements of the preliminary findings
  - usually help identify the nature of the data required
  - tend to equate to major audit steps

## Seven Steps to Develop/Refine the Audit Objective

### Examples of sub-objectives:

Descriptive: **Response time**

**CONDITION:** *What is the average response time during the last three fiscal years for level one emergency calls?*

## Seven Steps to Develop/Refine the Audit Objective

### Examples of sub-objectives continued:

Normative: **Payroll operation**

**CRITERIA:** *In FY 09, what were the unit costs of processing payroll in benchmark agencies?*

**CONDITION:** *What are the FY09 unit costs of processing payroll for the agency being audited?*

**EFFECTS:** *How do the audited agency's FY09 unit costs of processing payroll compare to other agencies with similar payroll operations?*

**EFFECTS:** *What savings could be achieved if the audited agency's FY09 unit cost of processing payroll were reduced to the level of the most efficient benchmark agency?*

## Seven Steps to Develop/Refine the Audit Objective

### Examples of sub-objectives continued:

Causal: **Goal setting**

**CRITERIA:** *What was the legislative intent provided to the agency in FY09?*

**CONDITION:** *What legislative intent is reflected in the agency's FY10 goals?*

**EFFECT:** *What is the difference between FY09 legislative intent and the agency's FY10 goals?*

**CAUSE:** *Does the agency's goal setting process conform to the State's guidelines for strategic planning?*

## Seven Steps to Develop/Refine the Audit Objective

### Examples of sub-objectives continued:

#### Causal: Customer Satisfaction & Timeliness

**CRITERIA:** *What are reasonable customer expectations for timeliness of agency service delivery?*

**CONDITION:** *What has been the trend in customer satisfaction with the timeliness of agency service delivery over the last five fiscal years?*

**EFFECT:** *What actions have customers dissatisfied with the timeliness of agency service delivery taken?*

## Seven Steps to Develop/Refine the Audit Objective

### Examples of sub-objectives continued:

#### Causal: Customer Satisfaction & Timeliness

**EFFECT:** *How has the agency responded to customers who were dissatisfied with the timeliness of agency service delivery?*

**CAUSE:** *What are the underlying factors which influence customer satisfaction with timeliness of agency service delivery?*

## Case Study Exercises

- ◆ Appendix I—DARE Example
- ◆ Appendix J—Template to Complete for Child Care Licensing Program (CCLP)
- ◆ Appendix K—Case Study for CCLP
- ◆ Appendix L—Template to Complete for the State Public Housing Program (SPHP)
- ◆ Appendix M—Case Study for SPHP

### Audit Assignment Planning

## Where do we go from here?

### More Planning Work to develop Contents of the Audit Fieldwork Program

- Audit objective(s) and sub-objective(s)
- Scope
- Methodologies to accomplish objectives
- Tasks to accomplish sub-objectives
- Tests on relevance and reliability of data
- Define data and document sources or systems
- Documentation of audit supervisory approval

## **Suggestions for Developing Audit Recommendations**

- ◆ Audit recommendations should be directed toward an accountability level or position (authority to act)
- ◆ Flow logically from findings/conclusions
- ◆ Directed toward causes of problems and/or progress toward best practices

## **Suggestions for Recommendations—Cont.**

- ◆ May have a direct linkage to a specific cause using phrases such as “in order to...” or “to address...”
- ◆ Audit recommendations encourage improvement in government programs and operations
- ◆ Action oriented, convincing, significant, feasible, cost-effective, measurable, and positive in tone and content

## **Example Audit Recommendations**

- ◆ In order to reduce employee injuries, the Parks and Wildlife Director should implement an agency wide safety program.
- ◆ In order to assist the Small and Minority Business Resources Department (SMBR) in tracking and accomplishing its goals and objectives, the SMBR Director should develop and implement a performance management system.

## **Example Audit Recommendations--Continued**

- ◆ To improve consistent and timely close-out of contracts, the SMBR Director should implement close-out procedures to address professional services contracts, both project specific and rotation list contracts.
- ◆ The Governor should adopt and implement a best practice ethics management model that at a minimum addresses the seven requirements of the Federal Sentencing Guidelines for Organizations.

See Exercise Appendix N

## Checklist

# Best Practices Checklist for Performance Audit Planning

## Best Practices Checklist for Audit Planning

**Develop and obtain concurrence on a written plan to direct the planning phase.**

**The plan contains:**

- Tasks to accomplish background research
- Tasks to develop audit issues/preliminary findings
- Development of:
  - Objectives, scope and methodology
  - Documentation of Preliminary findings



**Ensure audit management actively and constantly participates and continually raises questions**

**After considering various methodologies, select ones that will fully accomplish the audit objectives at the least cost**



Best Practices

## Best Practices Checklist for Audit Planning

**Identify barriers to implementing the methodology including location, availability, and reliability of information and information sources**

**Periodically brief internal and external clients about objectives, messages, and potential outcomes**

**Proactively ensure client or report user interest in the project outputs**

- Be responsive to the requestor's or report user needs
- Help potential clients understand the usefulness and benefits of the project

Best Practices

## Best Practices Checklist for Audit Planning

**Review generally accepted government auditing standards and understand/document how and which standards will be applied during the assignment**

**Provide high quality, timely, and documented planning phase output reviews**

**Ensure everyone involved in the assignment understands and agrees with their roles and responsibilities**

**Sequence activities and organize work around expected results**

**Start visualizing potential outputs and outcomes when you start the project**

Best Practices

## Best Practices Checklist for Audit Planning

**Make explicit the linkage between audit objectives and finding elements through sub-objectives**

**Identify potential scope limitations**

**If original data must be collected, design the data collection instrument during the planing phase and pre-test the instrument**

**Link the methodology to the fieldwork program by specifying the evidence to be collected and analyzed to complete preliminary findings and answer audit objectives/sub-objectives**

**Consider when the customer needs the information when deciding on a communication product**

Best Practices

## Best Practices Checklist for Audit Planning

**Understand the motives/positions of the various players including experts, competitors, clients, and stakeholders**

**Conclude the planning phase with a “meeting of the minds”.**

**Agree on the:**

- Criteria
- Preliminary conditions
- Information constraints
- Scope limitations
- Potential audit conclusions
- The objectives, scope, and methodology
- Sufficient information to develop an audit fieldwork program