Risk Based Performance Audit
Project Planning

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Guam

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OBJECTIVES

I. Describe the performance audit planning process
II. Understand risk and vulnerability organizational models
III. Understand risk and vulnerability assessment process
IV. Perform a risk and vulnerability assessment at the assignment level
V. Develop audit objectives and sub-objectives
VI. Identify methodologies to address objectives
VII. Best Practices Checklist for audit planning
The Performance Audit Planning Process

Auditors Enhance the Value of Existing Information

“Auditing – An examination of accounts or records to check their accuracy”

Auditors Develop New 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
The Performance Audit Planning Process

Auditors Develop New Information On Performance Aspects or Measures

<table>
<thead>
<tr>
<th>Customer satisfaction</th>
<th>Mission/purpose achievement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost-benefit and cost-effectiveness</td>
<td>Return on investment</td>
</tr>
<tr>
<td>Profit</td>
<td>Financial condition</td>
</tr>
<tr>
<td>Quality</td>
<td>Timeliness</td>
</tr>
<tr>
<td>Quantity (outputs)</td>
<td>Cost</td>
</tr>
<tr>
<td>Economy</td>
<td>Efficiency</td>
</tr>
</tbody>
</table>

The Performance Audit Planning Process

Audit Process

- **Planning**
  - Survey Plan
  - Audit Program
  - Report Outline
- **Fieldwork**
  - Survey Work
  - Fieldwork
  - Draft and Management Response
- **Reporting**
  - Objectives, Scope, & Methodology
  - Records of Audit Finding
  - Final Report

EGAPP, Inc.
The Performance Audit Planning Process

Audit Process — Alternative View

Focus:
- Broad
- General/Basic

Objectives:
- Gain an understanding of the audit subject area
- Identify and rank:
  - Potential consequences associated with the subject area
  - Vulnerability to each consequence
Survey Process

Background

- Risks
- Vulnerabilities

Survey Outputs

- Risk/vulnerability assessment
- Audit objectives
- Sub-objectives and preliminary findings
- Audit program (methodologies and scope)
The Performance Audit Planning Process

Outcomes of the Planning (survey) Stage

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

Understand Risk and Vulnerability Organizational Models

Risk and Vulnerability Organizational Models

A → D
Inherent Risk
(program performance)

E
Accountability Control Risk
(key accountability subsystems)
Program Performance — Risk and Vulnerability Organizational Models

A Service Delivery System

![Service Delivery System Diagram]

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

Program Performance — Risk and Vulnerability Organizational Models

A Service Delivery System: Auditing Program

Audit Program or Activity

- **Inputs**
  - Staff
  - Funding
  - Equipment
  - Facilities/Rent

- **Processes**
  - Audit Process—(Survey, fieldwork and reporting)

- **Outputs**
  - Reports
  - Briefings
  - Presentations

- **Outcomes**
  - Qualitative — Policy/system/management improvements
  - Quantitative — Cost savings/revenue enhancement
  - Preventive — Deterrence/detection
Program Performance — Risk and Vulnerability Organizational Models

**Government Service Delivery Model** (expanded)

- **Demand Measures**
  - Organizational Mission & Goals (Intended Outputs and Outcomes)

- **Inputs**
  - Financial
  - Physical

- **Processes**
  - Planning/Organizing
  - Operating/Producing
  - Measuring/Reporting
  - Decision Making

- **Outputs**
  - Plans
  - Service(s)/Product(s)
  - Reports
  - Decisions

- **Outcomes**
  - Intermediate Results
  - End Results
  - Impacts

**Police Patrol Example Program**

<table>
<thead>
<tr>
<th>Inputs</th>
<th>Process</th>
<th>Outputs (Services Delivered)</th>
<th>Outcomes (Results)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>
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)

Program Performance — Risk and Vulnerability Organizational Models

Government Performance Expectations

<table>
<thead>
<tr>
<th>MISSION PERFORMANCE GOALS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INPUT ECONOMY</strong></td>
</tr>
<tr>
<td>Financial</td>
</tr>
<tr>
<td>- Amount, timing</td>
</tr>
<tr>
<td>Physical</td>
</tr>
<tr>
<td>- Quantity, quality</td>
</tr>
<tr>
<td>- Timing, price</td>
</tr>
</tbody>
</table>

CROSSCUTTING PERFORMANCE GOALS

- Compliance with Laws and Regulations
- Resources - Safeguarding - Infrastructure
- Continuous Improvement
- Reliability, Validity, Availability of Information
- Underlying Values
- Customer and Stakeholder Satisfaction
Program Performance — Risk and Vulnerability Organizational Models

C 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.

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
C Types of Performance Audits

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

C Input Economy (financial)

Salary Distribution Among Compensated “On Call” Employees — FY08
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.

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Health Clinics (financial)

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.
Program Performance — Risk and Vulnerability Organizational Models

C. 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 — Risk and Vulnerability Organizational Models

C. Output Effectiveness (quantity)

Recreation Center Participants
C 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

C 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?
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)

Audit Finding: DARE

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

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>DARE</th>
<th>NON-DARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of students in sample</td>
<td>717</td>
<td>586</td>
</tr>
<tr>
<td>Percent of students with drug-related offenses resulting in contact with TCJC</td>
<td>4.9%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Percent of students with non-drug offenses resulting in contact with TCJC</td>
<td>23.6%</td>
<td>18.6%</td>
</tr>
</tbody>
</table>
**Mission**

- **Inputs**
- **Process**
- **Outputs**
- **Intermediate Outcomes**
- **Long-term Outcomes**

<table>
<thead>
<tr>
<th>Input Economy</th>
<th>Process Efficiency</th>
<th>Output Effectiveness</th>
<th>Outcome Effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Productivity</td>
<td>Level/Quantity</td>
<td>Mission &amp; Goal Achievement</td>
</tr>
<tr>
<td>Physical</td>
<td>Unit Cost</td>
<td>Quality</td>
<td>Financial Viability</td>
</tr>
<tr>
<td></td>
<td>Operating Ratios</td>
<td>Price/Cost</td>
<td>Customer Satisfaction</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Customer Satisfaction</td>
<td></td>
</tr>
</tbody>
</table>

**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

**Risk and Vulnerability – Control Risk (Vulnerability) Model**

**Why are Performance Goals Sometimes Not Accomplished?**

- Theoretical framework is flawed, i.e. no direct cause and 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
- Program goals are unrealistic/unattainable
- Inputs/resources are inadequate
- Act of providence intercedes
- Management systems/processes are deficient
Control risk and risk factors may be organized according to the new COSO ERM framework. Another approach is to develop your own model based on this framework.

• Every entity exists to provide value for stakeholders
• All entities face uncertainty
• Management must determine acceptable level of uncertainty
• Uncertainty presents both risk and opportunity
• ERM provides a framework for effectively deal with uncertainty and associated risk and opportunity

“All entities face uncertainty, and the challenge for management is to determine how much uncertainty the entity is prepared to accept as it strives to grow stakeholder value.”

COSO Enterprise Risk Management Framework; Draft Version, July 2003
Enterprise Risk Management

Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement entity objectives.

Framework Components

The Framework Has Eight Interrelated Components
Risk and vulnerability—Key Accountability Subsystem Model

**E Control Risk (Vulnerability)**

In the public sector, control risk and risk factors may be organized by adapting the original COSO model and the new COSO ERM framework to the public sector environment.

Risk can be managed within tolerable upper and lower control limits by implementing controls (systems and subsystems) in the following areas:

- Policy
- Performance
- Information
- Resource management
- Control Environment

See appendix E

See 2003 GAGAS p. 132, footnote 79.

**Understand Risk and Vulnerability Assessment Process**

**Risk and Vulnerability Assessments**

- Assess inherent risk
- Assess vulnerability
- Assess auditability
Risk and Vulnerability Assessment Process

Develop Audit Objectives - Rank Risk & Auditability

- **Vulnerability/Final Risk**
  - Inherent Risk
    - Risk without controls
  - Control Risk
    - Risk with controls
- **Auditability**

Risk and Vulnerability Assessment Process

Criteria for Assessing Inherent Risk

- **Sensitivity**
- **Significance**
- **Susceptibility**

For each of these three inherent risk criteria, what are examples of key risk factors that would be used to assess each of these three as high, medium, or low?
Risk and Vulnerability Assessment Process

Risk/Control Relationships

Relationships Between Inherent Risks, Internal Controls and Control Risks

<table>
<thead>
<tr>
<th>Inherent Risk</th>
<th>Internal Controls</th>
<th>Control Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Weak</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Adequate</td>
<td>Moderate to High</td>
</tr>
<tr>
<td></td>
<td>Strong</td>
<td>Low to Moderate</td>
</tr>
<tr>
<td>Moderate</td>
<td>Weak</td>
<td>Moderate to High</td>
</tr>
<tr>
<td></td>
<td>Adequate</td>
<td>Low to Moderate</td>
</tr>
<tr>
<td></td>
<td>Strong</td>
<td>Low</td>
</tr>
<tr>
<td>Low</td>
<td>Weak</td>
<td>Low to Moderate</td>
</tr>
<tr>
<td></td>
<td>Adequate</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>Strong</td>
<td>Very Low</td>
</tr>
</tbody>
</table>

Criteria for Judging Internal Controls

- **Weak** = controls missing, management unaware or management aware, but no action
- **Adequate** = controls exist but may not be best practice, or action is insufficient
- **Strong** = controls effective or best practice
### Risk and Vulnerability Assessment Process

#### Vulnerability Table

<table>
<thead>
<tr>
<th>Inherent Risk</th>
<th>Control Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>High/Low</td>
<td>High/High</td>
</tr>
<tr>
<td>Low/Low</td>
<td>Low/High</td>
</tr>
</tbody>
</table>

#### Auditability

Auditability is determined by:
- Audit skill
- Audit power
- Audit hours
- Audit morale
- Availability of Evidence/Information
- Timeframe
Risk and Vulnerability Assessment Process

Audit Planning Grid

<table>
<thead>
<tr>
<th>QII</th>
<th>QI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vulnerable</td>
<td></td>
</tr>
<tr>
<td>QIII</td>
<td>QIV</td>
</tr>
<tr>
<td>Not</td>
<td>Auditable</td>
</tr>
<tr>
<td>Vulnerable</td>
<td></td>
</tr>
<tr>
<td>Not</td>
<td>Auditable</td>
</tr>
</tbody>
</table>

IIA Suggestions for Conducting a Successful Risk Assessment

Successful Risk Assessment

- Involve the audit customer in the risk assessment
- The risk assessment process must
  - produce credible results that are accepted by both management and auditors
  - be timely so that the audit process is not held back waiting for results
  - be cost-effective in that the resulting information is at least as valuable as the cost to obtain it
IIA Suggestions for Conducting a Successful Risk Assessment

Successful Risk Assessment (continued)

- Computers can help make the assessment process faster by handling data and calculations, but the key to successful risk assessment is in the auditor’s understanding and identifying of risk.

- Use intuition as a check for all risk assessments. The assessment must “make sense” to an experienced auditor.

What you want at the end of planning...

- A close-ended objective
- Sub-objectives stated in terms of the elements
- Preliminary findings to go with the sub-objectives
- Methodologies
Five Phases of Planning After Receiving the Audit Assignment

I. Gather information
II. Conduct risk and vulnerability assessment
III. Define/refine the audit objectives
IV. Develop the:
   - audit scope
   - audit methodologies
     - fieldwork programs
V. Estimate the audit budget/resources

Phase I — Gather Information

Information Sources and Information Gathering
Audit Assignment Planning

Phase I — Gather Information

- Review prior reports, audit programs and other working papers.
  - Are there any open items requiring action?
- Identify significant findings and recommendations from previous audits
- Consider legal and regulatory requirements
- Review policies and procedures, operating manuals, organization charts, long- and short-range objectives
- Ask the auditee:
  - About the objectives of their program/project
  - "What keeps you awake at night?"
  - If the auditee has corrected conditions causing the significant findings

Audit Assignment Planning

Phase I — Information Sources

- Summary of expenditures from financial systems
- Control system risk assessments, especially management’s own self assessments of organizational or program risk (has management implemented COSO/ERM?)
- Agency internal audit reports
- Performance information systems and reports
- HR database
- "Renowned" experts
- Agency/industry-related internet sites
- World Future Society publications
- Audit Management
- Contact liaison
- QC reviewer
Audit Assignment Planning

Phase I — Information Sources (cont.)

- Budget documents
- Perm files
- Results of agency and legislative contact visits
- Information research specialist
- Agency publications
- Newspaper articles
- Trade publications
- Legislative appropriation request
- Agency business/process improvement plans

Audit Assignment Planning

How Programs Work
Audit Assignment Planning

Performance Measurement System

- Mission Statement
- Goals
  - Department
  - Agency/Office
  - Division
  - Section
  - Unit
  - Program
- Implementation
  - Data
  - Analysis
  - Action
- Performance Measures
  - Input
  - Process
  - Output
  - Outcome

Phase II — Conduct Risk Assessment

Six Steps of Risk and Vulnerability Assessment
Audit Assignment Planning

**Phase II — Six Steps of Risk and Vulnerability Assessment**

**Step 1.**
Select programs and key accountability subsystems for risk and vulnerability assessment (within the survey scope)

**Step 2.**
**Assess inherent and control risks (vulnerabilities)**
- Conduct on-site interviews, physical walk-through, document systems and subsystems
- Develop list of risk factors relevant to the agency or program
- Identify and assess inherent risks
- Use Assessment Guide Questionnaires or similar guidance to review/document existing management controls
- Assess control risk and vulnerability for each inherent risk
- Document risk and vulnerability assessment in the R/V matrix
Audit Assignment Planning

Phase II — Six Steps of Risk and Vulnerability Assessment

Step 3.
Select the accountability control subsystems for which audit objectives will be developed.

Step 4.
Identify relevant performance aspects for the selected subsystems.

Step 5.
Reassess Auditability.

Step 6.
Summarize risk and vulnerability assessment information
- Prepare final R/V document
- Document auditability
Audit Assignment Planning

Phase III — Define/Refine

Define/Refine Audit Objectives

Principles (Quality Factors) in Formulating Audit Objectives

- Phrase as precisely worded questions or as “To determine whether...
- Eliminate ambiguous, abstract, or unfocused terms.
- Clearly identify the auditee.
- Include an identifiable, auditable performance aspect. Clearly indicate the type of performance to be audited. Separate objectives if more than one element 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.
Audit Assignment Planning

Phase III — 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).

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
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

Step 1.
Identify the primary report user.
- What do they want or need to know?
- When they find out, what are they going to do?
Step 2.

Understand the *subject, problem, or concern*

The audit subject will usually be:
- An organization
- A program, service, activity or function (food stamps, garbage collection, accounting, etc.)
- The accountability system subject to audit (policy management, performance management) example:
  - *Is the agency’s goal setting process adequate?*
  - *Is the agency’s payroll operation efficient?*
  - *Are the agency’s customers satisfied with the program?*

Step 3.

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
Step 3. 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?

Step 4.

Determine if the issue (performance condition) is with **processes, outputs, or outcomes**.
- All issues should be rolled-up to the control risks that allow the issue to exist.
- The control risks should be clearly linked to the inherent risks that exist in the agency or organization being audited.
**Audit Assignment Planning**

**Phase III — Six Steps to Redefine/Refine the Audit Objective**

**Step 5.**

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

- Condition based
  - Condition
- Criteria based
  - Criteria, condition, and effect
- Cause based
  - Criteria, condition, effect, cause

**Step 6.**

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.
Audit Assignment Planning

Phase III — Six Steps to Redefine/Refine the Audit Objective

Step 6. 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

Examples of sub-objectives:
**Condition based**: **Response time**

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

Phase III — Six Steps to Redefine/Refine the Audit Objective

Examples of sub-objectives continued:

Criteria based: 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 auditee’s FY09 unit costs of processing payroll compare to other agencies with similar payroll operations?

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

Cause based: Goal setting

**CRITERIA:** What was the legislative intent provided to the agency in FY08?

**CONDITION:** What legislative intent is reflected in the agency’s FY09 goals?

**EFFECT:** What is the difference between FY08 legislative intent and the agency’s FY09 goals?

**CAUSE:** Does the agency’s goal setting process conform to the State’s guidelines for strategic planning?
Audit Assignment Planning

Phase III — Six Steps to Redefine/Refine the Audit Objective

Examples of sub-objectives continued:

**Cause based:** 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?

**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?
Audit Assignment Planning

Phase IV — Scope and Methodology

Develop Audit Scope and Methodology

The Audit Scope...
defines the depth and coverage of audit work and any scope limitations.

YELLOW BOOK 7.09
Scope is the boundary of the audit and is directly tied to the audit objectives. The scope defines the subject matter that the auditors will assess and report on, such as a particular program or aspect of a program, the necessary documents or records, the period of time reviewed, and the locations that will be included.
Audit Assignment Planning

Phase IV — Develop the Audit Scope and Methodology

The Audit Methodology... explains the techniques used when performing the audit.

**YELLOW BOOK 7.10**
The methodology describes the nature and extent of audit procedures for gathering and analyzing evidence to address the audit objectives. Audit procedures are the specific steps and tests auditors will carry out to address the audit objectives. Auditors should design the methodology to obtain sufficient, appropriate evidence to address the audit objectives, reduce the audit risk to an acceptable level, and provide reasonable assurance that the evidence is sufficient and appropriate to support the auditors’ findings and conclusions.

To Select the Most Appropriate Methodology

1. Know the audit objective
2. Know the possibilities
   - Background research
   - Methodology manuals
   - Benchmarking to other audit offices
   - Experts
To Select the Most Appropriate Methodology (continued)

3. Consider the quality, strength, and persuasiveness of evidence
   • Standards (quantity and quality)
     – Sufficient
     – Appropriate (relevance, validity, and reliability)
   • Types
     – physical
     – documentary
     – Analytical (shifted to Appendix I in 2007 GAS)
     – testimonial

4. Determine the cost/benefit (Auditability)
   • Existing vs. new data
   • Previous experience using the methodology
   • Hiring an “expert”
   • Timeframe
Audit Assignment Planning

Phase IV — How to Meet the Audit Objective

Qualitative Methods of Analysis

Quantitative Methods of Analysis

Surveys

Focus Groups

Content Analysis

Trained Observer

Expert Judgment

Document Examination

Case Studies
Audit Assignment Planning

**Phase IV — How to Meet the Audit Objective, Quantitative Methods**

- Variance/Comparative Analysis
- Ratio Analysis
- Regression
- Time-series
- Interrupted Time-series
- Cost-benefit
- Cost-effectiveness
- Activity-based Costing

Audit Assignment Planning

**Phase IV — Another Perspective: Data Gathering and Analysis Methodologies**

**Gathering data:**
- Sampling
- Data retrieval
- Questionnaires/surveys
- Interviews

**Analyzing data:**
- Case studies
- Content analysis
- Ratio analysis
- Trend analysis
- Flowcharting
- Cost/benefit analysis
- Hypothesis testing
- Inferential statistics
Audit Assignment Planning

Phase IV — Another Perspective: Other Analytical Techniques

- Data envelopment analysis
- Discriminate analysis
- Expected value
- Game theory/decision theory
- Goal programming
- Linear programming
- Operations research
- Probability theory
- Queuing theory
- Sensitivity analysis
- Systems analysis

Audit Assignment Planning

Phase IV — Questions to Consider about Methodologies

- What does the customer want to know? (audit objective)
- What do we need to answer the question? (info required)
- Where are we going to get it? (info source)
- How are you going to get it? (data collection method)
- What will you do with it once you have it? (data analysis methods)
- What can’t you do with the information? (limitations)
- What can you say with the information you gather? (what the analysis will allow you to say)
Audit Assignment Planning

Phase IV — Contents of the Audit Fieldwork Program

- Audit objective(s) and sub-objective(s)
- Scope
- Tasks to accomplish objectives
- Sampling methodologies
- Data collection and analysis methodologies
- Data sources, documents or systems
- Documentation of audit supervisory approval

Audit Assignment Planning

Phase V — Budget

Estimating Audit Budget/Resources
Audit Assignment Planning

Phase V — Estimating Audit Budgets

Create an audit budget and allocation of resources

- Consider:
  - Time
  - Dates
  - Staff
  - Work of other auditors
  - Work of experts

- Budget and time estimation techniques include parametric estimating (the 'bucket method') and expert guessing (modified wide-band Delphi).

Best Practices

Checklist

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
- Risk assessment
- Development of:
  - Objectives, scope and methodology
  - 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

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 interest in the project outputs
- Be responsive to the requestor’s needs
- Help potential clients understand the usefulness and benefits of the project
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.

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 planning 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 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
- Risk assessment conclusions
- The objectives, scope, and methodology
- Sufficient information to develop and audit fieldwork program.

Conclusion

- Review questions asked
- Used Checklist to assess current audits
- Course Evaluations