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Performance Auditing – Precision and Leading Practices

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Learning Objectives

At the end of this session, you will be able to:

- Identify key planning activities and considerations
- Recognize the requirements for performance audits
- Discuss reporting techniques
- Identify how to better execute and/or leverage performance audits in audit and management functions





Overview

- What are Performance Audits?
- What impacts do they have?
- How can management better utilize them?



Polling Question

Would you best describe yourself as...?

- Auditor
- Financial Reporting
- Accounting
- Information Technology



What are Performance Audits?

- Generally Accepted Governmental Auditing Standards (GAGAS) , often referred to as the “Yellow Book”, provide a framework for conducting high quality audits with competence, integrity, objectivity, and independence.
- The types of audits that are covered by GAGAS, as defined by their objectives, are financial audits, attestation engagements, and performance audits.
- GAGAS defines them 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 may provide objective analysis so that management and those charged with governance and oversight can use the information to improve the program performance, reduce costs, facilitate decision making... and contribute to accountability.”



What are Performance Audits? (continued)

- Performance audits are defined as audits that provide findings and/or conclusions based on an evaluation of sufficient, appropriate evidence against criteria and/or objectives.
- For performance audits, GAGAS does not incorporate other standards by reference, but recognizes that auditors may use or may be required to use other professional standards in conjunction with GAGAS
- WORKING DEFINITION?:
 - Independent and objective assessment and/or evaluation of a program, function, operation, or system(s) of an entity to:
 - Determine effectiveness (including cost-effective), efficiencies, and compliance
 - Identify opportunities for improvement in controls, process, etc.



Distinctions of Performance Audits

Financial vs. Compliance vs. Performance Auditing

	Financial	Compliance	Performance
Objective	Attest to the fairness of financial statements	Determine the adherence to policies, procedures, laws, and regulations	Evaluate and improve the effectiveness, efficiency, and economy of operations
Information primarily for	Legislators Stakeholders	Regulators	Management Audit Committee
Direction of Audit	Looking Back	Looking back	Looking at the present and to the future
Audits based on	Financial reporting standards such as IFRS	Specific laws and regulations; Government standards of business conduct; internal policies;	Mission, vision, and objectives of the organization and its management
Examples	Annual audits performed by public accountants - may be supported by specific internal audits	Contract audits; business conduct reviews; audits by banking or other regulators	All other audits such as those of departments, processes, information systems and other functions



Performance Audits - Reporting

- Written assertions and representations are not required
- Report formats can vary widely based on the purpose and audience/needs.
- Reports should include at least the following:
 - Description of the audit objectives, criteria, and/or scope
 - The methodology used for addressing/assessing the audit objectives
 - The nature and extent of audit work performed, including the criteria and exceptions or limitations



Audit Objectives

- Objectives define what the audit is intended to accomplish
 - Objectives are designed to be assessed or evaluated against criteria or standards
- Objectives can be related to:
 - Programs (effectiveness or efficiency)
 - Internal Controls
 - Compliance
 - Other?



Measurement & Criteria

- Most reporting and white papers indicate this is typically the most “lacking” component of performance audits.
- What metrics and criteria do we see used?
 - Laws/Legislation?
 - Standards?
 - NIST,
 - ISO,
 - AICPA,
 - GASB,
 - COSO



Errors/Consequences/Impact

- When did you last review a performance audit where you felt any exceptions/ issues gave a full and accurate context of the impact of exceptions/errors?
- Another reason why “measurement” and definition is so critical.
 - How far from “benchmark” was the result?
 - What is the impact of the exception? If non-compliance, is there a level of severity associated?
 - Can we clarify the risk related to the condition?
 - Is there a tolerance or threshold associated with the deviation/error? Are we reporting/including that?
 - The reports have more a “conclusion” on results than an opinion as with other similar ‘attestation’ type audits/reports. Need to be mindful of how this affects the reader/audience.



Polling Question

What might an “Other” type of Objective be?

- Governance
- Cost Containment
- Transparency
- Risk Management
- None of the above



Fundamentals for Effective Public Sector Audits

The Institute of Internal Auditors (IIA) lists several key factors for effective public sector audits (e.g., Performance Audits). These include:

- Organization Independence – the audit function must be independent (or at least objective per Yellow Book) of management
- Formal Mandate – the audit duty and function must be empowered
- Unrestricted Access – the scope of the audit and procedures can not be limited or inhibited
- Sufficient Funding – the procedures and resources must be supported
- Objective Staff – Auditors must approach audits objectively and without bias or conflict
- Competent Staff – Staff must be knowledgeable and experienced regarding the audit scope
- Stakeholder Support – Management and auditees need to be cooperative and integrated into the audit approach
- Professional Standards – Audits need to comply with standards & criteria



Stakeholder Support

What does Stakeholder Support truly mean? We believe that this element is crucial and critical to effective audit activities and, perhaps more importantly, to the reception and integration of audit conclusions and reporting into management assessments and activities.

- Auditors need management support and cooperation to conduct procedures
- However, auditors should certainly ensure that management is involved and integral in the determination of the audit objectives and criteria. The success of audits is often predetermined by whether management was involved in the process or feels like a “bystander”.

Better understanding and knowledge, as well as involvement, by management in the audit process almost always enables better reporting and more effective results of audits. Hence, the value of audits is significantly enhanced with increased management involvement/support

- Ever deliver a report that seemed to just get filed away in a drawer? What atmosphere does that create for auditee and auditor (both now and going forward)??





Planning

Investing for Effective Audit Project



Polling Question

What percentage of the audit time should be spent on planning/defining objectives?

- 10%
- 20%
- 30%
- None of the above



Innovation vs. Disruption & Risk



Input - Feedback

- Please input some thoughts/ideas/comments and examples into the Q&A Chat.
 - Two Areas:
 1. What challenges do we face in scoping and planning audits related to projects and project management activities?
 2. Do we believe that we truly approach our audits as “projects”? Do we manage them with a level of focus and discipline conforming with the PM phases or areas noted previously?



What Components Does Planning Include

- Define Audit Objectives
 - What are the Risks associated?
 - What criteria and/or metrics are involved?
- Define the Scope
 - Includes consideration of the extent & nature
- Research & Knowledge Gathering
 - Background, context, and initial documentation



- *“Plans are nothing; planning is everything.”*

Dwight D. Eisenhower

- *“Have a plan. Follow the plan, and you’ll be surprised how successful you can be. Most people don’t have a plan. That’s why it’s easy to beat most folks.”*

Bear Bryant

- *“Everyone has a plan ‘till they get punched in the mouth.”*

Mike Tyson



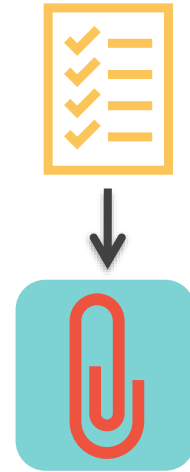


Audit Process

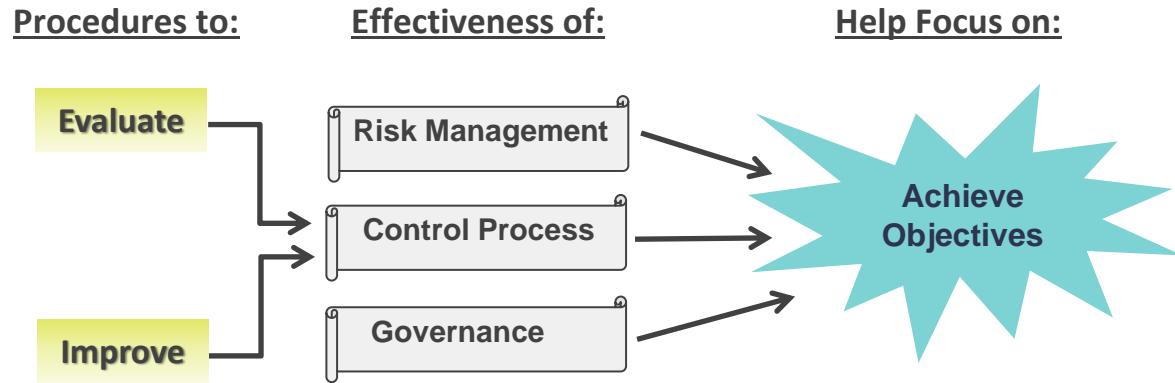


Internal/Performance Auditing - Process

- ✓ Define Objectives
- ✓ Identify Risks
- ✓ Assess Related Controls



How the Process Helps



Collaboration and Culture

Management and the auditors have roles to play in working together and fostering a culture of collaboration and cooperation. Audit effectiveness is inextricably linked to this “symbiotic” relationship.

- What approach would best describe the approach? What is the approach that best fits the organization/entity?
 - Magnifying glass
 - Telescope

 - Hunting Dogs
 - Watch Dogs

 - Policemen
 - Consultants

Courtesy of the IIA



Roles

Are we looking purely at process? What is the role/function of the audit and objectives

Topics/Scopes to consider – Operations/Finance:

- Costs
- Service
- Process/Controls
- Compliance

What about other aspects?

- Accountability
- Transparency
- Equity/Diversity

What role do performance audits have in culture and organizational aspects?



Reports

- How are reports used in your organization?
 - Are these reviewed as part of planning or performance?
 - Is monitoring of recommendations incorporated?
- How does the audit team leverage?
 - Are they reviewed for improvement in reporting?
 - Do we seek feedback from auditees?
 - Do we receive formal comments/feedback from stakeholders?

Management & Audit can better learn and use reports for not just discrete items, but for future growth, improvement, and impact



Questions?



References

- http://www.aicpa.org/Research/Standards/AuditAttest/ASB/Documents/Mtg/1305/2013_05_ASB_Item6.pdf
- https://na.theiia.org/standards-guidance/Public%20Documents/Public_Sector_Governance1_1_.pdf



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