

Role of Auditing in the Public Sector

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Role of Government Auditing

Government auditing is a cornerstone of good public sector governance.

- 1) It addresses whether government entities are doing what they are suppose to be doing. (oversight)
- 2) It assist decision makers by providing an independent assessment of government programs, policies, operations and results. (Insight)
- 3) It identifies trends and emerging challenges. (Foresight)

Role of Government Auditor

Government auditing is essential in providing accountability and transparency over government programs. It provides an independent, objective, nonpartisan assessment of the stewardship, performance, or cost of government, policies, programs, or operations (GAO).

Role of Government Auditor

The role of the internal auditor is that of an objective advisor with respect to the design and effectiveness of internal controls. The internal auditor's work should focus on:

- Performing examinations of operating and financial controls
- Conducting efficiency and effectiveness reviews
- Compliance reviews with laws and regulations
- Evaluating the design and execution of internal controls

(NYS Comptroller)

Role of Government Auditor

Richard Chambers, President & CEO, IIA

Not much difference between the role of the government auditor and internal audit.

Government auditors can review agencies, programs and operations to shore up cost, contain expenses, and identify waste and efficiencies.

IIA's Audit Channel tv

Key Elements of an Effective Government Audit Function

- Organizational Independence
- Formal Mandate
- Unrestricted Access
- Sufficient Funding
- Competent Leadership
- Competent Staff
- Stakeholder Support
- Professional Audit Standards

Audit Roles

Oversight:

Evaluates whether government entities are:

- Doing what they are suppose to do
- Spending funds for intended purposes
- Complying with laws and regulations
- Assess and report on the success of government programs and organizational objectives

Also serve to detect and deter fraud, corruption, inappropriate acts, and the misuse of power and resources.

Audit Roles

Insight

Auditors provide insight by:

- Assessing which policies and programs are working and which are not – have they brought the intended results
- Sharing best practices and benchmarking information
- Offering recommendations to improve the efficiency and effectiveness of a program or operation, and/or to adapt or re-engineer management practices

Audit Role

Foresight

- Identify trends and bring attention to emerging issues and challenges
- Assessing the risk management framework – help identify and deter unacceptable risk

Types of Audits

- Assessment of governance, risk and controls
- Performance audits
- Financial and regulatory audits
- Advisory or investigative services

Challenges

- Operate in a political environment – not always welcomed or appreciated
- Need to be transparent- reports are public
- Someone will be unhappy with the outcome
- At times viewed as an overhead function

Internal Auditor Core Competencies

IIA 2010 CBOK Study

13,500 responses representing 107
countries

Examined current trends within the
profession

Competence and Skills

Communication skills continues to be the top overall general competency.

Understanding the business was ranked as the most important overall technical skill.

Keeping up to date with Industry and Regulatory Changes and Professional Standards is important at all three professional levels

Knowledge and understanding of Enterprise Risk Management



Internal Audit Best Practices

What makes an Effective
Internal Audit Function ?

Internal Audit Best Practices

According to a survey conducted by KPMG, an effective Internal Audit function is a combination of:

- IA's position within the organization
- The people and resources that it has to meet its responsibilities and challenges
- The processes that it uses to assess risk, plan its activities and to deliver its results

Internal Audit Best Practices

A Best Practice Internal Audit function should be:

- Risk focused
- Aligned with the business
- A source of advise on governance, risk and controls
- Adaptable to change
- Able to provide coverage where needed
- Have sufficient resources to be effective

Risk Assessment Process

Steps to Strengthen Risk Assessment Process

- Adopt a Process Approach to Risk Assessment and Audit Planning
- Supplement Annual Risk Assessments with more frequent updates
- Leverage prior Audit results
- Align and Leverage Risk assessments
- Seek out and Utilize Specialist
- Coordinate with other Risk management groups

Flexible Audit Approach

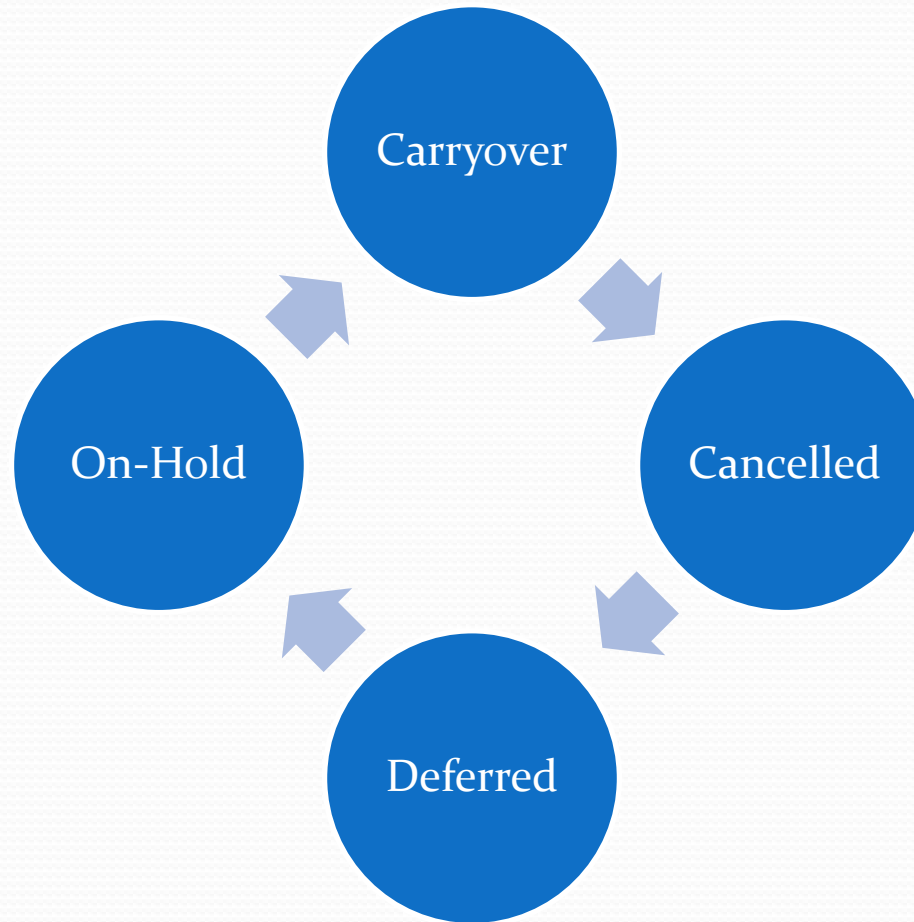
Objective :

“Shift from a traditional audit process to Partnering with Management to Enhance Stakeholder Value”

Flexible Audit Approach

- Major Drivers
 - Changes to Business Environment
 - Greater Expectations

Audit Plan



Flexible Audit Plan

- Broad Functional Areas
- Expand Budgets/Drill Down as Needed
- Increase Scope of Projects
- Implementation Assistance

Flexible Audit Plan

Benefits:

- Audit Focus on Quality – Not Quantity
- Reduces “Expectation Gap” between IA & Management
- Empowers Auditors to Define the Scope of Work
- More efficient utilization of Resources
- IA can be of Greater assistance to Management

Flexible Audit Plan

Challenges

- Maintain Administrative Control over Audit Plan
- Effectively Manage Additional Resources
- Incorporate Continuous Business Risk Assessment Process



Audit Reporting

Auditing Reporting Process

Is it Timely and Efficient?

Audit Reporting

Challenges:

- Lengthy Cycle Times
- Reports must be Factually Correct but issued Timely
- Constant Complaint – Audits Take To Long

Audit Reporting

Consequences of Lengthy Audit Cycles

- Audit results are not timely
- Stakeholders dissatisfaction
- Inefficient use of audit time

Audit Reporting

Reporting Issues

- Ineffective communication with auditee
- Delays in writing draft report
- Editing process
- Quality Control
- Delays by Management in Responding

Audit Reporting

Possible Considerations:

- Issue reports without management comments
- Use power-point presentations instead of a report
- Use a standardized report format
- Issue audit findings on a piecemeal basis while the audit is in progress.
- Advise senior management and the Audit Committee of only high risk audit results with all findings communicated to the auditee.

Audit Reporting

- Exception Reporting
- Most Relevant findings and issues up front
- Recommendations

Challenges of a CFO

- Balancing Operational Needs with Financial Constraints
- Effective Governance Program
- Assessing the Effectiveness of the System of Internal Controls
- Fraud Prevention and Detection Programs

Partnering with Internal Audit

- Risk Assessment and Audit Planning Process
- Audit Liaison
- Audit Follow-up

Partnering with Internal Audit

LIRR's Internal Control Program

- Compliance with Act
- Framework: The COSO Model
- Control Self Assessments makes for Good Business Practices

Partnering with Internal Audit

Internal Control Program

Enhanced Internal Control Review Program

1. More Emphasis on Business/Operational Efficiency and Effectiveness
2. Streamline Documentation Process
3. Conduct Quality Testing of Business Process Reviews
4. Assess Controls to Prevent or Detect Fraud

Partnering with Internal Audit

Role of Process Re-engineering

- Conduct Training Programs
- Provide Support to Self Assessment Managers
- Partner with Departments to Improve Operating Efficiency and Effectiveness
- Follow-up on Corrective Actions

Partnering with Internal Audit

Role of Internal Audit

- Assessment of Internal Controls is include in the Scope of a Subsequent Audit
- Periodically Review Internal Control Program to Assess if Goals and Objectives are Being Met

Partnering with Internal Audit

IT Governance

- Technology Challenges
 - ever increasing budgets
 - limited accountability
 - poor success record

Partnering with Internal Audit

Key Components

- Senior Management Oversight
- Used a Committee/Team Partnering Approach
- User Dept. Responsibility for the Project
- Cost/Benefit Analysis
- Enhanced Project Monitoring
- Post Implementation Review & Assessment

Partnering with Internal Audit

Role of Process Re-engineering/Internal Audit

- Committees
- Project Monitoring and Reporting
- Post Implementation Review & Assessment

Partnering with Internal Audit

On Board Ticket Sales and Collection

- Trainmen sell and collect tickets on train
- Revenue Accounting monitors sale activity
- Internal Audit Spotter Program

Partnering with Internal Audit

Parking Garage Revenue Collection and Enforcement

- Outsourced to a Third Party Vendor
- Issues of Non-compliance
- Internal Audit's Assessment
- Process Re-engineering assistance with Corrective Action

Partnering with Internal Audit

Environmental Issues

- Critical Assessment by MTA IG
- Task Force to Implement Corrective Actions
- Quarterly Progress Report to Senior Management
- Follow-up by Internal Audit to assess if Recommendations were Implemented and Effective in Addressing the Environmental Concerns



Questions?

Thank You

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