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Oregon Public  
Performance  
Improvement Association  
Lunch and Learn:

*Using Auditing as a Tool  
to Enhance Performance*

# Pamela J. Stroebele Powers, CPA, MBA, CIA, CRMA, CPM



## Education

- BS in Accounting, Western Baptist College
- MBA, Willamette University–AGSM

## Agency Experience

## Work Experience:

- 4 Years Non-Profit Accounting Experience
- 20 Years Government Auditing Experience
- 18 Years Experience Instructing Professional Auditors
- 9 Years Instructing at Willamette
- 4 Years Independent Contractor

Lunch and  
Learn  
| Agenda &  
Objectives

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Good Governance

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What is Auditing?

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Performance Auditing

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Ways to Engage with your  
Auditor



# Governance

Establish Objectives based on the organization's mission; set goals and measures of success.

Underlying Principles:

- Ethical Conduct
- Personal Integrity
- Organizational Values

Good Governance = Performance, Accountability and Transparency

# Management Activities

**In addition to many valuable activities, Managers plan and control through:**

- Strategic Planning
- Management Control
- Task Control

**Key elements:**

Strategic Plan: *What you want to accomplish*

Budget: *Dedicate resources to accomplish objectives*

Risk Management: *Identify & manage impediments*

Performance Management: *Measures of success*

# Types of Auditing

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**Internal** – A company’s employees verify the company’s operations and provide information to Management and the Board for decision making.

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**External** – Not employees of the company, hired to determine whether the financial statements fairly present, in all material respects, financial position, results of operations, and cash flows in accordance with specific criteria (i.e. GAAP). Third parties rely on independent attestations.

## Description of Internal Audit Services

	<b>Assurance</b>	<b>Consulting</b>
<i>Purpose</i>	Assess evidence relevant to subject matter of interest to someone and provide conclusions regarding the subject matter.	Provide advice and other assistance, generally at the specific request of engagement customers.
<i>Who Determines Nature and Scope</i>	The internal audit function.	Mutually agreed upon between customer and internal audit function.
<i>Parties Involved</i>	Auditee, Internal Auditor and User	Customer and Internal Auditor

# In-sourcing vs. Outsourcing

- Organizational knowledge
- Part of culture/insight
- Trusted Source
- Available anytime at fixed cost
- Expertise and skills limited to existing staff
- Unnoticed or missed company risks
- Staff turnover exposure
- Potential job-preservation motivation
- Variable cost – more available resources
- Needed functional expertise and required technical capabilities
- Focus on objective feedback
- Industry best practice knowledge



ORS 184.360

Sets governance for internal auditing in Oregon State Government; calls for:

- Coordinated internal audit activities
- Annual reporting
- Following standards
- Performing risk assessments and conducting audits

# There are Two Classes of Auditing



## **Verifying information prepared by someone else**

Financial/Regulatory Information

Attestation: expressing assurance on reliability of information.



## **Auditors developing information from existing and original data**

Process Controls; Efforts & Accomplishments

Performance Auditing

# Types of 'Audits' by Standard

**Categories (GAO)** – Financial, Attestation, Performance

**Categories (IIA)** – Reliability and Integrity of Financial and Operational Information; Compliance; Safeguarding of Assets; Effectiveness and Efficiency of Operations

**Categories (INTOSAI)** – Economy, Efficiency, Effectiveness

# Definitions

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**Assurance Services:** An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization.

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**Attestation:** Opinion on information someone else is responsible for.

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**Economy:** Planned vs. actual spending on resources considering quality & value-add.

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**Effectiveness:** The extent to which management is achieving its goals and objectives.

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**Efficiency:** Attaining goals and objectives with the least expenditure of scarce resources.

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**Compliance:** Management must ensure restrictions imposed by policy, regulation, law or contract are followed.

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**Safeguarding of Assets:** Safety and security from losses; verify existence

# Performance Auditing

A successful audit results in changes that benefit users of government programs.

The point is to serve the citizens – auditors should be focused on governance and citizen trust in government.

Performance auditing can be a tool for increasing the ability of citizens to hold all levels of government more accountable.

# Definition of Performance Auditing

An independent examination of the efficiency, effectiveness (and equity) of government undertakings, programs or organizations, with due regard to economy, and the aim of leading to improvements.

Source: INTOSAI 2004, 11

# Operational Performance Measurement Criteria

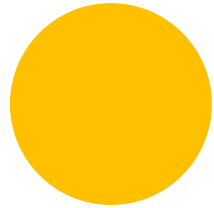
*Operations objectives demonstrate that operational-related performance goals and measurement criteria predominantly focus on factors such as:*

- Internal/external customer satisfaction
- Quality of products, services and resources
- Resource optimization/utilization
- Safety
- Cycle time
- Cost
- Productivity
- Capability
- Capacity
- Flexibility
- Adaptability
- Responsiveness
- Profitable Growth

# Objectives of Performance Audits

- Economy: acquisition of resources; administrative activities
- Efficiency: use of resources in operations/service delivery
- Effectiveness: achievement of objectives – actual vs. intended – for an entity, unit, function or activity
- Objective review to Identify inefficiency operations, inadequate systems and opportunities for improvement
- Determine whether an entity, unit, function or activity is operating efficiently or effectively
- Determine how well an organization is managing risk





Why do we want the  
auditor involved?

# Benefits of Performance Audits



Providing information for use in the decision-making process



Developing conclusions about the economy, efficiency and effectiveness of government programs and making recommendations for improvement



Developing questions for use at legislative hearings



Developing methods and approaches to evaluate a new or proposed program



Forecasting potential program results



Performing investigative work

# Attributes of Performance Auditing

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EXTENDS to all operations and constituent activities across the organization, irrespective of function, purpose or level

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ASSOCIATES with the operations objectives of the activity being reviewed

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EVALUATES all components of the operating model of the operation or activity being reviewed

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EVALUATES organization risk, use and management of resources, and operational performance

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FOCUSES on specific business issues; known problem areas; high-risk, critical or sensitive operations and activities; and opportunities to be addressed

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IDENTIFIES root causes of issues and recommends solutions to improve performance

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VALUE-ADDED approach

# Two Levels of Performance Audits

**TRANSITION:** Focuses on transitioning operations from a broken state to an operational state. Addresses:

- *What are the problems or issues?*
- *What are the root causes?*
- *What is the best solution to fix the issue and address the cause?*

**TRANSFORMATION:** Focuses on transforming operations from an operational state to operational excellence. Addresses:

- *Is the operating model performing to its best potential?*
- *Where do opportunities exist to enhance operational performance?*
- *What is the best solution to achieve better quality, greater agility, increased capacity, etc.*

## Three Major Types of Performance Audits

### Risk-Based

- Aligning internal audit resources to the risk management priorities of the organization.

### Process-Oriented

- Seeks process understanding and improvement.

### Performance-Driven

- Using benchmarking as a platform to measure and compare the relative operational performance of the function, process or activity being reviewed.

# Risk Management Principles

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Inherent in all aspects of life; it is neither good nor bad;

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Begins with strategy formulation and objective setting;

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Represents a range of possible outcomes;

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May relate to preventing bad things from happening (avoiding a **consequence**) – OR – failing to ensure good things happen (missing an **opportunity**);

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Every organization exists to **create value** for its stakeholders;

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ERM aims to ensure management is creating value by **helping those in charge deal effectively** with current and potential future **events** that create **uncertainty**;

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It is to serve as to improve the evaluation of the risks to Strategic, Operational, Compliance, and Reporting objectives and **increase the assurance risks are appropriately managed so that objectives are achieved**;

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Risk Management is only a portion of MANAGEMENT overall.

The goals is NOT to eliminate all Risk.

# Benchmarking

*An analysis of products, services, business operations, and performance compared against that of other organizations, to acquire knowledge and implement changes to affect improvement.*

## Useful to:

- Maintain awareness of customer requirements
- Facilitate measurement of relative performance
- Develop performance measures
- Access ideas from proven practices
- Establish best practices
- Maintain competitive advantage
- Establish effective goals and objectives

# Types of Benchmarking:

- **Strategic:** Improving overall performance by examining long-term strategies and comparing to high-performers. See opportunities to examine core competencies, develop new products/services, and improve capabilities for adapting to change.
- **Competitive:** assess the relative level of performance in key areas, activities, products and services and compare to those of key competitors.
- **Functional:** investigates performance of core business functions and compare to those in similar industry.
- **Best Practices:** Compares processes across organizations for 'general' activities i.e. HR, metrics of performance, technology.



# Audit Process



- Planning
  - Assess risk
  - Set objectives
  - Entrance Conference
- Fieldwork
  - Interviews & Observations
  - ID and Test Controls
  - Document Evidence
- Report
  - Analyze Testing Results & Document Findings
  - Exit Conference – Obtain Plan of Action
  - Quality Control
  - Issue to Management; Present to Audit Committee

# How to Engage Your Auditor

- Give them a seat at the Table! *Executive Team Meetings; Leadership Team Meetings; Allow them to Guest Attend Various Staff Meetings*
- Allow them to Provide Training! *Process Mapping; Internal Controls; Risk Management; Performance Management*
- Actively participate in the risk assessment process! *Implement risk management protocols in the organization; discuss performance concerns*
- Be accountable to taking timely action on audit findings! *Monitor implementation and hold management accountable*

# Credits & Sources

<https://www.coso.org/Pages/default.aspx>

Internal Auditing: Assurance and Consulting Services, 2<sup>nd</sup> Edition © 2009 by The Institute of Internal Auditors (IIA) Research Foundation

Performance Auditing: A Measurement Approach, 2<sup>nd</sup> Edition c 2009 by The IIA Research Foundation

Honest, Competent Government: The Promise of Performance Auditing c 2008, by The IIA Research Foundation



- Did we fulfill objectives?

- Any questions?

Summary



# Speaker Contact Information

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