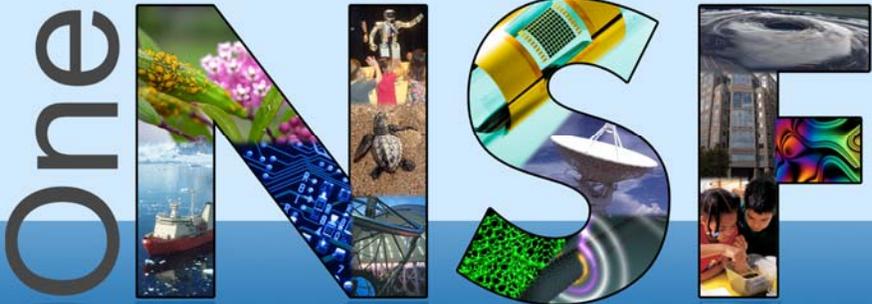So You Want to Remain Independent
An Auditor and Auditee View

Mike Wetklow DCFO and Mark Bell OIG
2017 Professional Development Training.
July 9–12, 2017

OMB A-123 Excerpt

"Successful implementation of this Circular requires Agencies to establish and foster an open, transparent culture that encourages people to communicate information about potential risks and other concerns with their superiors without fear of retaliation or blame. Similarly, agency managers, Inspectors General (IG) and other auditors should establish a new set of parameters encouraging the free flow of information about agency risk points and corrective measure adoption. An open and transparent culture results in the earlier identification of risk, allowing the opportunity to develop a collaborative response, ultimately leading to a more resilient government."

Management is responsible for

- Setting the risk appetite

Management is responsible for

- Imposing risk management processes
- Management assurance on risk
- Making decisions on risk responses
- Implementing risk responses
- Accountability for risk management

OIG WORK CAN INFORM ERM

- Review control systems and risk management processes for adequacy and effectiveness
- Provide recommendations in design and improvements of control systems and risk mitigation strategies
- Use OIG and OIG work as a resource

OIG Role in ERM
Risk Plan Development

Once the plan is developed, we can help by;

- Assessing whether they are implementing ERM in a meaningful way per OMB guidance
- Evaluating risk management processes
- Providing recommendations that risks are correctly evaluated
- Providing recommendations on the risk management process

Where We Should Not Intercede

- Setting the risk appetite
- Imposing risk management processes
- Making decisions on risk responses
- Implementing risk responses on managements behalf
- Taking accountability for risk management

GAO

Independence Considerations Cooperative Audit Resolution, ERM and other activities

PDT Boston
July 17, 2017

GAO U.S. GOVERNMENT ACCOUNTABILITY OFFICE

GAO

Session Objective

- Provide an overview of Yellow Book considerations related to cooperative audit resolution, ERM and other activities

- Provide examples of what may be allowable activities for auditors under the Yellow Book

10

GAO

Cooperative Audit Resolution and Oversight Initiative

- CAROI = Cooperative Audit Resolution and Oversight Initiative

- CAROI is a tool in cooperatively resolving audit findings

- ERM is enterprise risk management

- The Office of Management and Budget's (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* requires federal awarding agencies to use cooperative audit resolution

11

GAO

Association of Government Accountants' Guides

- The Association of Government Accountants (AGA) has developed a new guide—*Successfully Implementing Cooperative Audit Resolution: A Playbook for Improving Programs and Reducing Improper Payments*—to help facilitate CAROI

- The examples of information that the auditor may and may not provide as part of cooperative audit resolution are detailed in the 2010 AGA *Guide to Improving Program Performance and Accountability Through Cooperative Audit Resolution and Oversight,* in the section entitled The Role of the Independent Auditor in the CAROI Process

12

GAO

GAGAS Considerations:
What an Auditor Can Do

- The auditor may provide information to facilitate cooperative audit resolution, such as providing details of what the auditor found and explanatory material

- As a part of CAROI, GAGAS would permit the following activities as they are considered routine audit activities.

13

GAO

Yellow Book Technical Guidance

- Routine activities performed by auditors that relate directly to the performance of an audit, such as providing advice and responding to questions as part of an audit, are not considered nonaudit services under GAGAS.

- Such routine activities generally involve providing advice or assistance to the entity on an informal basis as part of an audit.

- Routine activities typically are insignificant in terms of time incurred or resources expended and generally do not result in a specific project or engagement or in the auditors producing a formal report or other formal work product.

14

GAO

GAGAS Considerations:
What an Auditor Can Do (continued)

- Routine activities directly related to an audit include the following:

    a. providing advice to the audited entity on an accounting matter as an ancillary part of the overall financial audit;

    b. providing advice to the audited entity on routine business matters;

    c. educating the audited entity on matters within the technical expertise of the auditors; and

    d. providing information to the audited entity that is readily available to the auditors, such as best practices and benchmarking studies.

15

GAO

GAGAS Considerations:
What an Auditor Cannot Do

- The auditor should not assume management's responsibilities, which are described in the 2011 GAGAS

- If an auditor were to assume management responsibilities for an audited entity, the management participation threats created would be so significant that no safeguards could reduce them to an acceptable level.

- Management responsibilities involve leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, physical, and intangible resources.

16

GAO

GAGAS Considerations:
What an Auditor Cannot Do (continued)

- **3.36** Whether an activity is a management responsibility depends on the facts and circumstances and auditors exercise professional judgment in identifying these activities. Management responsibilities include:

  a. setting policies and strategic direction for the audited entity;

  b. directing and accepting responsibility for the actions of the audited entity's employees in the performance of their routine, recurring activities;

  c. having custody of an audited entity's assets;

  d. reporting to those charged with governance on behalf of management;

17

GAO

GAGAS Considerations:
What an Auditor Cannot Do (continued)

e. deciding which of the auditor's or outside third party's recommendations to implement;

f. accepting responsibility for the management of an audited entity's project;

g. accepting responsibility for designing, implementing, or maintaining internal control;

h. providing services that are intended to be used as management's primary basis for making decisions that are significant to the subject matter of the audit;

i. developing an audited entity's performance measurement system when that system is material or significant to the subject matter of the audit; and

j. serving as a voting member of an audited entity's management committee or board of directors.

18

GAO

Independence Considerations

- The auditor should consider independence requirements, but the auditor may provide information to facilitate cooperative audit resolution

- In practice, there are common situations where auditors need to exercise professional judgment in evaluating threats to independence

- Whether actions related to CAROI, ERM or other activities threaten independence depends on the facts and circumstances of each case

19

GAO

Example Situation 1

The auditee asks the auditor to attend a meeting on CAROI?

Can the auditor attend?

20

GAO

Example Situation 2

The auditee asks the auditor to prioritize risks of the identified deficiencies if left uncorrected.

Can the auditor do this?

21

GAO

Example Situation 3

The auditee asks the auditor if a proposed action resolves the recommendation.

How can the auditor respond?

22

GAO

Where to Find the Yellow Book

- The Yellow Book is available on GAO's website at:
  www.gao.gov/yellowbook

- For technical assistance, contact us at:
  yellowbook@gao.gov
  or call (202) 512-9535

23

GAO

Thank You

Questions?

24