

What Is an Efficiency & Effectiveness Audit and How Do You Do Them?

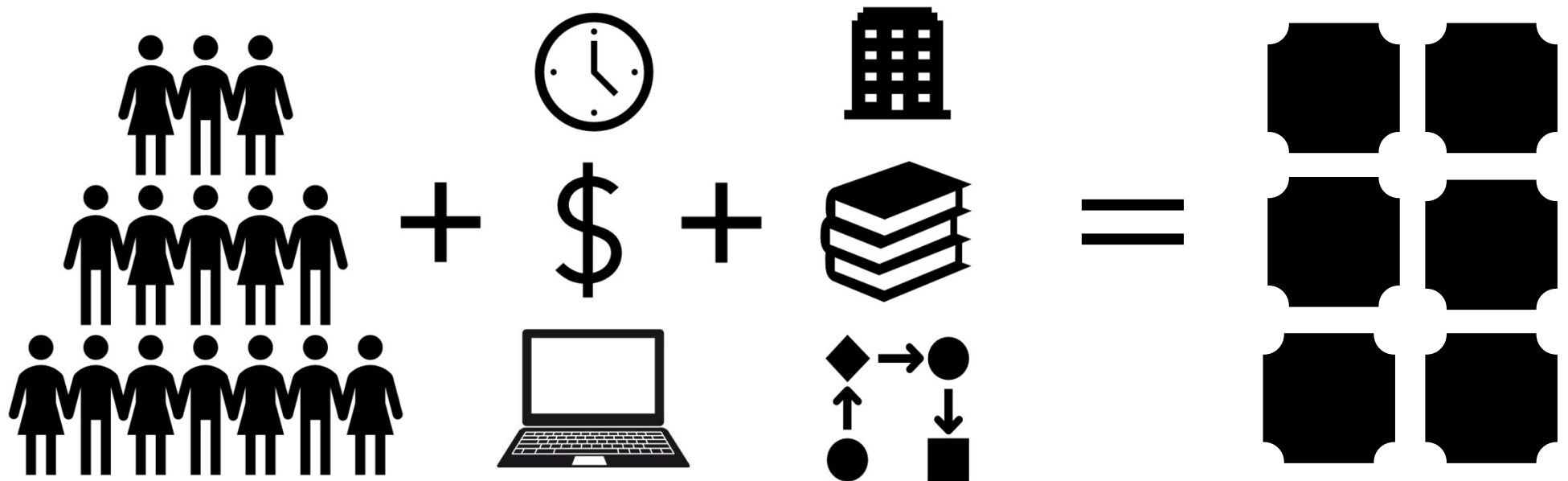
Association of Government Accountants
San Antonio, Texas



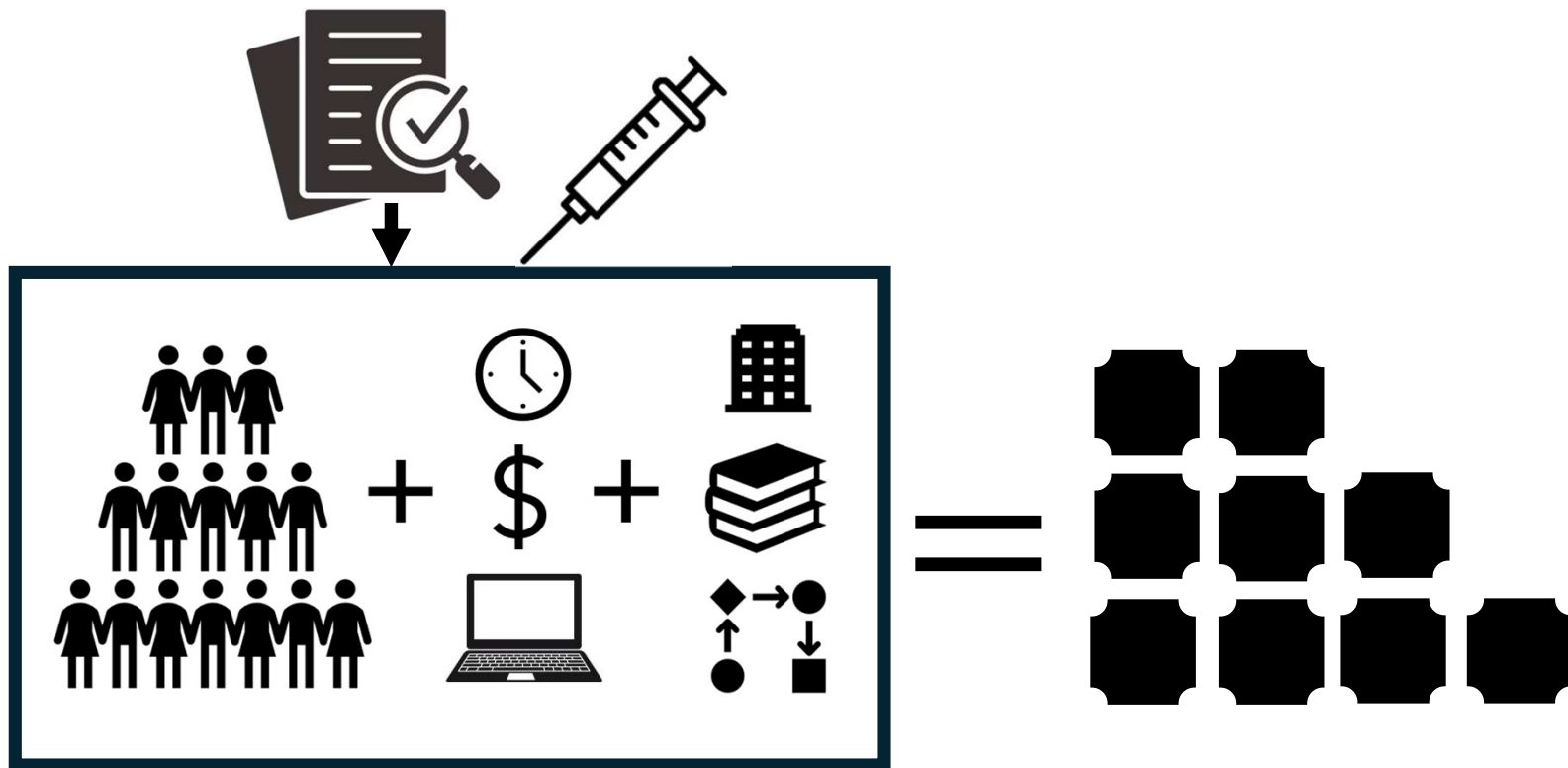
REENGINE CONSULTING
Achieve Breakthrough Performance


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Efficiency and Effectiveness Audits Start with 2 Very Basic Theories. **Theory I: The Organization**



Theory II: If we audit the organization efficiency and effectiveness will rise.

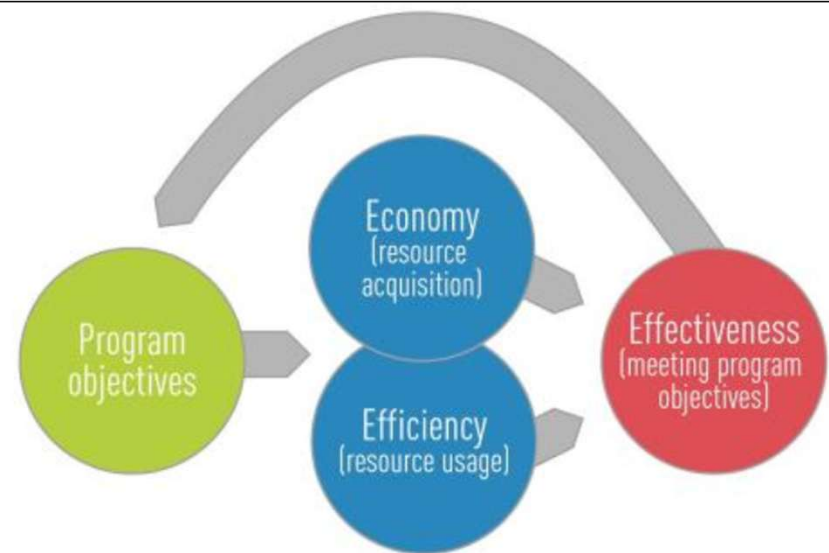


 = The “treatment” is the audit & subsequent change.

Agenda:

1. What is an efficiency and effectiveness (E&E) audit?
 - What are the 4 main objectives of an E&E audit?
 - Some GAGAS and code citations & references
2. How do you accomplish and E&E audit
 - Risk-based, mission-based, and opportunity-based planning
 - An E&E planning checklist
 - Without the client (audited organization).
 - With the client.
 - Requests for information/data (RFI)
 - What can be done before the starter's gun?
 - How does an E&E audit unfold during execution?

3. How should a quality E&E audit *feel* to the auditee?
4. The bright red lines of auditing!
 - How close should/can we get to them?
 - Independent? Objectivity? Conflict of interest?
 - Recommend the what, not the how.
 - Dismiss intuition in favor of hard evidence?



Disclaimers and caveats: 1) Alfredo is not an auditor, but Sonya is. 2) This is an emerging discipline. 3) There is a lot of info here for you – I will not brief every slide.

Slide 4

SO1

Not sure what you plan to say here but be careful that you don't insult a group of auditors who may be well versed in performance auditing – the yellowbook has always include effectiveness and efficiency in the objectives of performance auditing – see 1.22 ang broader on what the auditor should look at in 8.37

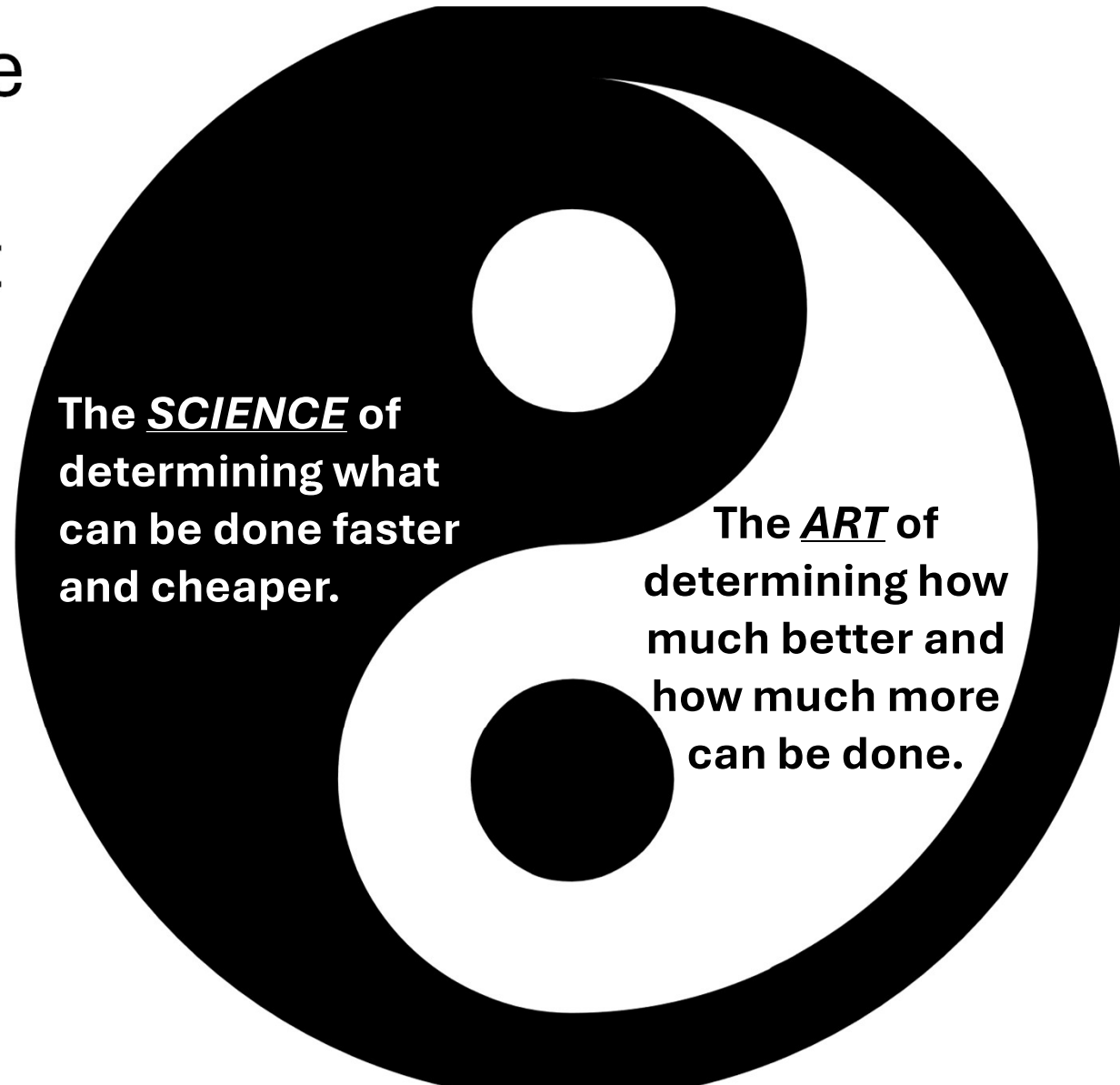
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E&E Audits are Analogous to An Energy Audit

- How effective is the house, its structure, and its componentry at taking the family's money and using it for mission purposes (i.e., keeping the family comfortable and in the band of safety)?
- Energy audits assesses the relative efficiency by
 - benchmarking other systems and standards, assessing the current level of productivity,
 - identifying waste
 - finding fraud and abuse (different from energy audits) .
- Inputs: money, energy, weatherization investments, behavior
- Outputs: heated or cooled air; functional home
- **Bottom Line: Potential productivity minus (-) current productivity equals (=) the estimated ROI from implementing improvements.**



The Art and Science of an Efficiency & Effectiveness Audit



1. What is an efficiency and effectiveness (E&E) audit?

Goal of an E&E Audit

- To enable the organization to realize its efficiency and effectiveness potential, resulting in better outcomes for the agency's primary customer.
- The audit experience and deliverables should be valuable to the organization, enabling them to:
 - Achieve more with less friction
 - Promote gains in efficiency
 - Embark on a viable path to improvement

Scope of E&E audits:

- ID causes of inefficiency
- ID causes of ineffectiveness
- Assess management and information systems
- Ensure compliance w/ laws

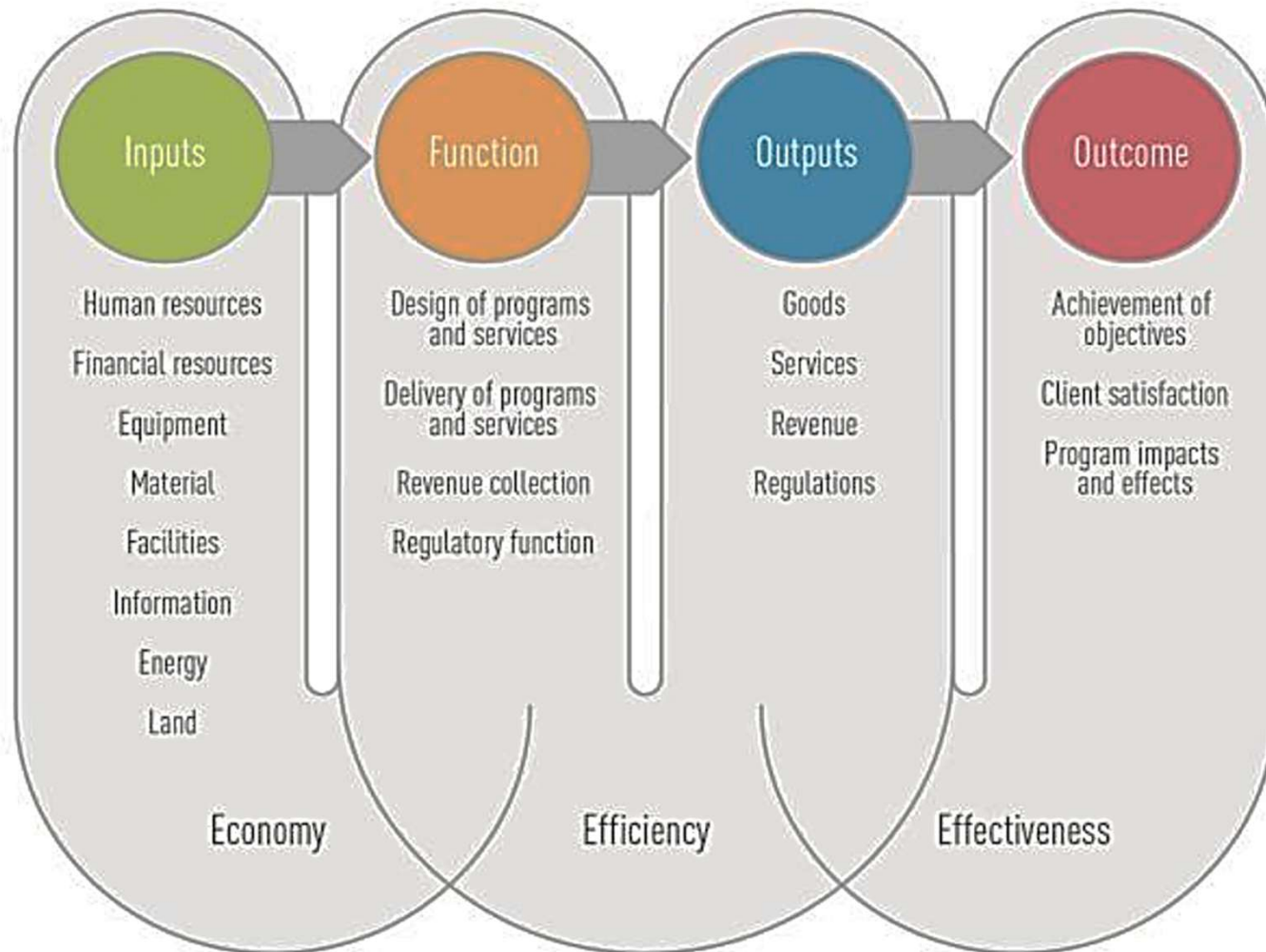
An audit to determine:

- Whether an organization or program is using its resources optimally to achieve results, w/ minimal waste. I.e. find inefficiencies and opportunities for greater efficiency.
- If the program is meeting its goals to accomplish desired results established by legislation.
- Whether financial, program, and statistical reports contain useful data and are fairly presented.
- Whether agency programs duplicate, overlap, or conflict with another state program.
- Ensure program is not “doing the wrong thing well”, i.e., efficient, but not contributing to effectiveness.

The Three E's

- Economy—Getting the right inputs at the lowest cost (or getting a good deal).
- Efficiency—Getting the most from the inputs (or getting a lot for the efforts).
- Effectiveness—Getting the expected results from the outputs (or doing the right things).

The 3 E's and the Relationships Between Inputs, Outputs, and Outcomes



GAGAS and Code Citation References

- GAO and GAGAS view E&E audits as a type of performance audit.
- GAGAS 8.08 requires that the auditor identify the subject matter and performance aspects to be included.
- GAGAS 8.08 defines program as processes, projects, studies, policies, operations, activities, entities, and functions.
- GAGAS 8.17 defines criteria as the state or expectation with respect to the program or operation.
- Criteria provide context for evaluating evidence and understanding the findings, conclusions, and recommendations in the report. Suitable criteria are relevant, reliable, objective, and understandable and do not result in the omission of significant information, as applicable, within the context of the audit objectives.

Texas Government Code § 327 Efficiency Audits of State Agencies

- 327.004 (b) (1) of the statute references state resources to include financial resources, staff, personal property, real property, and technology, at a minimum.
- 327.001 (D) references objectives and intended benefits of an agency's program to mean established or designated program objectives, responsibilities, duties, program performance criteria, program evaluation standards, or statutes and rules.
- 327.006 Required Implementation Plan states: Not later than the 90th date after the date of receiving the complete audit and recommendations, the administrative head of the audited state agency shall deliver a plan for implementing the recommendations to the commission, the governor, the lieutenant governor, the speaker of the house or representatives, the legislative audit committee, and the chairs of the standing committees of each house of the legislature with primary jurisdiction over the audited state agency. The implementation plan must include a reasoned justification for any recommendation the audited state agency declines to implement. (Accordingly, this appears out of scope for the RFP.)

What Are the 4 Main Objectives of an E&E audit?

- 1. Measure Performance:** Calculate how effectively the program is achieving its goals relative to its costs (consider taxpayer eyes)
- 2. Define Success:** Establish what an ideal operation ("what good looks like") entails and promote accountability towards that standard.
- 3. Identify Limitations, Inadequacies and Risks:** Uncover organizational constraints, compliance risks, and potential for FW&A through data analysis and staff interaction.
- 4. Find Improvement Opportunities:** Target improvements, especially at process bottlenecks, that yield the highest return. Streamlining processes can speed service delivery and increase the value of outputs. This value can be realized as immediate cost savings, reduced future funding needs, or an increased capacity to handle more demand without raising costs.



State Auditors Office Efficiency Audit



The State Auditor's Office objectives in their RFP for E&E audits of state agencies. To Determine:

- Whether an organization or program is using its resources optimally to achieve results, w/ minimal waste.
- If the program is meetings its goals to accomplish desired results established by legislation.
- Whether financial, program, and statistical reports contain useful data and are fairly presented;
- Whether agency programs duplicate, overlap, or conflict with another state program

An example of a scope and methodology for this engagement would be:

Scope:

- Management and operation of functions, programs and divisions
- Information systems
- Compliance with laws, rules, regulations, policies and procedures

Methodology:

- Conduct the audit in accordance with Government Auditing Standards (GAS).
- Determine the as-is state of high-risk areas through interviews, observations, data analysis, reperformance/ recalculations, source documents and verification of reports
- Agree upon criteria, sample, test, validate results, confirm with the client, and report on results

Texas HB 12, an efficiency audit is a formal **"evaluation of the economy, efficiency, and effectiveness of state agency operations."** This involves determining if the agency is **"using its resources...in an economical and efficient manner"** and **"identifying causes of inefficiencies or uneconomical practices."** The audit must also assess whether the agency's programs are achieving their **"objectives and intended benefits"** and whether they **"duplicate, overlap, or conflict with another state program."**



City of Austin Efficiency Audit

The City of Austin recently approved an ordinance to set up a recurring comprehensive efficiency assessment of all city departments and operations.

It directs the City Auditor's Office to contract with outside experts and examine everything from management structures to contracting practices, looking for ways to save money and improve services.

The audit must be launched within 12 months, and results and recommendations will be published online to boost transparency.

An example of a scope and methodology for this engagement would be:

Scope:

- Revenue Centers, Cost Centers, Reimbursement arrangements, Federal and State Grants and Agreements by function, program and divisions
- Information systems
- Compliance with laws, rules, regulations, policies and procedures

Methodology:

- Conduct the audit in accordance with Government Auditing Standards (GAS).
- Determine the as-is state of high-risk areas through interviews, observations, data analysis, reperformance/recalculations, source documents and verification of reports
- Agree upon criteria, sample, test, validate results, confirm with the client, and report on results

Federal Government Efficiency Efforts



General Accountability Office: Support Congress by establishing auditing and accounting standards, providing objective, fact-based, and non-partisan information, and investigating federal spending, improving government efficiency, and ensuring accountability to taxpayers.

Independent Office of Inspector General in each major federal agency

The Federal Government established DOGE by executive order in January 2025.

Purpose. This Executive Order establishes the Department of Government Efficiency to implement the President's DOGE Agenda, by modernizing Federal technology and software to maximize governmental efficiency and productivity.

The United States Digital Service was publicly renamed as the United States DOGE Service (USDS). The USDS Administrator established in the Executive Office of the President reports to the White House Chief of Staff. The U.S. DOGE Service Temporary Organization shall be headed by the USDS Administrator and shall be dedicated to advancing the President's 18-month DOGE agenda and shall terminate on July 4, 2026. The termination of the U.S. DOGE Service Temporary Organization shall not be interpreted to imply the termination, attenuation, or amendment of any other authority or provision of this order.

Some others include: Office of Mgmt & Budget, General Svcs Administration, Bureau of Fiscal Service, and Congressional Budget Office.

2. How Do You Accomplish an E&E Audit?

Consider this E&E Framework (you should have these “going in”):



- Goal and objectives of an E&E Audit
- Legislative & Executive Director’s intent for agency performance/mission
- A high-level illustration of “what good looks like” as the organization:
 - Accomplishes its mission
 - Achieves the intent (pursues vision)
 - Operates efficiently
 - NOTE: This is often developed early in the audit
- Likely high-yield areas for E&E look.
- Rules of thumb
 - e.g., don’t ask, if what you need is already public
- Principles and guidance (from guiding sources to auditors). See sources at the end of presentation.
- Suggested best practices research
- Suggested audit timeline
- Expected learning to be accomplished during the audit
- Evidentiary thresholds for efficiency recommendations AND effectiveness recommendations.



Decide on the Kind and Type of Efficiency Review

1. Is it an audit or review or evaluation or an effort or a readiness review?
2. Is this for information gathering? Is it for evidenced based recommendations? Is it for benchmarking? Is it to meet a statutory requirement?
3. Who is relying on the outcome?
4. Who is receiving the report, is there a report, is it for internal or external distribution, is it confidential?
5. What are the expectations for the “management response to recommendations?” I.e., how will commitment be locked in?
6. When will follow up on recommendations occur, will follow up on recommendations occur?

A Planning Checklist for an E&E Audit



1. Understand the Entity’s Mission, Objectives, and Environment (GAGAS 8.03, TGC § 327.001; 327.004). Review the client’s. . .

- Mission, strategic objectives, and statutory/regulatory environment.
- Key stakeholders, governance structure, and reporting relationships.
- Organizational charts, policies, and procedures.
- Reports on human capital, personal property, real property, technology assets, performance measures, financial measures, productivity measures
- Listing of contracts, leases, and interagency agreements

2. Assess Governance, Risk Management, and Controls (GAGAS 8.38)

- Interview management about risk identification, assessment, and control processes.
- Review risk appetite and tolerance, and how risks are accepted or mitigated.

3. Review Prior Audit Findings and Recommendations (GAGAS 8.30)

- Analyze previous audit reports and recommendations for outstanding issues.
- Determine progress on implementation, barriers, risks, and responsible parties.

4. Identify Laws, Regulations, and Compliance Requirements (GAGAS 8.28)

- Catalog applicable laws, regulations, and standards governing the client’s business and operations.
- Assess compliance risks and review recent changes in the regulatory environment.

5. Understand Key Processes and Systems (GAGAS 8.39-67)

- Document significant business processes, IT systems, data flows and reports.
- Identify areas of materiality and significance for audit focus.

6. Engage with Stakeholders (GAGAS 8.20-8.29)

- Solicit input from management and external stakeholders to refine risk assessment and audit focus.
- Document stakeholder and oversight bodies concerns and expectations.

7. Document Planning and Understanding (GAGAS 8.03, 8.35)

- Record objectives, scope, and methodology of the audit
- Record the proposed audit plan

8. Assess Internal Controls (GAGAS 8.38-8.53)

- Evaluate the design and implementation of internal controls relevant to the audit objectives.
- Identify control deficiencies and assess their impact on audit risk.
- Document whether internal control is significant to the audit objectives.

9. Plan for Sufficient, Appropriate Evidence (GAGAS 8.77-79, 8.60)

- Ensure planned procedures will obtain enough evidence to support conclusions.
- Consider the significance of information systems controls and data reliability.
- Validate criteria

The 4 Support Functions that Most Impact E&E:

- Financial management
- Human resource management
- IT management
 - Includes data gathering & analytics
 - Now includes AI employment
- Asset management
 - A system that monitors and maintains (upgrading/disposing, etc.) things of value (tangible assets, e.g., buildings & intangible e.g., intellectual property).

7 General Management Activities that can foster efficiency :

1. Commitment and tone from the top
2. Strategic planning
3. Operational planning
4. Project and operations management
5. IT systems
6. Performance monitoring and reporting

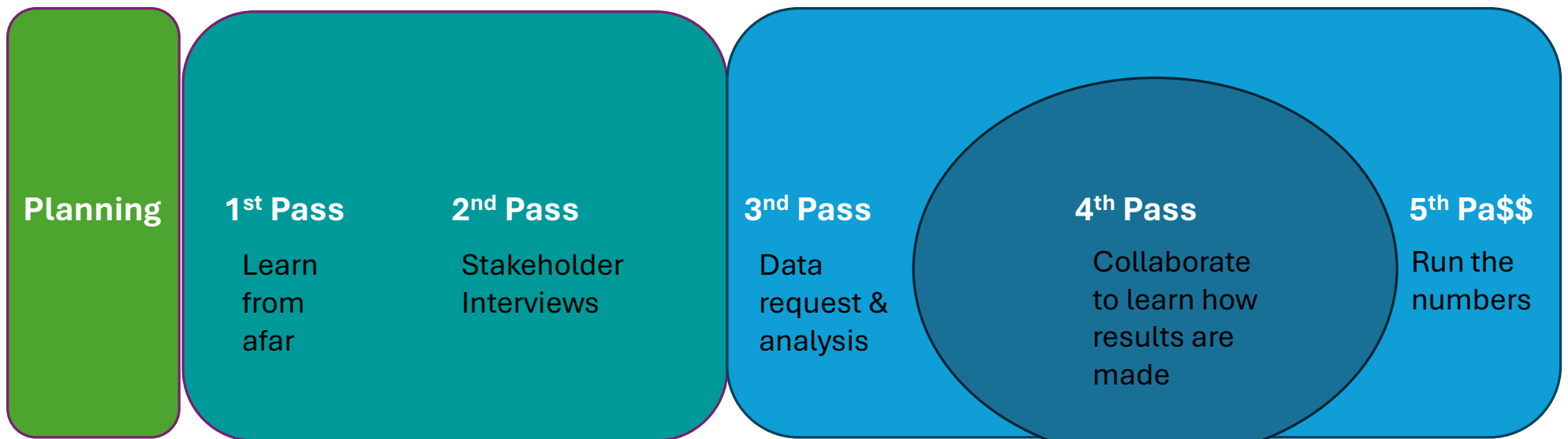


The 5 “Passes” of an E&E Audit



- 1st Pass: All you can get from afar.
 - All that you can learn about mission , performance, efficiency, effectiveness— w/o “bothering” the agency or program.
 - Sources: reports, audits, public documents, federal assessments, etc.
 - A hard look at inputs & economy
- 2nd Pass: Gather E&E comments from those in the know.
 - Sources: stakeholders, advocates, peers, recipients of service, etc.
- 3rd Pass: Provide agency a data request package; analyze data.
 - Build a productivity model (inputs→outputs)
- 4th Pass: Hands on collaboration w/ the program to understand the operations which produce results:
 - Depict WGLL (potential E&E performance)
 - Find constraints & critical activities
 - Map the current state
 - Determine the price of quality service/good.
 - Analyze gap between current state and WGLL (Delta = ROI)
- 5th Pass: Run the numbers:
 - Potential savings from discovered redundancy, waste, inefficiency, etc.
 - Depict current production/cost ratios and compare it with modeled potential production/cost ratios.

Execution of an E&E Audit



The 4th Pass: ReEngine's Approach to Operational E&E



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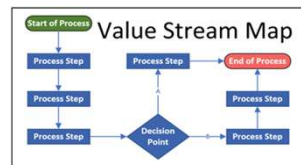
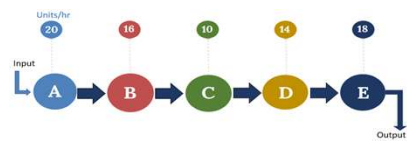
- 1. Define Criteria & Foundational Review:** Establish, or reaffirm, the organizational vision (i.e., "What Good Looks Like") via facilitated leadership sessions and stakeholder interviews. Benchmarking; national standards.

This analysis, which sets clear evaluation criteria, is grounded by a comprehensive review of statutory mandates, regulatory requirements, available performance data, and prior audit reports.

System efficiency is distinguished from, and prioritized over, local optima.

- 2. System Diagnostics & Constraint Analysis:**

- Conduct a system analysis to identify the single most important system constraint (the bottleneck) that dictates the entire program's productivity.



- Use this process mapping to pinpoint interferences, identify FW&A, conduct root cause analysis, assess core conflicts, and find opportunities to streamline operations.

- 3. Measurement and Functional Deep-Dive:** Perform targeted measurement and diagnostics on the agency's enabling functions, including:
 - Detailed financial statements to determine marginal cost and value production (\$4000 for an average investigation vs. \$3200 –possible!).
 - IT systems for alignment and unmet requirements
 - Internal controls for efficiency
 - The personnel/organizational structure for right-sizing. Analyze compliance obligations to find the optimal balance between risk, efficiency, and effectiveness.
- 4. Recommendations Roadmap:** This visual document summarizes and sequentially connects the recommendations by tying together:
 - All needed changes
 - Suggested process improvements,
 - Key performance metrics (KPIs/dashboard),
 - All rolled into a recommendations roadmap designed to achieve the envisioned ROI.

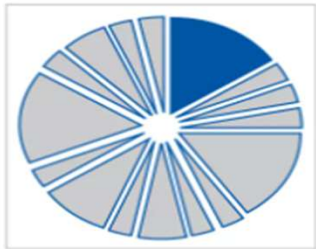
Key Deliverables of An E&E Audit



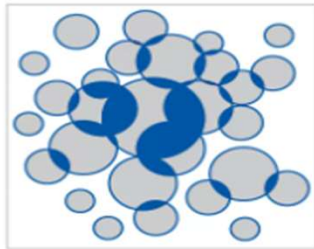
- **Executive Evaluation:** A final determination on whether the agency's objectives and intended benefits are being achieved efficiently and effectively. This includes a SIPOC analysis (Suppliers, Inputs, Process, Outputs/Outcomes, Customers) to establish the “satellite view” of the agency's value stream.
- **Current State Diagnostic Report:** A comprehensive depiction of the current state using process maps, organizational charts, and detailed analysis of expenditures, performance (quality and productivity), and all identified inefficiencies and constraints (bottlenecks).
- **Recommendations:** Specific recommendations for E&E improvement are accompanied by succinct supporting analyses and are presented visually and sequentially. This section also includes details of process streamlining, identified opportunities, and necessary enabling IT requirements. Recommendations, once implemented, should get the organization from current state to WGLL future state.
- **Value & Performance Measurement:** A proposed KPI dashboard consisting of "an elegant few" key performance measures (covering productivity, financial/efficiency, quality, customer satisfaction, and capacity). Example system-level metrics include:
 - productivity
 - system cost per quality throughput (service or product)
 - touch-time vs. elapsed time
 - average ÷ best productivity
 - cycle time (customer wait). This deliverable includes the identified ROI anticipated from the implementation of all recommended changes.
- **WGLL:** The audit envisions and portrays a state of “what good looks like” (WGLL) in regards to operational efficiency and effectiveness.

What we are looking for!

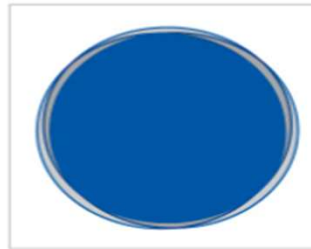
Fragmentation refers to those circumstances in which more than one agency (or more than one organization within an agency) is involved in the same broad area of national need.



Overlap occurs when multiple agencies or programs have similar goals, engage in similar activities or strategies to achieve them, or target similar beneficiaries.



Duplication occurs when two or more agencies or programs are engaged in the same activities or provide the same services to the same beneficiaries.



Cost Savings refers to financial benefits from actions to reduce costs or better target resources.

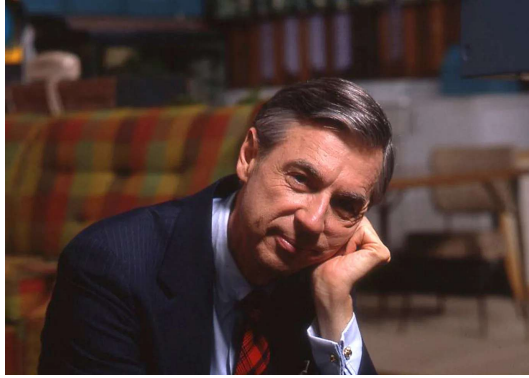


Revenue Enhancement refers to financial benefits from actions to collect revenue.

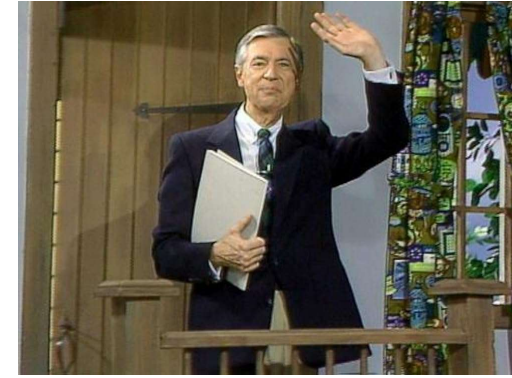


Where we are looking! (just a small sample of sources; state agency example)

- Report on “Organization and Efficiency of State Agencies” Texas Govt code § 2053.002 from Legislative Budget Board.
- Sunset Commission Reviews.
- Agency’s strategic plan and analyze their mission, strategy, goals, objectives and performance metrics. Performance management plan.
- Agency’s biennial operating plan from the LBB. Lapsed/unused funds analysis.
- Statewide Cost Allocation Plan. Facilities footprint analysis.
- Agency’s Legislative Appropriations Request from the LBB.
- List of agency contracts and awards from LBB website.
- Agency’s Annual Financial Report. HR costs, turnover, vacancy. Workforce mix.
- Fleet report: Utilization and right-size analysis. Total cost of ownership analysis.
- Comptroller’s Vendor Performance Tracking System reports (by the agency). Labor rate benchmarking.
- Annual Texas Quality Assurance Team report from Comptrollers for Major Information Systems.
- Expenses and revenues from publicly available website(s), to include avoidable interest expenses.
- Agency’s internal audit plan and internal audit SAO annual report (published on public website).
- Agency’s last five years of budget and appropriations from the LBB website.
- Real estate, assets, and facilities report and management.



3. How should a quality E&E audit feel to the auditee?



- A valuable experience with beneficial deliverables which enables them to:
 - Achieve more with less friction or strain.
 - Promote gains in efficiency.
 - Charter a viable path to improvement.
- Useful and actionable: by providing leadership with effective management tools:
 - WGLL
 - Dashboard / scorecard
 - Process maps; SIPOC
 - Interference diagrams
 - Standard work suggestions
 - Strategic paths, etc.
 - Solid, evidence-based recommendations
- A worthwhile experience: *because* it results of better outcomes for the agency's primary customer, motivated public servants (and the public) will likely view audit as positive and constructive.
- A positive experience for the agency, all told.

Some excellent resources we
discovered along the way:



A Mindful North Ireland Checklist: Key Questions



- “Does the organisation have a clearly articulated strategic approach to delivering efficiency, innovation and improvement, with plans . . .
- Does the organisation have a systematic approach to learning innovation and learning?
- Has the organisation adopted continuous improvement methods to review systems and practices for delivering services?
- Does the organisation have a clear strategy for benchmarking each of its main services?
- Is the organisation able to demonstrate what efficiency gains have been achieved from individual projects and how these gains have improved the services delivered?
- Does the organisation identify and analyse the input costs for all major services?
- Has the organisation communicated its efficiency, innovation and improvement strategy to service users?”

How should we track implementation progress?

The BRAG technique – a suggestion to set up organization to span the gap!

BRAG on the progress: Blue=blue ribbon for done; Red=stuck; Amber = not started or not progressing well; Green = on track

A	B	C	D	E	F
ID	Improvement Recommendation Task	Description & Action	Responsible Party	BRAG Status	Next Step
1	Develop Applicant Guidance Library & "Paragons"	Create a library of excellent application examples and "how-to" content to help applicants submit complete info. Leverage "Frank's Speech" for common FAQs.	Program Specialist Eva	Unstarted	Leverage Pinion contract funds (\$200k+) to produce videos; collect "paragon" examples; record Supervisors's explanation for FAQs..
2	Implement "Permit Wizard" on Website	Design/deploy an interactive "Do I need a permit?" wizard to filter inquiries. Based on the Michigan/Water Quality model.	Designer: Permit Writer	On Track	ReEngine to provide Water Quality mock-up; Team to draft wizard questions (e.g., "Is this residential?"); Permit Writer Sam Winsor to organize files on Google Drive if website is delayed..
3	Reclassify ENEG-10 Position (HR Proposal)	Submit proposal to HR to remove the PE requirement or reclassify ENEG-10 to ENR-10 to fill the 4-year vacancy and create internal promotion paths.	Manager Winston	Stuck	Draft formal proposal/brief for HR to remove PE requirement or reclassify; review job descriptions..
4	Structured New Hire Training Program	Implement a phased training curriculum (Core [0-4 mo], Advanced [4-8 mo], Specialized [8-12 mo]) with a check sheet to validate skills.	Training Tiger Team (lea	Complete	Administrative specialist to create the "Training Record Check Sheet"; Team to populate TLOs (Training Learning Objectives) for the three phases using staff experience..
5	Delegate Authorization Letter Signatures	Delegate signature authority for Authorization Letters from Program Manager to Supervisor to reduce bottlenecks.	Dir. Anton and Agency D	Complete	Finalize and submit "Decision Brief" to Amber requesting delegation of authority for Supervisor (excluding new employee work)..
6	Delegate Public Notice Package Review	Reassign "Review Public Notice Package" from Manager to a trained peer/admin to prevent delays. Establish a goal of 3 days.	Manager Winston	Unstarted	Implement trial run where peer/admin reviews next batch; validate against "Public Notice Class" standards..
7	Review Integration Exercise	Create a "Hide and Seek" training module where new hires trace a facility's impact through sister programs (Title V, Compliance) to break silos.	Team / Dir. Anton	On Track	Ask Director Anton for guidance on the integrated exercise based on previous intern training models; design the curriculum.
8	Designate Internal Data Analyst	Assign a team member (e.g., Ken Rivers) to handle data queries/dashboards, leveraging Scott Travis for Power BI setup.	Ken Rivers and Scott Tr	On Track	Assign Ken (or Emissions Inventory staff) to analytics duty; ReEngine to explore using contract hours to build initial Power BI dashboard..
9	SmartComment Access Expansion	Grant Administrative Specialist Ashton and permit writers direct access to SmartComment to upload comments, removing the Manager bottleneck.	Director Winters and Ad	Complete	leton to formally approve access for T to configure permissions..
10	Internal "Decision Support Template"	Create a "Decision Support Template" for complex decisions (e.g., PSD applicability) to capture institutional knowledge.	Manager and Superviso	Stuck	emplates for high-friction decisions; ReEngine to aser/examples..
				Unstarted	
				On Track	

Some Key Resources

- *Generally Accepted Government Auditing Standards (GAGAS) - Yellow Book*
- *International Professional Practices Framework (IPPF) - Red Book*
- *Rob Reider (1999), Operational Review: Maximum Results at Efficient Costs. Wiley.*
- *Practice Guide to Auditing Efficiency (2013). Canadian Audit and Accountability Foundation.*
- “Auditing the Efficiency of Application Processes for Government Programs or Licences: Applying the Concepts of the Practice Guide to Auditing Efficiency” (2013). Canadian Audit & Accountability Foundation.
- “Improving public sector efficiency: Good Practice Checklist for Public Bodies.” (19 May 2010). Report by the Comptroller And Auditor General for Northern Ireland.
- H.B. 12, 89th Leg., Reg. Sess. (Tex. 2025). “AN ACT relating to the review and audit of certain state agency operations.” Passed: May 19, 2025. Effective September 1, 2025.
- State Auditor’s Office. Request for Proposal: “Efficiency Audits of State Agencies,” October 13, 2025.
- Texas Government Code, Title 3. Legislative branch. Subtitle c. Legislative agencies and oversight committees. Chapter 327. *Efficiency audits of state agencies.*

4. Discussion The bright red lines of auditing!

- How close should/can we get to them?
- Independent? Objectivity? Conflict of interest?
- Recommend the what, not the how.
- Dismiss intuition in favor of hard evidence?

End of presentation slides

Only back-up slides follow

Planning Checklist for the Agency Selected for Efficiency Audit

1. Understand the Entity's Mission, Objectives, and Environment (GAGAS 8.03, 8.38, TGC § 327.001; 327.004)

- Review the client's mission, strategic objectives, and statutory/regulatory environment.
- Identify key stakeholders, governance structure, and reporting relationships.
- Obtain and review organizational charts, policies, procedures, and prior audit reports.
- Obtain and review reports on human capital, personal property, real property, technology assets and information including data flow diagrams, software licenses, third-party SaaS, and internally developed software.
- Obtain and review listing of contracts, leases, and interagency agreements

2. Assess Governance, Risk Management, and Controls (GAGAS 8.38-8.58)

- Interview management about risk identification, assessment, and control processes.
- Review risk appetite and tolerance, and how risks are accepted or mitigated.
- Examine control processes designed to manage risks to acceptable levels.

3. Review Prior Audit Findings and Recommendations (GAGAS 8.38-8.58)

- Analyze previous audit reports and recommendations for outstanding issues.
- Determine progress on implementation, barriers, and responsible parties.
- Assess whether risks have changed due to delays or lack of implementation.

4. Identify Laws, Regulations, and Compliance Requirements (GAGAS 8.38-8.58; 8.68-8.70)

- List applicable laws, regulations, and standards governing the client's operations.
- Assess compliance risks and review recent changes in the regulatory environment.

5. Understand Key Processes and Systems (GAGAS 8.59-67)

- Document significant business processes, IT systems, and data flows.
- Identify areas of materiality and significance for audit focus.

6. Engage with Stakeholders (GAGAS 8.20)

- Solicit input from management and external stakeholders to refine risk assessment and audit focus.
- Document stakeholder concerns and expectations.

7. Document Planning and Understanding (GAGAS 8.05)

- Record objectives, scope, and methodology of the audit.
- Document work performed, evidence obtained, and supervisory review before issuing the audit report.

8. Assess Internal Controls (GAGAS 8.39)

- Evaluate the design and implementation of internal controls relevant to the audit objectives.
- Identify control deficiencies and assess their impact on audit risk.
- Document whether internal control is significant to the audit objectives.

9. Plan for Sufficient, Appropriate Evidence (GAGAS 8.77-79)

- Ensure planned procedures will obtain enough evidence to support findings and conclusions.
- Consider the significance of information systems controls and data reliability.

10. Communicate Plan and Obtain SAO (GAGAS 8.03, 8.20, 8.33)

- Share the audit plan for feedback and clarification.
- Adjust the plan as needed based input and additional information or considerations.

Example Performance Audit Procedures Using AI

1. Understand the Entity's Mission, Objectives, and Environment

Prompt: Create a summary of the agency based on the attached documents:

- key stakeholders, governance structure, and reporting relationships.
- organizational charts, policies, procedures, and prior audit reports.
- reports on human capital, personal property, real property, technology assets and information including data flow diagrams, software licenses, third-party SaaS, and internally developed software.
- contracts, leases, and interagency agreements
- financial reports and performance reports

2. Assess Governance, Risk Management, and Controls

Prompt: Create a summary of the agency's governance, risk management and controls based on the prior analysis and the following attached documents:

- Interviews with management about risk identification, assessment, and control processes.
- Assertions about fraud, waste, abuse, risk appetite and tolerance, and how risks are accepted or mitigated.
- COSO framework
- GAO Yellowbook

3. Review Prior Audit Findings and Recommendations

Prompt: Create a summary of the following attached documents:

- Prior audit reports and recommendations.
- Progress on implementation, acceptance of risk, and other communications related to status of open findings

4. Identify Laws, Regulations, and Compliance Requirements

Prompt: Search the following codes or statutes (insert the code sections that are relevant) and create:

- List applicable laws, regulations, and standards governing the client's operations.
- Assess compliance risks and review recent changes in the regulatory environment.

5. Understand Key Processes and Systems

Prompt: Using the attached agency policies and procedures, interviews with management and internal audit reports:

- Document significant business processes, IT systems, and data flows.
- Identify areas of materiality and significance for audit focus.

6. Engage with Stakeholders

Prompt: Create an agenda and brief overview of planning to distribute to meet to:

- Solicit input from management and external stakeholders to refine risk assessment and audit focus.
- Discuss and document criteria

Prompt: Based on management's response, create a document with:

- Stakeholder concerns and expectations.

7. Document Planning and Understanding

Prompt: Using the attached final planning documents and GAGAS, create the following documents:

- Objectives, scope, and methodology of the audit and
- Finalized planning memorandum for the audit to document review and approval