

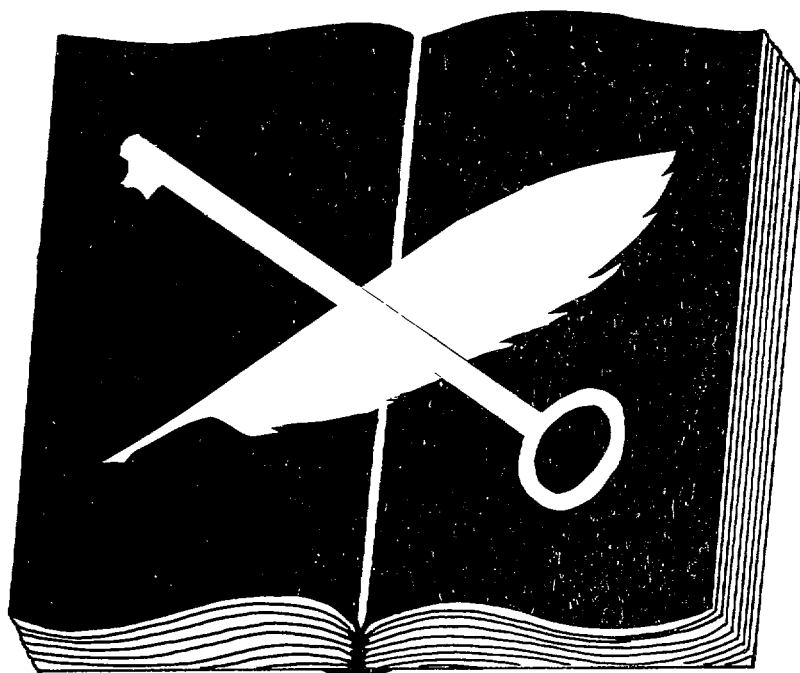


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INTERNAL AUDITING IN THE GOVERNMENT

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INTERNAL AUDITING
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INTRODUCTORY NOTE

This annotated bibliography reviews reports, monographs, and journal articles (for the most part from the past five years) dealing with internal auditing in Federal, State, and local governments, and their cooperative ventures, in the following areas: growth of the internal audit; the development of guidelines, current practices; the types of internal audit; and issues of pervasive interest, including the relative position of the internal auditor, auditing of EDP systems, and the auditing of grant programs. Each section contains a description of literature representative of writing in the field.

Several monographs are so encompassing as to not fit any category. Lennis M. Knighton's Internal Auditing in State Government (Orlando: Institute of Internal Auditors, 1973, HJ9816.K48), with an extensive bibliography, is one such reference, as is Auditing in the Public Sector by Felix Pomeranz et al (Boston: Warren, Gorham & Lamont, 1976, HJ9733.P6). Concepts of Governmental Auditing: Readings from the Internal Auditor (Altamonte Springs, FL: Institute of Auditors, 1977; HF5667.C67) serves as an overview of areas of interest to internal auditors as well as an introductory text. The American Institute of Certified Public Accountants' (AICPA) Committee on Government Accounting and Auditing issued in 1974 Audits of State and Local Governmental Units (New York: American Institute of Certified Public Accountants, 1974, HJ9816.A53), primarily a guide for the independent auditor of local governments but with applicability elsewhere. The Federal Government Accountants Association has surveyed the historical literature in its Bibliography on Federal Accounting, Auditing, Budgeting, and Reporting, 1900-1970 (Arlington, VA, 1971; REF Z7164.C81F4). Richard J. Haas, in Governmental Finance (6, no. 3, Aug. 1977; p. 58), has compiled a brief list of "Internal Auditing Information Resources."

It is obvious in scanning this bibliography that a wide variety of journals include information on government internal auditing. The Internal Auditor, GAO Review, and Governmental Finance are three especially fruitful sources. Journal articles on internal auditing are indexed in the Accountants Index under the headings "Internal control" and "Auditing."

Aside from reports and standards discussed elsewhere, the General Accounting Office (GAO) has of course issued a multitude of audit reports on the status of internal auditing in various agencies, of which the following are only an indication:

Review of Internal Auditing, District of Columbia Government (B-160759,
Feb. 20, 1968)

Review of the Government Printing Office's Internal Audit Program
(LCD-77-444, Nov. 23, 1977)

Need for Additional Internal Audit Coverage in the National Aeronautics and
Space Administration (FGMSD-78-12, Dec. 27, 1977)

Opportunities for Improving Internal Auditing in the Department of
Agriculture (CED-78-28, Feb. 9, 1978)

Internal Audit of Financial Operations in the Department of Housing and
Urban Development (FGMSD-78-25, Apr. 12, 1978)

As this bibliography was compiled, action was being taken on the Inspector General Act; this Act will undoubtedly have a profound impact on the internal auditing of at least Federal agencies. The reader must be aware of the different contexts in which the material described herein was written. All material cited in this bibliography is available through the GAO Technical Library, Room 6536, 275-5180.

THE HISTORICAL CONTEXT

Current legislation on the Offices of Inspector General is the culmination of both successful and unsuccessful attempts by government agencies to resolve financial management problems and reap the benefits of uniform auditing practices. As each agency formulated its own practices, rules and standards were developed (some legislated) to enhance uniformity and comparability; these rules and standards are discussed in the next section. The items in this section reveal the need for internal audit that was evidenced in government agencies and discuss how these agencies attempted to satisfy their needs. While the material must be taken in its historical context, much of value is incorporated in it.

Campfield, William L. "Needed: New Concepts and Approaches to Audit of Government Programs." The National Public Accountant, 20, no. 4 (April 1975): 22-29.

Discusses why auditors should work on public programs; major public program issues of income security, health care, and manpower; and suggestions on how these programs could be audited (review of reports, physical inspection, testing).

Dittenhofer, Mortimer H. "Serendipity in Self-Audit." The Federal Accountant, 22, no. 2 (June 1973): 48-54.

Outlines the basic objectives of internal audit and discusses in detail each of the four general advantages: insight of self-evaluation, staff improvements, management improvements, and financial aspects.

George, Frank F., and Palmer, Fredrick B. "Systems Auditability and Control." The Internal Auditor, 34, no. 2 (April 1977): 11-15.

Details why the need for systems auditability and control exists and the interrelationship between internal audit and control. Examines projects of the Institute of Internal Auditors in the areas of systems auditability and control, methodology, and standards.

Knighton, Lennis M. "Improving the Audit of Federal-State-Local Programs." The Federal Accountant, 17, no. 4 (December 1968): 31-43.

Examines four choices for improving Federal-State-local program audits: use state auditors; use CPAs, use Federal auditors; or use a combination of the three. Analyzes each option's advantages and limitations.

The Federal Government

Anderson, William J. "Management Control - The Uncertain Role of Internal Audit." Government Accountants Journal, 26, no. 2 (Summer 1977): 15-19.

Argues that the Federal Government is not using internal auditing effectively because managers do not develop a strategy to manage and control. Discusses possible solutions to the problem, gives statistics on agencies' internal and external audit, and examines how auditors view their role.

Campfield, William L. "The Expanding Role of Internal Auditors in Federal Government." The Internal Auditor, 19, no. 4 (June 1960): 29-39.

Highlights the growth of internal auditing in the Federal Government. Discusses the Military Assistance Program audit as an example of results obtained through internal audits in the Government, followed by a list of auditors' recommendations in management areas (accounting, inventory control, production, etc.). Also includes speculation on the future of government internal auditing.

House Report no. 2819, 95th Congress, 1st Session, May 17, 24; June 1, 7, 13, 21, 29; and July 25, 27, 1977.

Presents statements and discussions at the House Subcommittee on Intergovernmental Relations and Human Resources hearings on the Inspector General Act, May 17-July 17, 1977. Includes reviews of current internal audit activities in selected agencies, results of a questionnaire survey of Federal agencies, and a CRS examination of the constitutionality of the Act.

Kohler, Eric L., and Wright, Howard W. "Internal Auditing." Accounting in the Federal Government. Englewood Cliffs, N.J.: Prentice-Hall, 1956, pp. 204-213. HJ9801.K6

Outlines the general characteristics and objectives of the internal auditing function. As a general introduction, gives an overview of the internal auditor and his duties.

Lynn, Edward S., and Freeman, Robert J. "Federal Government Accounting." Fund Accounting. Englewood Cliffs, N.J.: Prentice-Hall, 1974, pp. 797-848. HJ9801.19

Provides background on major financial control roles and responsibilities of the legislative and executive branches of government and an organizational chart with a brief summary of each office or department and its respective duties. Includes an overview of the budgetary process and a summation of the purpose and objectives of Federal agency accounting.

Sellers, Harold. "Accountability in the Executive Agencies." The Internal Auditor, 31, no. 6 (Nov./Dec. 1974): 71-74.

Explains that government agencies, as custodians of public resources, are held accountable to the people through the enactment of certain laws, by the

monitoring of certain agencies, and through the existence of control or feedback systems within the agencies (including the Treasury Department, OMB, and GSA).

Case Studies

Baurmash, Sidney S. "View from Government: The Commerce Department's Audit Activities." The Journal of Accountancy, 136, no. 4 (Oct. 1973): 34, 36, 38.

The Commerce Department's Office of Audits, which is responsible for both internal and external audits, is examined through an organizational chart, a breakdown of internal audit divisions and areas of responsibility, and a list of regional offices and geographic areas of responsibility. The nature of the Commerce Department's function and the amount of audit resources available set the Office of Audits apart from other audit organizations.

Brecht, Warren F. "Auditing Treasury's Diverse Missions." The Federal Accountant, 25, no. 3 (Sept. 1975): 16-19.

Describes the Treasury Department's decentralized audit organization and Office of Audit responsibilities in the context of the Treasury's many areas of interest (tax administration and revenue collection, administering the public debt, central government operations, law enforcement, national bank administration, manufacturing operations, and state and local assistance).

Condon, Lester P. "The Single Management Concept for Audit and Investigation." Army Audit Agency Bulletin, June 1964, 9-23.

Discusses the establishment of the Department of Agriculture's Office of Inspector General. Examines the Office's independence and organization, and its coincidental inclusion of many of the modifications recommended by House Report no. 456 (which established standards for effective internal audit).

Nocera, Joseph. "Inspector General: The Fraud in Fighting Fraud." The Washington Monthly, Feb. 1979, 30-39.

Reviews the provisions of the Inspector General Act and discusses potential inherent problems, using as examples the Inspectors General of DOE and HEW (whose offices were established before the Act was approved) and the previous experiences of military internal auditors.

Peratino, Chris. "Auditing Environment at the Smithsonian." Government Accountants Journal, 25, no. 1 (Spring 1976): 60-63.

Examines the internal audit program of the Smithsonian Institution. Includes general background of the Smithsonian, history of its internal audit program creation, and results of a management audit on a program to provide research grants to scientists.

Reynolds, Allan. "Expanded Scope Audits in the Department of the Interior." Government Accountants Journal, 26, no. 3 (Fall 1977): 14-17.

Describes economy and efficiency, effectiveness, and contract and grant audits in the Interior Department. Identifies major problems, relationships among various types of audits, and future plans of Interior's audit staff.

The General Accounting Office

Morse, Ellsworth H., Jr. "How Auditors Help Improve Government Operations." The Internal Auditor, 33, no. 6 (Dec. 1976): 56-64.

Examines the scope of an auditor's job, cites specific GAO audit report findings in order to highlight particular functions of the audit, and defines GAO's independent role in the organization of government.

Morse, Ellsworth H., Jr. "How GAO's Audit Standards Evolved." The GAO Review, 12, no. 3 (Summer 1977): 54-58.

Discusses the history of GAO and internal auditing. Looks at GAO's relationship with CPAs.

Nielsen, Oswald. "Internal Auditing in Modern Management." The Federal Accountant, 15, no. 3 (Spring 1966): 41-53.

Reviews industry and government internal auditing trends with extensive focus on the General Accounting Office role, its definition of a comprehensive audit, and the GAO's views on internal audits. Compares internal and external auditors and comments on the cooperation necessary between them.

Staats, Elmer B. "Government Auditing - Yesterday, Today, and Tomorrow." The GAO Review, 11, no. 2 (Spring 1976): 1-9.

Reviews the changes that have occurred at GAO since 1966 and notes possible future developments. Also includes a list of special GAO publications explaining the GAO standards, possible solutions to common complaints, and the efforts of GAO to provide staff training.

Staats, Elmer B. "The Growing Importance of Internal Auditing in Government." The Internal Auditor, 25, no. 5 (Sept. 1968): 48-56.

Discusses the development of the GAO concept of Federal Government internal auditing, with an emphasis on improvements in the independence and location of internal auditing, the structure of the internal audit organization, and the scope of work. Reviews several internal audit results, and examines examples of GAO audits.

State and Local Government

Atkisson, Robert M., and Chait, Edward P. "The Case for the Internal Auditor in Local Government." The Internal Auditor, 35, no. 5 (Oct. 1976): 60-68.

Explains the need for the internal auditor in local government based on a survey (1976-78) of 46 local governments. Describes the eight major services the internal auditor can offer to local government and defines the three types of government audit: financial and compliance, efficiency and economy, and program results. Also includes some survey findings on the kind of audit as related to the size of local government and the advantages of having an internal audit function.

Drucker, Meyer. "The Importance of Internal Review for Local Governments." Governmental Finance, 2, no. 1 (Feb. 1973): 25-28.

Explains why the need for internal auditing in local government exists and compares internal and external auditing. Reviews the element of independence and the qualifications of an audit staff, and reports on the findings of a questionnaire sent to 230 larger cities and counties in the United States and Canada about the use of internal auditing.

Knighton, Lennis M. Internal Auditing in State Government. Orlando: Institute of Internal Auditors, 1973. HJ9816.K48

Presents the results of a mail, telephone, and on-site survey of the status of internal auditing in State governments, with particularly extensive comments on California. Also includes a discussion of the characteristics of an ideal internal audit program and suggestions on overcoming problems.

Williams, James M. "Governmental Auditing." Governmental Finance, 5, no. 4 (Nov. 1976): 50.

Presents statistical findings of a questionnaire sent to members of the Municipal Finance Officers Association concerning current audit practices in local government. Reports results on the number of professionals on the audit staff, the selection method for the chief auditor, the chief auditor's reporting responsibility, and the types of audits performed.

Case Studies

Falstad, Thomas J. "Establishing an Internal Auditor Function in County Government." The Internal Auditor, 30, no. 3 (May/June 1973): 76-79.

Examines the creation of the internal audit staff of Hennepin County, Minn., which includes Minneapolis. Discusses expanded staff duties, and recommends that financial and program controls be centralized and standardized and that basic accounting functions be done by the county accounting system.

Holder, William W. "The Role of the Internal Auditor in Responding to Crises in Local Government." The Internal Auditor, 34, no. 6 (Dec. 1977): 71-81.

Identifies several general areas where internal auditors can help a city. Focuses on New York City and gives specific examples of how the internal auditors helped identify several accounting abuses which contributed to New York City's financial crises.

Miller, John R., and Ostrow, Harry. "Road to Professionalizing a State Audit Organization." The Federal Accountant, 23, no. 1 (March 1974): 10-18.

Provides a "recipe" for professionalizing a state audit organization. Shows how Pennsylvania used this recipe to establish its state auditing organization and techniques. Gives an outline of the personnel, training, and administrative responsibilities that exist during the professionalization process.

THE DEVELOPMENT OF RULES AND STANDARDS

The following items are arranged chronologically to suggest the development of standards and guidelines that led to enactment of PL 95-452, the "Inspector General Act of 1978."

Morse, Ellsworth H., Jr. "Internal Auditing Principles and Concepts for Federal Agencies." The Federal Accountant, 19, no. 1 (March 1970): 34-50.

Outlines the history of the Comptroller General's revised statement of basic principles and concepts for the guidance of Federal agencies in the design and operations of their internal audit system.

Dittenhofer, Mortimer A. "Audit Standards Applied to the Public Sector." The Federal Accountant, 20; no. 1 (March 1971): 35-39.

Discusses the relevance of standards to the public sector in Federal, State, city and county governments. Also examines how specific standards relate to the public sector concerning general, field work, and reporting duties.

Standards for the Audit of Governmental Organizations, Programs, Activities, and Functions. Washington: U.S. General Accounting Office, 1972. HJ9801.A1 1972a.

The basic text of the standards which are "intended to be applicable to all levels of government in the U.S."

Morse, Ellsworth H., Jr. "Operational Auditing and Standards for the Public Sector." The GAO Review, 8, no. 1 (Winter 1973): 30-36.

Discusses the GAO audit standards and how they developed. Explains why the need to audit government operations exists and gives examples of GAO reports.

Morse, Ellsworth H., Jr. "Auditing Government Operations." The Internal Auditor, 30, no. 3 (July/August 1973): 10-19.

Illustrates GAO auditing guidelines through GAO audit examples in the areas of public housing costs, consumer protection, medicare costs, and others. Also discusses standards for auditing federal assistance programs.

Fritzemeyer, Joe R. "Standards for Audit of Government Organizations." Governmental Finance, 2, no. 4 (Nov. 1973): 39-40.

Discusses the rise of Financial Accounting Standards Board (FASB) rules and the fall of Accounting Principles Board (APB) standards. Looks at committees that set standards and their findings.

Granof, Michael H. "Operational Auditing Standards for Audits of Government Services." The CPA Journal, 43, no. 12 (Dec. 1973): 1079-1085.

Examines three groups of standards: the four general standards of the Standards for Audit, the standards for examination and evaluation; and the standards for the reporting section. Also notes several questions for CPAs raised by the GAO standards.

United States General Accounting Office. What GAO is Doing to Improve Governmental Auditing Standards. [Washington]: The [GAO] Office, 1973. HJ 9802.A48

Explains why government-wide audit standards were developed and contains a brief outline of the standards. Also discusses intergovernmental audits and other cooperative ventures.

American Institute of Certified Public Accountants. Committee on Relations with the General Accounting Office. Auditing Standards Established by the GAO - Their Meaning and Significance for CPAs. [New York]: American Institute of Certified Public Accountants, [1973]. HF5667.A55

Helps the independent public accountant understand GAO standards, their effects on practices, relationship to AICPA standards, and application to the GAO definition of auditing.

Dittenhofer, Mortimer A. "The New Audit Standards and Internal Auditing." The Internal Auditor, 31, no. 1 (Jan./Feb. 1974): 10-23.

Interprets clearly and concisely the Standards for Audit of Governmental Organizations, Programs, Activities & Functions.

Dittenhofer, Mortimer A. "Integrating the GAO Audit Standards into Audit Guides." The Internal Auditor, 31, no. 2 (Mar./April 1974): 79-82.

Describes 3 sections of the Standards for Audit -- the audit objectives, audit program, and the audit report -- based on their implementation by Department of Commerce in developing its own audit guide.

Scantlebury, Donald L. "Implementation of Standards for Governmental Units." The Journal of Accountancy, 139, no. 5 (May 1975): 34+.

Discusses the GAO's efforts to implement the standards proposed by GAO in 1972. Also reviews intergovernmental audit forums -- their objectives, activities, membership and committees.

"Statement on Auditing Standards No. 9 - The Effect of an Internal Audit Function on the Scope of the Independent Auditor's Examination." The Journal of Accountancy, 141, no. 2 (Feb. 1976): 67-69.

Official release of the Statement that provides "guidance on factors that affect an independent auditor's consideration of the work of internal auditors."

Burns, David C. "A Field Approach for Satisfying Governmental Auditing Standards." Government Accountants Journal, 25, no. 2 (Summer 1976): 28-33.

Examines four governmental auditing problems: duplication of work, poor audit methodology, ambiguous internal control standards, and poorly written reports. Details a four step audit methodology for governmental management audits and outlines its application in the field.

King, Lawrence T. "Summary of Statement on Auditing Standards No. 9: The Effect of an Internal Audit Function on the Scope of the Independent Auditor's Examination." National Public Accountant, 22, no. 7 (July 1977): 24-25.

Explains Statement on Auditing Standards No. 9, which sets guidelines for reviewing the competence of internal auditors.

Gibbs, Thomas E., and Silbey, Valdur. "Documentation Standards and the Internal Auditor." The Internal Auditor, 34, no. 4 (Aug. 1977): 27-32.

Discusses the benefits of documentation in auditing systems that use EDP, so that standards against which performance can be measured will be included. Examines the role of the internal auditor in establishing documentation standards.

Carolus, Roger N., and Barrett, Michael J. "(The Development of the) Standards for the Professional Practice of Internal Auditing: An Exposure Draft." The Internal Auditor, 34, no. 6 (Dec. 1977): 12-31.

Provides a summary, then details the standards set forth by the Institute of Internal Auditors to provide direction to internal auditors to meet five purposes: establish a basis for consistent measurement; standardize worldwide internal auditing; encourage internal auditing improvement; relay the purpose of internal auditing, and, professionalize internal auditing.

Perry, William E. "Standards - The Cornerstone for the Internal Auditing Profession." Governmental Finance, 7, no. 2 (May 1978): 59-60.

Recommends that internal auditors promote adherence to internal auditing standards. Notes that the implication of standards has a variety of results: better unity and quality of work, increased productivity, and more recognition; but also more responsibilities, accountabilities, and liabilities. Also

discusses the role of standards in independence, professional proficiency, scope of audit work, and audit management.

Schroeder, Richard G., and Van Daniker, Relmond P. "The Impact of the Cost Accounting Standards Board on Internal Auditing." The Internal Auditor, 35, no. 6 (Dec. 1978): 48-52.

Analyzes the development of the Cost Accounting Standards Board (CASB) and its relationship to the accounting profession and to the internal auditor. Suggests the future role of the CASB will be in setting standards for internal auditors.

Act of October 12, 1978, Public Law No. 95-452. 92 Stat. 1103, 1109.

This is the "Inspector General Act of 1978" of Congress, establishing Offices of Inspector General in 14 departments or agencies. Details the Offices' responsibilities and duties.

THE POSITION OF THE INTERNAL AUDITOR

A major concern in government is the position of the internal auditor relative to GAO, other external auditors, agency officials, and the public and its elected representatives. To emphasize the pervasiveness of this concern, which will certainly increase with the addition of internal audit offices in agencies and the development of the role of Inspectors General, we include in this section both articles from the 1960's and material oriented primarily to business.

Andreau, George. "Internal Control, Internal Audit and External Audit." International Journal of Government Auditing, 2, no. 4 (Oct. 1975): 2-3.

Defines differences in the terms internal control, internal check, and internal audit. Also describes the relationship and the cooperation between internal and external auditors.

Freeman, Robert J. "The Government Internal Auditor's Accountability to the Public." The Internal Auditor, 31, no. 6 (Nov./Dec. 1974): 69-71.

Explains that by most written codes of ethics and standards, internal auditors have responsibility to agency management. Urges that internal auditors be considered part of the management team, directly responsible to the public and its elected representatives.

Kohler, Eric L., and Wright, Howard W. "Relationship Between the GAO and Internal Audit." Accounting In The Federal Government, Englewood Cliffs, N.J.: Prentice-Hall, 1956. pp. 74-77. HJ9801.K6

Presents the generally accepted view of how GAO interfaced with Federal agencies and their internal auditors, with particular emphasis on review of agencies' accountable officers.

Morse, Ellsworth H., Jr. "Relationship Between Internal Auditors and Independent Auditors." The GAO Review, 9, no. 1 (Winter 1974): 25-31.

Discusses the need for internal auditors to facilitate the work of such independent auditors as GAO and practicing CPAs. Includes examples of GAO work with internal auditing offices of various agencies.

Phillips, Thomas E. "Independence: Key to Successful Auditing - Both External and Internal." The Internal Auditor, 35, no. 1 (Feb. 1978): 68-74.

Argues that the internal auditor must have independence to be effective, an independence influenced by organizational status, objectivity, interpersonal relationships, and the working relationship among employees.

Schroeder, Richard G. "How to Audit Internal Auditing." The Internal Auditor, 34, no. 4 (Aug. 1977): 21-26.

Presents guidelines for measuring the effectiveness of the internal audit office, focusing on administration, planning, reporting, training, and evaluation. Includes a discussion of who should conduct such an audit.

Staats, Elmer B. "The Increasing Importance of Internal Auditors in Today's World." The GAO Review, 12, no. 4 (Fall 1977): 1-10.

Describes the state of GAO's relation to internal auditing and gives examples of GAO audit work. Includes how internal auditors can help Federal, State, and local governments, and looks at the future of internal auditing.

"State Audit Bodies and Internal Auditors." International Journal of Government Auditing, 3, no. 3 (July 1976): 1.

Cites three reasons for the need for a closer relationship between internal auditors and State audit bodies: the State auditor's expanding function, changing responsibilities of the State auditor, and the State auditor's new role as advisor and critic.

Voss, Allen R. "How Programs and Activities of the United States Government Are Audited for the Congress." International Journal of Government Auditing, 1, no. 1 (Jan. 1974): 8-10.

Reviews the purpose and procedures of GAO audits for Congress. Examines the four phases of audit -- preliminary survey, review of legislation, preliminary review, and detailed examination -- and reporting to Congress.

Weitzel, Frank H. "Relationship of Internal Audit to the General Accounting Office." The GAO Review, 4 no. 1 (Winter 1969): 13-26.

Discusses Congressional and GAO interest in internal audit, especially with regard to the independence and location of the audit function and the structure of its organization. Includes an extensive review of agency internal audit activity, including audit of contracts and grant-in-aid programs at that time.

Case Studies

Dorrian, Hugh. "Independence of the Government Auditor's Position in the Political Organization." The Internal Auditor, 32, no. 5 (Sept./Oct. 1975): 89-91.

Uses the example of Columbus, Ohio's elected auditor to examine some techniques of simultaneously maintaining an independent stance and political survival, particularly in the pre-audit and post-audit functions.

Eschwege, Henry. "Relationship Between the General Accounting Office and the Office of the Inspector General in the Department of Agriculture." The GAO Review, 2, no. 2 (Spring 1967): 22-27.

Describes the intricate interrelationships of the GAO audit staff assigned to the Department of Agriculture and Agriculture's own audit office, especially the use made of each other's data and staff reports of management audits.

Ferber, Martin M. "Evaluating Internal Audit." The GAO Review, 11, no. 3 (Summer 1976): 56-60.

Examines GAO's reasons for evaluating an agency's internal audits. Uses its findings on the Department of Transportation's internal audit program as examples of GAO's review of coverage, independence, and relationship to other intra-agency offices.

Olmstead, Frank M. "The Elected Auditor in New Mexico." The Internal Auditor, 31, no. 1 (Jan./Feb. 1974): 75-78.

Provides a brief history of the elected State auditor of New Mexico, especially the interface with legislative and other State officials. Includes a view of the strengths and weaknesses of an elected auditor.

Paul, Daniel. "Can the Government Internal Auditor Be Independent?" The Internal Auditor, 30, no. 4 (July/Aug. 1973): 79-82.

Uses the examples of the Legislative Auditor of Maryland and the City Auditor of Baltimore to discuss the responsibilities and need for independence of auditors answering to elected officials.

Robinson, Ben. "Approaches to Synergetic Auditing." The Internal Auditor, 31, no. 4 (July/Aug. 1974): 77-80.

Discusses the policy of the Agriculture Department to use the audit of USDA programs performed by State and local governments or firms employed by them. Describes how cooperative ventures were encouraged, including use of EDP and published standards and procedures.

Smithyman, Jack. "External Influences Affecting the Independence of the Government Auditor." The Internal Auditor, 32, no. 5 (Sept./Oct. 1975): 86-89.

Presents an overview of the political, financial, and legal constraints on the independence of the auditor, as well as systemic and socio-economic factors inherent in the community or agency. Uses office of the controller of Philadelphia as an example of how some external constraints can be lessened.

TYPES OF INTERNAL AUDIT

As auditing has become the object of attention of more and more government and business officials, there have been trends both to use the term "audit" for a variety of reviews and to use a wide variety of terms to differentiate among types of audits. As Burton D. Friedman suggests in The Quest for Accountability [Chicago: Public Administration Service, 1973 (p. 6) JF1507.F7], the variety may be more in terminology than in fact. Some of the terms Friedman has identified are:

financial audit	fiscal audit
fidelity audit	fiduciary audit
operational audit	program audit
efficiency audit	responsibility audit
performance audit	internal audit
organizational audit	functional audit
management audit	external audit
preaudit	postaudit
independent audit	opinion audit
compliance audit	comprehensive audit
contract audit	grant audit
project audit	accountability audit
personnel audit	in-depth audit
quality assurance audit	

Using the GAO Standards for Audit of Governmental Organizations, Programs, Activities & Functions (p. 2) as the authority, the three components of the GAO complete audit, which are types of audits in their own right, are described below, followed by a list of articles discussing each type as used internally.

- (1) "Financial and compliance--determines (a) whether financial operations are properly conducted, (b) whether the financial reports of an audited entity are presented fairly, and (c) whether the entity has complied with applicable laws and regulations."

Brown, Richard E., and Brewer, Jeffery H. "Techniques in Compliance - Effectiveness in Auditing." The Internal Auditor, 33, no. 2 (April 1976): 86-89.

Cohn, Theodore, and Lindberg, Roy A. "Improving the Productivity of the Internal Control Audit." The Journal of Accountancy, 128, no. 4 (Oct. 1969): 84-86.

Hardacre, W. S. "Financial Control in Local Government." The Internal Auditor, 29, no. 2 (Mar./April 1972): 23-29.

Lonergan, Gerald J. "Compliance Audits in San Diego County." The Internal Auditor, 32, no. 2 (Mar./April 1975): 79-82.

Lordan, John J. "Concepts of Compliance Auditing - Authoritative Criteria." The Internal Auditor, 33, no. 2 (April 1976): 83-86.

Nelson, Donald J. "A Preventative Audit and How It Worked for the Federal Government." The Internal Auditor, 36, no. 1 (Feb. 1979): 83-87.

- (2) "Economy and efficiency--determines whether the entity is managing or utilizing its resources (personnel, property, space, and so forth) in an economical and efficient manner and the causes of any inefficiencies or uneconomical practices, including inadequacies in management information systems, administrative procedures, or organizational structure."
(Also termed: Performance, Operational, Functional, Management)

Bolthouse, James J. "Operational Audits of Counties in Michigan." The Internal Auditor, 31, no. 5 (Sept./Oct. 1975): 75-76.

Boyd, Trenton D. "Auditing on Line Versus Tracking." The Federal Accountant, 16, no. 4 (Dec. 1967): 66-67.

Dittenhofer, Mortimer A. "Federal Performance Auditing. Its Application to State Audit Effort." The Federal Accountant, 19, no. 1 (Mar. 1970): 60-72.

Higgins, James M. "A Social Audit of Equal Opportunity Programs." The Internal Auditor, 36, no. 1 (Feb. 1979): 15-22.

Shenkir, William G. "A Paradigm for Operational Auditing." The Federal Accountant, 20, no. 1 (Mar. 1971): 106-111.

- (3) "Program results--determines whether the desired results or benefits are being achieved, whether the objectives established by the legislature or other authorizing body are being met, and whether the agency has considered alternatives which might yield desired results at a lower cost."

Baron, C. David. "Program Evaluation and the Government Internal Auditor." The Internal Auditor, 31, no. 2 (Mar./April 1975): 86-88.

Drucker, Meyer. "Auditing for the Effectiveness of Program Results in Local Governments." The Internal Auditor, 32, no. 2 (Mar./April 1975): 78-79.

Another approach toward definition is taken in "An Integrated Framework for Conceptualizing Alternative Approaches to State Audit Programs" by Lennis M. Knighton [The Federal Accountant, 20, no. 1 (Mar. 1971): 6-23]. The article deals with a "comprehensive audit" incorporating both financial and performance audits.

METHODS AND PRACTICES

Following is a brief selection of articles, many involving case studies, representative of the wealth of information on current practices in internal auditing. Concepts of Government Auditing, described in the introductory note, is a more comprehensive collection of material to be used as a textbook. The following material is cited only to suggest the variety of techniques currently being used.

Baurmash, Sidney S. "The Survey Approach to Internal Auditing." The Internal Auditor, 27, no. 4 (July/Aug. 1970): 70-74.

Discusses the problems of accomplishing a useful internal audit with limited personnel, including the necessity of a flexible approach to standards and traditional procedures. Uses examples from the Department of Commerce.

Hughes, John S. "Optimal Internal Audit Timing." The Accounting Review. 52, no. 1 (Jan. 1977): 56-68.

Presents mathematical models for the determination of the optimal timing of internal audits (assuming that these are not conducted on a continuous basis). Includes a discussion of related studies.

Marvin, Keith E. "Systems Analysis Puts Internal Auditing Into the System." The Internal Auditor, 34, no. 2 (April 1977): 76-80.

Presents the view that a successful audit involves an analysis of the system, including developing a system model (possibly a computerized simulation model). Cites GAO work as examples of systems analyses.

Sawyer, Lawrence B. The Practice of Modern Internal Auditing: Appraising Operations for Management. Orlando: The Institute of Internal Auditors, 1973. HF5667.5245

Provides a general overview of the internal audit function, including establishing the audit organization, selecting and developing the staff, and preparing long-range programs. Also examines such areas as working papers and field work.

Trentin, H. G. "Sampling in Auditing - A Case Study." The Journal of Accountancy, 125, no. 3 (March 1968): 39-43.

Presents a case study of statistical sampling in an internal audit that involves sequential analysis, a sampling plan that differs from most others in not having a pre-determined fixed sample size.

Warder, Benton B. "The Use of Computers in a Local Government Financial Audit." The Internal Auditor, 34, no. 1 (Feb. 1977): 74-77.

Discusses the development of a computerized record-keeping system for the annual financial audit of a county government. Provides in-depth analyses of procedures for computer audits of welfare and payroll.

Weil, Joseph J. "System Flowcharting Techniques For the Internal Auditor." The Internal Auditor, 34, no. 2 (April 1977): 52-58.

Reviews the steps involved in planning a flowchart. Flowcharting has become more prevalent in internal auditing because of the growth of computerized data systems. Explains the relevance of the interview stage to flowcharting.

Wilkerson, William. "Statistical Sampling and the Computer." The Internal Auditor, 33, no. 6 (Dec. 1976): 87-88.

Discusses the impact of computer audit techniques on the need for, and process of, statistical sampling.

AUDITING OF EDP

Following the development of computer-assisted audits, a major issue of concern became the quality of the computer system itself: establishing that the system is handling agency data promptly and accurately is essential before the data can be used in an audit. A major 2-year project to document current practices in EDP auditing was sponsored by IBM and conducted by Stanford Research Institute for the Institute of Internal Auditors; this Systems Auditability and Control (SAC) project involved mail and on-site surveys of over 1500 industry and government organizations, in North America, Europe, and Japan. Many of the following articles are based on the SAC project results.

Cortez-Merrifield, J. Jose. "The Implications of EDP Documentation for the Internal Auditor." The Internal Auditor, 34, no. 1 (Feb. 1977): 38-42.

Describes the need for the EDP internal auditor to have such documentation as systems maintenance logs, status reports, and documentation revisions in order to obtain a basic understanding of the system, determine appropriate audit techniques, and identify critical system controls, milestones, interfaces, and problems.

Culbertson, Roy C. "What Is the Role of the EDP Auditor?" The Internal Auditor, 34, no. 4 (Oct. 1977): 73-77.

Distinguishes the role of the EDP auditor from auditing of manual systems by emphasizing the control function in the planning stage. Also reviews the EDP auditor's other roles of skilled technician, counsellor in standards establishment, and partner to top management in meshing the EDP system with the organization as a whole.

Morse, Ellsworth H., Jr. "The Need for More and Better Computer Auditing." The GAO Review, 13, no. 1 (Winter 1978): 29-37.

Presents the view that, for the most part, internal auditors are adverse to audit work involving computer-based applications, necessitating major involvement by GAO. Uses an audit by the Air Force Audit Agency as an example of review that must be accomplished for internal auditors to meet accepted audit standards.

Perry, William E. "Computer Audit Practices." Edpacs, 5, no. 1 (July 1977): 1-9.

Reviews in considerable detail the findings of the SAC project, analyzing the advantages, disadvantages, and limitations of 28 major practices, most of which were found to be data processing debugging practices (techniques not involving audit analyses of internal control).

Perry, William E., and FitzGerald, Jerry. "Designing for Auditability." Datamation, 23, no. 8 (Aug. 1977): 46-50.

Analyzes one technique for incorporating management control into the development of a data processing system, using as an example a large (anonymous) government organization. Based on findings of the SAC project.

Perry, William E. "The State-of-the-Art in EDP Auditing." Edpacs, 4, no. 1 (July 1976): 1-10.

Presents an overview of the auditing of EDP from the viewpoints of executives, EDP managers, CPAs, internal auditors, security personnel, software specialists, and systems analysts. Reprint of a speech presented at the Sixth Conference on Computer Audit, Control and Security, 1976.

Perry, William E., and Warner, Henry C. "Systems Auditability: Friend or Foe?" The Journal of Accountancy, 145, no. 2 (Feb. 1978): 52-60.

Analyzes selected results of the SAC project, particularly the responsibility for management actions and decisions related to EDP audits and the prevalence of certain audit practices. Also discusses the impact of this two-year project on business and government, including GAO.

Pipino, Leo L. "The Internal Auditor As Diagnostician in an EDP Environment." The Internal Auditor, 35, no. 1 (Feb. 1978): 83-88.

Emphasizes that participation of the internal auditor in the control function is necessary in the design stage of a satisfactory system; also discusses specific techniques to be used by the auditor in the implementation stage.

Rittenberg, Larry E., and Davis, Gordon B. "The Roles of Internal and External Auditors in Auditing EDP Systems." The Journal of Accountancy, 144, no. 6 (Dec. 1977): 51-58.

Identifies developments in internal EDP auditing and their impact on the external auditor, especially increased specialization of EDP functions and participation by internal auditors in all stages of design and implementation. Based on an investigation of 39 EDP internal audit departments and their activities in post-implementation audits, data processing operations and management, and design phase audits.

Smith, John H., and Uecker, Wilfred C. "Internal Audit Activities In EDP System Design, Testing, and Control." The Internal Auditor, 34, no. 1 (Feb 1977): 57-62.

Discusses the responses of over 100 Midwestern internal auditors to questions on the extent of their participation in developing and monitoring EDP systems. Also discusses the possibly differing objectives of internal and external auditors in such audits, and the necessity of more involvement of internal auditors in developmental stages.

AUDITING OF GRANT PROGRAMS

The items described below highlight the growing awareness of a need for standards and cooperation in the auditing of grant programs, particularly Federal grants-in-aid.

Audit Guidelines for Audits of Financial Operations of Federally Assisted Programs. Washington, D.C.: U.S. General Accounting Office, 1976.
HJ9801.A1

Prepared to replace the almost 50 audit guides previously prepared by various Federal agencies. Presents procedures for financial audits of State and local records for Federally assisted programs. Includes a questionnaire and documentation guide for reviewing internal control.

Fritzemeyer, Joe R., and Carmichael, D. R. "Reports on Internal Control to Grant Agencies." The Journal of Accountancy, 135, no. 1 (January 1973): 78-81.

Discusses factors in the auditing of internal controls and legal compliance of organizations receiving government grants. Includes samples of report forms and terminology for reports of various types of audits.

Keller, Leon P. "The Intricacies of Cooperative Post Audits by State and Federal Governments." The Federal Accountant, 19, no. 1 (March 1970): 51-59.

Discusses cooperative auditing of the Federal grants-in-aid program, for which both State and Federal governments have administrative and accountability responsibility. Reviews the current status of such audits, advantages and disadvantages of cooperative ventures, and GAO's position.

Murphy, Thomas J. "Audit Problems of Regional Planning Agencies." Government Accountants Journal, 25, no. 1 (Spring 1976): 71-74.

Discusses four potential problems in implementing regional funding agency audit standards: unfamiliarity of officials with those standards; lack of resources at the Federal/State level to help conduct audits or improve management, unfamiliarity of CPAs who are then called in with GAO standards; and, the low priority given to auditing activities.

Reck, John J. "Financial Auditing of Federally Assisted Programs." The GAO Review, 10, no. 2 (Spring 1975): 29-32.

Reviews current and contemplated policy on the auditing of Federally assisted programs, whose funds are frequently a mixture of Federal, State and local monies and whose audits are increasingly done by State and local auditors at Federal agencies' requests.

Tierney, Cornelius E. Federal Grants-in-Aid: Accounting and Auditing Practices. New York: Federal Government Division (AICPA), C1977. HJ275
.153

Gives an overview of grant programs, explains the funding and requirements of Federal grants, and details Federal audit requirements.