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**AUDITORS—  
AGENTS FOR GOOD GOVERNMENT**

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## FOREWORD

Auditing is often considered by governmental officials to be primarily concerned with the proper safeguarding of funds and property and authorized spending of funds. Actually, this is only part of the concern of governmental auditing, which has come to involve a broader scope of activity because governmental officials and their constituents are often interested in knowing more than how much money was spent and whether that amount was within authorized limits.

If a program involves a social goal they want to know whether the expenditures produced material changes in the social problems that were the target of the program. They also want to know whether those spending the funds limited their buying to necessary items and got good bargains for the money spent. The broader scope auditing is responding to these interests of governmental officials and the public.

This type of auditing can be very useful to those governmental officials who recognize its potentials and use its reports. It can, for instance, alert them to potential problems so that they can make programs work effectively and correct inefficiencies and uneconomical practices before serious or even irreparable harm is done. The more efficient and effective government which results from such auditing not only can lead to less expensive government, but also can enhance officials' reputations as good managers and prudent administrators.

The purpose of this booklet, prepared with the assistance of a nonprofit organization with wide experience in State and local finance, is to explain what this type of audit is and what it can achieve. I commend this booklet to every legislator and public executive who is interested in good government.



Comptroller General  
of the United States

## GOOD GOVERNMENT IS GOOD POLITICS

All public officials want their governments to be good. Elected public officials often want more: they want to be reelected, to keep their reputations, and to fulfill their commitments to the voters. All public officials, therefore, have good and sufficient reasons for profound and perpetual concern about these *questions*: How well is our government doing? and How good a government is it?

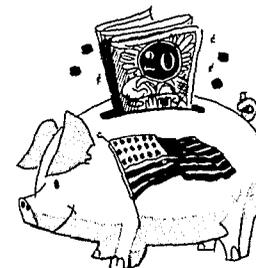


If public officials want to know--really know--how "good," they have to take deliberate steps to find out: find out exactly what is going on in their governments and find out, or decide themselves, just exactly how much of what is going on is "good" enough to satisfy their consciences, their constituencies, and their parties.

Most public officials have information systems that supply them with financial data such as how much has been spent on salaries, supplies, and other costs incurred in running their governmental unit. This information is useful--particularly when *compared* with the budget and with prior years' financial data, but it does not answer all the public officials' questions nor those of their constituents. Was the money spent wisely? Were promises kept and expected results achieved? These questions remain.



A postaudit, an examination of an organization's transactions and operations after they have occurred, is a good way of getting answers for many of these questions. A postaudit can provide information on whether the financial statements are accurate, whether cash and other property are properly *safeguarded against theft or misuse*, and whether claimed achievements are supported by adequate facts. It can also point out inefficiencies and what needs to be done about them. By identifying problems and recommending ways to alleviate them, the postaudit can serve legislators and other elected officials or principal executives of a government. It can serve the managers of each component of the government and the constituency of that government.



Of course, the value of a postaudit depends on how well it is planned and performed and how well its results or products are used. There are thousands of governments in the United States. In many of them,

purposeful and systematic postauditing of governmental affairs is still a novelty neither well known, well understood, nor well performed.

If legislators and other public officials want governmental postaudits to be as useful and constructive as possible, they should know why audits are made. They need to see how and why a postaudit could be useful and to understand how it works. Then they need to demand that postaudits performed for their use satisfy their requirements in terms of purpose and quality.

### RESPONSIBILITY AND ACCOUNTABILITY

Public officials must first understand the scope and significance of the responsibility of those managing governmental activities, especially their responsibility to those providing resources. Public administrators are accountable for resources at their disposal and must show how well they have used them. Thus, it is necessary to explain accountability and then to set questions concerning auditing, auditors, and audit standards in proper perspective within that context.

Governments and constituencies state their objectives, aims, expectations and intentions in laws, constitutions, charters, budgets, and other expressions of public policy. The activities and accomplishments of all levels of government are then weighed against those objectives, expectations, and intentions, and the governmental unit or agency is expected to be answerable. In answering, a Government is expected to be open and informative, cards on the table, its life an open book. One could always hope that governmental entities and their staffs will be equal to their assignments, but it is always possible that they will come up short-short on ability or achievement or even honesty.



Postaudits help elected officials to secure an adequate accounting from governmental administrators. In a democratic society governments usually are held accountable for what they do or fail to do, how and how well they do it, the results they achieve or fail to bring about, the good or bad judgment they display in adopting and carrying out public policies, their custody and disposition of public resources, and other large and small matters. Each constituency is empowered to hold its government accountable. A government holds accountable its own subdivisions, those to whom it makes grants, and its contractors. Audit gives the administrator a tool for seeing that the game is kept honest and that reports made in rendering an accounting are fair and factual.



Governmental adequacy can be measured several ways. It can be judged in terms of management, performance, and demonstrable results; and in terms of effectiveness, efficiency, economy, and productivity. It can also be judged in terms of honesty, fidelity, and integrity, as these are demonstrated in financial matters and by compliance with constitutional, statutory, regulatory, and contractual requirements. Audits help to keep administrators and elected officials informed about the quality of performance--whether unacceptable, only just barely acceptable, or commendable.

### THE POSTAUDIT--AN AID TO BETTER PERFORMANCE

What is a postaudit then? A postaudit is a look at what has happened, to see whether funds and property were properly handled and whether governmental programs or projects have met or have fallen short of aims and expectations. Its purpose, however, is not to rehash past mistakes but to look at past events with a view to improving future performance. If past events are left unexamined, inefficiency, uneconomical performance, or ineffectiveness might not come to the attention of appropriate officials until it is too late to prevent waste of large sums of money and loss of the citizens' confidence in their government's ability to properly manage its affairs. Postaudits can bring out the information needed to prevent such results.



The report on the postaudit can be of considerable interest to those who manage the entity that was examined; those who govern; and the constituency.

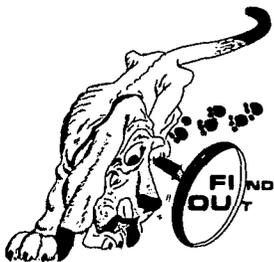


The postaudit can unearth hitherto unknown problems that require attention to make the governmental unit or agency function as it is expected to. Management can use the information in the audit report on these problems as a starting point for a wide range of actions to correct them. The legislature and other top officials can use the information in the audit report as a basis for adjusting policies, priorities, structure, and other things so as to make operations as economical and effective as possible. To the constituency, the audit report is objective information about the stewardship of their chosen officials.

Consider. A government or governmental agency is authorized or instructed to conduct a line of public endeavor. It does so. It accumulates a record of its

efforts, results, and expenses. The auditor then reviews to see that receipts were properly handled, expenditures were for valid purposes, and property was adequately safeguarded. Next he looks into whether waste was avoided in expenditure of funds and whether desired results were achieved. This combined package now contains evidence duly assembled and credible for use by administrators as they gauge their own efforts, by elected officials, and by the public as it in turn gives thought to how good its government is.

The line drawn between collection of information and evaluation is distinct in terms of logic, purpose, and method. To *verify* facts is one step; to *analyze* and weigh the facts is another; and to make final judgments about the achievement of a governmental unit or agency is still a third. In terms of organization and personnel, however, the line need not--perhaps should not--be drawn the same way. For example, the General Accounting Office, a part of the legislative branch of the Federal Government, both collects information and evaluates it, as do some state and local audit agencies. The General Accounting Office--or its state or local counterpart--then delivers the results to the legislative body, which makes the final judgments of what the facts and evaluative analyses signify.



### MISUNDERSTANDINGS ABOUT AUDITS AND AUDITORS

The term "audit" has for so many years been applied to a determination of the credibility of financial statements and reports that many people consider the word to apply only to such examinations. But the meaning of the term is evolving, and it is currently used to describe work of far broader scope. As currently defined, audits consist not only of examinations of the financial transactions, accounts, and reports, but also:

- Evaluations of compliance with applicable laws and regulations.
- Evaluations of efficiency and economy in the use of resources.
- Evaluations to determine whether prescribed results are effectively achieved.

All of these aspects of an audit may be done concurrently or separately.

Other areas of misunderstanding are:

- Can accountants do all the work necessary to make such an audit?

For effective auditing, the auditor must be sufficiently familiar with the field of knowledge surrounding the activity being audited to understand readily what

is involved. If financial information is involved, he must have accounting skills. If, for instance, engineering activities are involved, he must also have sufficient engineering background. When the auditor himself does not possess these skills, they must be obtained from others on the audit staff or from outside the audit staff.

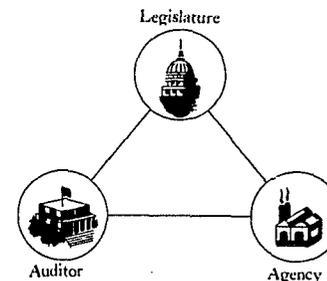
- To what degree are auditors expected and authorized to exercise judgment and reach final conclusions about the activities of the governmental entity they are examining?

Auditing, as here defined, implies substantial contributions to the evaluation process in the form of comments and recommendations about what management ought to do. However, decisions about what should be done are the prerogative of management.

- Do auditors make their own evaluations of program results or do they only review evaluations made by others?

Finally, auditors can review and reach conclusions on evaluations of program results made by others or they can make evaluations of program results where none previously existed. Evaluation of program results is a comparatively new field, and many programs have not been evaluated by the governmental entity responsible for the program. Thus, auditors should be prepared to make their own evaluations if such information is wanted as a part of the audit.

### THE PARTIES TO AN AUDIT AND THEIR OBLIGATIONS



At least *three major parties* are involved in a postaudit. There is an entity which authorizes the audit. There is the auditor or auditing team. And there is the audited entity, the unit or agency of government under scrutiny.

- The authorizing entity's obligation is to stipulate what is expected of the auditor in terms of what his work is expected to produce.
- The auditor's obligation and responsibility are to stay within the limits of the duties commissioned by the authorizing entity; to perform those duties as completely as may be appropriate; and furthermore to perform the work objectively in accordance with the technical, procedural, conceptual, and ethical standards that correspond to the disciplines or professions that are pertinent to the work; and he must

do these things with skill and capability and in keeping with the authorizing entity's directives.

- The audited entity's obligation and responsibility and that of its management are to be open, available, and responsive to the auditor's questions or requests for information. This is part of being answerable. This openness--this responsiveness--can and often does enable the auditor to suggest early corrective action and thus helps prevent an undesirable situation from becoming aggravated.

### **MAKING ONE AUDIT SERVE SEVERAL AUDITING NEEDS**

If one postaudit can serve various parties, the present duplication in Government auditing efforts can be minimized, if not eliminated. It will be unnecessary for a series of local, and Federal auditors to retrace each other's steps. Public administrators will be benefited in directing governmental activities and elected officials and the public in exercising oversight.

Making one postaudit serve the needs of various governmental levels and different types of interested parties often requires that the audits be performed in accordance with common standards used by all. The standards issued by the General Accounting Office under the title Standards for Audit of Governmental Organizations, Programs, Activities and Functions were for that purpose.

### **CONCLUSION**

Progress will have to be made in the drive toward getting broader scope in auditing so that the advantages mentioned above will accrue. Progress in conceptual, professional, technological, and procedural knowledge cannot be legislated. Progress toward improved competency of audit staffs, however, can be achieved through attention to standards and practices in recruitment, training, and compensation. These are matters that can and should merit action by executive officials and legislative bodies in policy decisions and financial support.

Improvement will require both effort and money. The investment will be rewarding.



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