



Elevating Internal Audit in Government Agencies:

A Strategy for Promoting Intelligent
Assurance of Internal Controls

Federal agencies are under intensifying pressure to ensure program integrity—their ability to fulfill their missions while advancing their goals and objectives; achieving efficiencies; managing risk; and addressing fraud, waste, and abuse. This intensifying pressure occurs when challenges to program integrity mount¹. The ongoing COVID-19 pandemic has exacerbated existing challenges impacting the environment, legislation, programs, funding, and a highly charged political and media atmosphere.

This environment calls for a more robust approach to ensuring program integrity which is essential to preserving trust in an agency, support for its mission, and sustained funding. Rigorous, flexible, and adaptable internal controls—policies and processes for reducing risk and ensuring compliance—are fundamental to a defining and executing a robust approach to program management.

Senior agency leaders are responsible for establishing the agency's internal control environment, which they share with program leaders and those on the front lines of service delivery, including state and local governments. Additionally, the chief financial officer (CFO) shares a large part of this responsibility including the need to ensure that internal control systems are equal to current and emerging challenges to program integrity. CFOs, or their equivalents, are ideally situated to lead initiatives to advance internal controls given their panoramic view of the agency and insights into program's operational, information technology, and other risks.

This publication, directed to public agency CFOs, other agency leaders, and heads of Internal Audit, contemplates strengthening the internal control environment at public agencies, particularly at the federal level.

¹ *Meeting the challenges to program integrity: A model for success*, ©2021 Deloitte Development LLC, <[us-finance-meeting-challenges-to-program-integrity.pdf](#)>

Changes in requirements—and challenges—keep coming

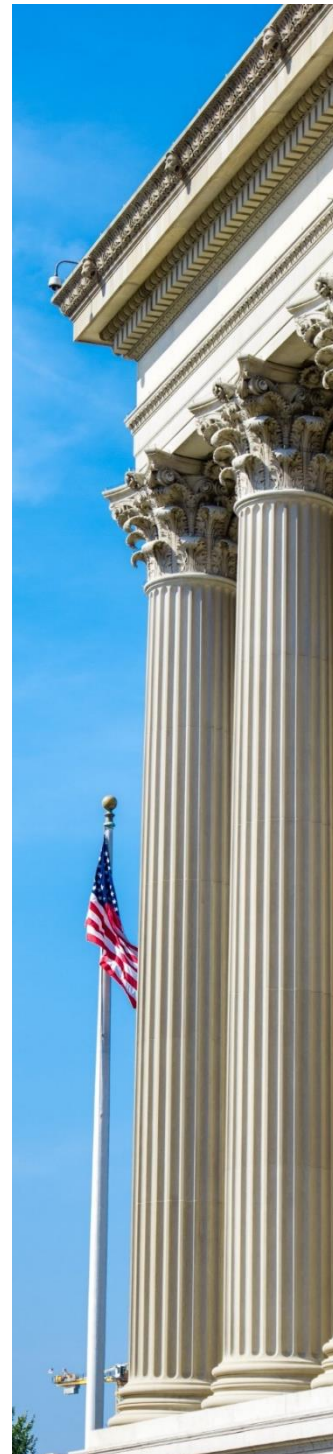
In reviewing their internal control systems, federal agencies should consider the following current conditions:

- **Massive new spending initiatives:** Agencies must disburse and account for trillions of dollars in new, rapidly deployed programs and funding streams initiated by, for example, the Infrastructure Investment and Jobs Act (IIJA), the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and the American Rescue Plan Act. Agencies must release funds on time and under proper stewardship while overseeing state and local governments, higher education institutions, and nonprofits that may be handling new federal programs with far higher funding levels than in the past.
- **Evolving requirements:** Agencies should continue to mature their response to ongoing changes to government-wide conditions in the last several years. These government-wide conditions include significant revisions to the Standards for Internal Control in the Federal Government, Office of Management and Budget (OMB) Circular A-123, and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements regulation (2 Code of Federal Regulations (CFR) Part 200 or the Super Circular). In another example, OMB recently issued a new memorandum on Advancing Effective Stewardship of Taxpayer Resources and Outcomes in Implementing the Infrastructure Investment and Jobs Act (M-22-12). This memorandum calls on agencies to implement various new activities for effective program planning, design, execution, financial management, and data tracking and reporting—including bringing more equity into IIJA programming.
- **Enhanced external oversight:** Federal agencies must respond to enhanced oversight by the US Government Accountability Office (GAO) and agency Inspectors General (IG). Further, the CARES Act and the American Rescue Plan Act included new accountability and transparency requirements. Some laws also created an independent Special Inspector General for Pandemic Relief and a separate Pandemic Response Accountability Committee (PRAC, an arm of the Council of the Inspectors General on Integrity and Efficiency).
- **Highly charged operating environment:** The media landscape now intensely scrutinizes government agencies. News services, journalists, open-government organizations, bloggers, podcasters, and influencers on all political spectrums stand poised to highlight real or perceived control weaknesses or operational inefficiencies.

To operate under these challenging conditions, CFOs and other agency leaders need reasonable assurance that critical internal controls have been appropriately designed and are working effectively. They need proof or "assurance" that their agency can address new priorities, evolving statutory and regulatory requirements, and changes in their operating environment. The agency and its programs should also strive to be audit-ready, that is, to undergo efficient and clean external audits on short notice.

Regardless of its current level of evolution, an agency's Internal Audit function can and should play a central role in providing assurance and advice regarding risk management, internal controls, and anticipation of future needs. Internal Audit is a management function that systematically evaluates an agency's operations and internal controls and offers timely solutions. Internal Audits are activities conducted by professionals with a deep understanding of the agency's mission, culture, systems, processes, operating environment, and requirements through reviews performed with a quick turnaround.

As a provider of assurance on the adequacy of the design, operation, and effectiveness of internal controls, the Internal Audit function can play a pivotal role in promoting transparency and accountability and maintaining program integrity. Again, the CFO or their equivalent is ideally situated to elevate the Internal Audit function.



Internal Control by the (Green) Book

Internal controls help an entity achieve its operational, reporting, and compliance objectives. Internal controls underpin governance by providing reasonable assurances that objectives will be achieved by (1) establishing a controlled environment that provides discipline and structure, (2) assessing risks to achievement of objectives, (3) establishing control activities to achieve agency objectives and respond to risks, (4) collecting and maintaining quality information, and (5) monitoring performance and resolving identified weaknesses. GAO promulgates standards for internal control in its Standards for Internal Control in the Federal Government, more commonly known as the Green Book (Exhibit 1). OMB translates those standards into implementation guidance for federal agencies in Circular A-123.

Exhibit 1

Green Book—17 Principles of Internal Control

Control environment	Risk assessment	Control activities	Information and communication	Monitoring activities
1. Demonstrates commitment to integrity and ethical values 2. Exercises oversight responsibilities 3. Establishes structure, authority, and responsibility 4. Demonstrates commitment to competence 5. Establishes accountability	6. Defines objectives and risk tolerances 7. Identifies, analyzes, and responds to risks 8. Assesses fraud risk 9. Identifies and analyzes and responds to change	10. Designs control activities 11. Designs information systems and controls to achieve agency objectives and respond to risks 12. Deploys and implements control activities through policies	13. Uses relevant, quality information 14. Communicates internally 15. Communicates externally	16. Performs ongoing monitoring activities 17. Evaluates issues and remediates deficiencies

Agency leaders should strive to go beyond compliance with Green Book and A-123 requirements. Instead, they should use them as a catalyst to evaluate how risks are assessed and mitigated in light of the agency's size, reach, risk appetite, and program and operational complexity. They should also identify gaps in current control and compliance strategies, close those gaps, and expand this approach from managing financial reporting risk to include operational, program, information technology, and compliance risks.

Internal Audit: Resource for the CFO and other agency leaders

Agencies can improve internal controls with Internal Audit disciplines. Internal Audit extends beyond the traditional "assurance" function, including advisory work and anticipation of emerging demands and risks. For example, CFOs can rely on internal audits or self-assessments to provide the assurance they need to make annual certifications. However, agencies should now be moving beyond a focus on routine compliance to embrace the primary purpose of controls: to ensure that managers and staff are achieving intended results while meeting relevant requirements and preventing fraud, waste, and abuse.

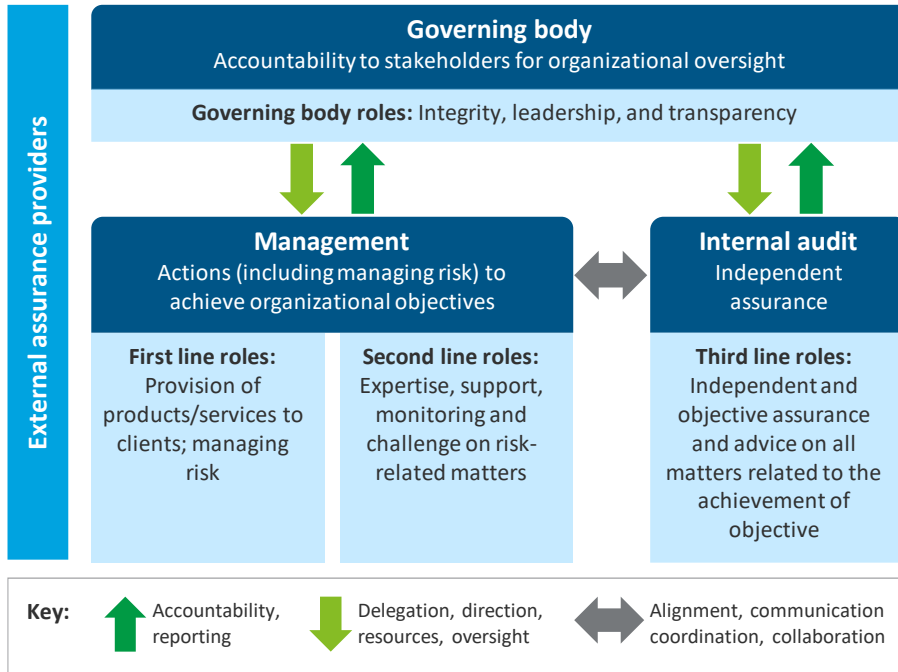
CFOs should not rely on IGs or GAO to provide assurance activities. While federal IGs play an essential role in helping to improve executive branch programs and operations, they essentially have a dual reporting structure to Congress and their parent agency head. Various amendments to the Inspector General Act have enhanced the expected levels of independence between the IG office and its parent agency. Those laws have also increased congressional engagement in IG plans and priorities.

While coordination with the IG's office and external stakeholders is key to successful risk management, CFOs can also enhance their role in program integrity by elevating internal controls and establishing Internal Audit disciplines. Enhancing program integrity aligns with the CFO's role as a key steward of the agency's funds and manager of its finances. Internal Audit can support the CFO's efforts to bolster the effectiveness of controls, assess and mitigate risks, work with management to seize opportunities to improve efficiency and effectiveness, and take corrective actions. Moreover, they can do so before external auditors identify internal control gaps.

One way to promote program integrity and good governance is to implement a three lines model of agency governance, as recommended by the Institute of Internal Auditors (IIA) (Exhibit 2).

Exhibit 2

The IIA's Three Lines Model



Internal Audit and external audit: Compatible yet distinct

In the federal setting, Internal Audit and external audit providers have compatible, yet distinct, roles and both add value in specific ways:

- **Internal Audit** has the agency's governing body/leadership team as its only client and serves an advisory function, not a watchdog function. Their independence derives from their professional standards, integrity, and freedom from management responsibilities.
- **External auditors** focus outwardly on clients such as congressional committees, as well as on the agency they are overseeing. Federal IGs and the GAO serve multiple internal and external constituencies. Their independence responsibilities are driven by laws as well as by professional standards.

While external audit plays an essential role, it is not a substitute for Internal Audit. Programs benefit from looking to both entities in their distinct roles to improve program integrity assurance.

The following elements characterize the three lines model in a government agency:

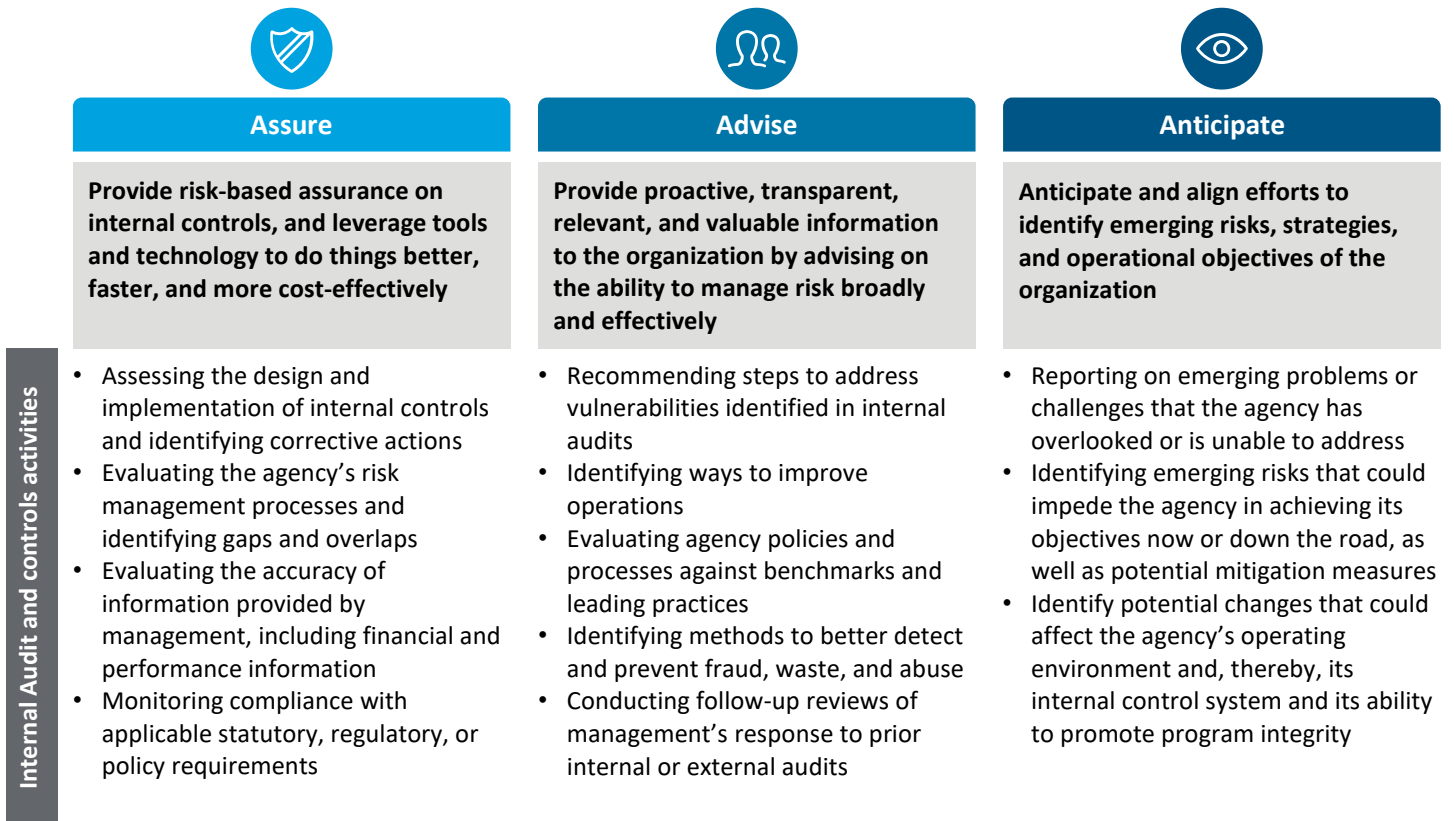
- **The governing body and senior leadership** develop appropriate governance structures and resources, set goals for the organization in line with applicable laws, and establish the right tone at the top. They are ultimately responsible for ensuring that the agency achieves its mission, goals, and objectives while complying with all relevant laws and regulations.
- **Management (first and second lines)** is responsible for achieving organizational goals and objectives in their first- and second-line roles. In the first line, they implement programs, including delivering products and services to clients and beneficiaries. In the second line, they assist with identifying, assessing, and managing risks, support the first line with information and guidance, and at the federal level are responsible for enterprise risk management as prescribed in OMB Circular A-123. The first- and second-line roles may be blended or separated at an agency.
- **Internal Audit (third line)** provides objective assurance and advice to the governing body and managers on the adequacy and effectiveness of the agency's governance and risk management. Internal Audit practitioners should be free of managerial responsibilities, thus positioning them to provide the governing body and managers with independent views and opinions. These practitioners regularly report their findings to the governing body and management to facilitate continuous improvement.

In the US federal setting, the IGs are not part of the "third line" but essentially serve as external providers of audit services. In that sense, they play a role similar to that of auditors of publicly held commercial enterprises, which are sometimes considered a "fourth line" in risk governance. The Green Book states that "external auditors and the office of the inspector general...are not considered a part of an entity's internal control system."

Raising Internal Audit to the occasion: the Assure-Advise-Anticipate model

Clearly articulating the role of Internal Audit and—as needed—elevating that role is essential to having an effective internal control environment at government agencies. Often, Internal Audit is viewed and resourced primarily as a compliance and assurance function. Viewing Internal Audit this way tends to put it in reactive mode, as the interpreter of and responder to compliance demands. Frankly, this might undervalue the benefits of Internal Audit within the agency.

With senior leadership support, Internal Audit can play a broader role and provide a triad of value to an organization and its stakeholders within an Assure-Advise-Anticipate model:²



Tools that accelerate progress and elevate Internal Audit

One way to accelerate an agency's efforts to elevate a sustainable Internal Audit practice is by implementing information technology (IT) tools and solutions. Using this technology can serve two primary purposes: (1) enabling the agency to implement more precise and robust controls and management processes with less user reliance through automation and user-friendly applications and (2) enhancing risk management by optimizing risk mitigation. In some situations, a tool or solution can perform and provide the benefits of both functions.

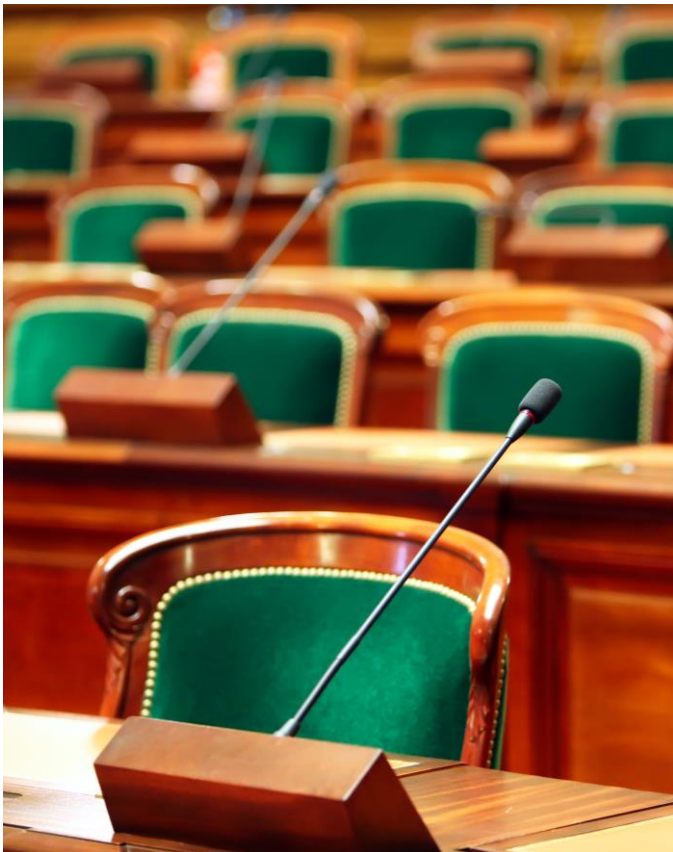
An Accounting and Internal Controls asset suite can help streamline the implementation and incorporation of IT in Internal Audit activities. These tools accelerate the delivery of necessary controls, provide support across the audit and financial processing lifecycles, and provide tangible means for an agency to implement the Assure-Advise-Anticipate triad into their environment. By utilizing IT, agencies may better align themselves to meet complex requirements and do so more efficiently and accommodatingly.

² *Internal Audit 3.0: The future of Internal Audit is now*, ©2018 Deloitte Touche Tohmatsu Limited [[gx-internal-audit-3.0-the-future-of-internal-audit-is-now.pdf \(deloitte.com\)](#)]

The traditional use case of Internal Audit in the past focused primarily on external entities' compliance duties and assurance activities. To the extent that this more dynamic, collaborative, proactive, higher-value approach is new to an agency, the support of the CFO and other senior leaders is crucial.

Culture and change management, new methods, and communication styles such as using Agile methodology in Internal Audit, and other initiatives are usually needed to implement a transition of this nature. Fortunately, each agency can successfully shift to this vision of Internal Audit and establish roadmaps to success tailored to that agency.

By elevating Internal Audit, agency leaders visibly demonstrate to congressional appropriations and authorizing committees, OMB, and the public that they are committed to maintaining excellence and trust in government by promoting accountability, transparency, and integrity around their stewardship and disbursement of taxpayer dollars.



A comprehensive assessment for a transportation authority

The challenge

A state transportation authority required an agency-wide assessment of its key processes, management functions, and current issues, including financial, compliance, operational, and information technology risks. This assessment aimed to help the agency to prioritize significant risks, modify its annual Internal Audit plan, and clarify resourcing needs and set resource allocation priorities.

The approach

Key activities in the Internal Audit involved:

- Assessing the control environment in the context of the organization's strategies and goals
- Identifying relevant industry, regulatory, and economic trends, and issues
- Creating a risk framework and defining impact, vulnerability, and speed-of-onset criteria
- Defining and implementing a risk assessment approach and collaboratively prioritize results
- Plotting risks on a heat map for each division and location
- Assisting in determining budget, staffing, and other resourcing needs

Output and results

Outcomes included the following:

- **Preliminary risk assessment**, which cut across silos and risk categories to provide a panoramic view of the issues, challenges, and risks facing the agency; this enabled prioritization of risks based on likelihood, potential impact, speed of onset, and vulnerability
- **Risk map**, which provided a clear visual portrayal of risks and their characteristics and thus enabled collaborative discussions of risks and adjustments to the risk assessment
- **Finalized risk assessment**, which prioritized risks based upon their characteristics and positioned both Internal Audit and agency management to develop an agency-wide approach to risk and risk management
- **Internal Audit plan recommendations**, which encompassed budget, resource allocation, and timeline considerations, enabling Internal Audit and management to better address the identified risks and issues

Through the resulting clarified view of emerging risks and risk management priorities, the agency was better positioned understand and address the risks posed to its mission, strategy, and goals while enabling Internal Audit to provide more effective and efficient assurance and advice on controls and risk management.

Steps to help elevate Internal Audit

CFOs, other senior leaders, and heads of Internal Audit functions at government agencies might consider the following steps to position their Internal Audit functions to support their agencies in fulfilling their missions in the current environment:



Leading agencies—and Internal Audit—into the future

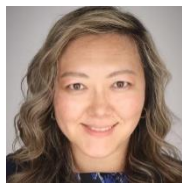
To date, agencies have achieved various levels of sophistication or maturity in their Internal Audit functions, and every agency has its unique culture, strengths, and areas for improvement. Meanwhile, funding levels continue to increase, and challenges continue to mount, underscoring the need for rigorous and adaptable internal control systems. Some challenges agencies face include but are not limited to: compliance demands; changed program performance expectations; additional program accountability responsibilities; scrutiny from external auditors; threats to program integrity; heightened exposure to fraud, waste, abuse; and intent on defrauding agencies—which undermines the public's trust in government.

Agencies can assess, plan, and implement initiatives and programs that can build Intelligent Assurance and address risks and challenges proactively—and, as a result, better serve their stakeholders and constituents.

Contact our Government & Public Services Internal Audit team



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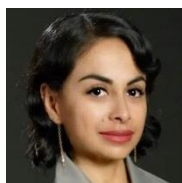
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