
Getting to Yes: Using Functional Audits to Improve your Department

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A Story of Outfoxing an Appratchik

- Wanted customs in new EU MS to move to a risk based system of control
 - control everyone
 - don't implement EU law
 - over-staffing – no career prospects
 - 25% loss of revenue due to crisis
 - usual problems – intransigent Director!
- Conducted functional audit showing new system results in benefits of €25m
 - staff redeployed to 'smart work' instead of stamping papers
 - over € 5m in savings from regulatory risk (non-compliance of law)
- Play IAASB against Mr. Ne



but technical know-how can help you outfox the ne-sayer...

A Tale of Two Customs Regimes

before



conduct searches of everyone



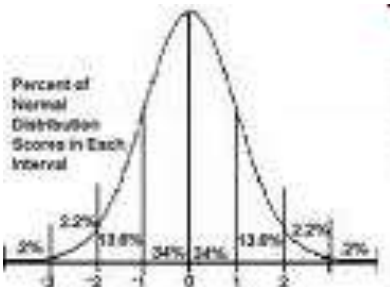
large black market



loss to budget

€58m
lost

after



risk profiles based on stats



proposed law to implement stats



24% increase in arrests and 9m "uptakes"



"more closer Union"



science and hard-wins brought political capital in agency

What is a Functional Audit?



agree with “client”
on RISKS and
RETURNS
(choosing the client
as cool issue)



review regs
and procedures
 (“controls”)



trust no-one
 (“fieldwork”)
collects data
 (“vouches”)



recommendations

The 2008-9 Crisis real benefit to auditors!



lazy/inefficient under
pressure



need to prove
benefits

RIA

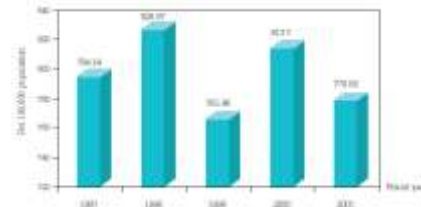
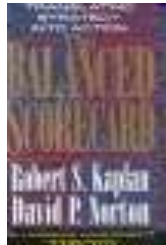
we're back



low tide shows whose
swimming “unhedged”

An Example of a Functional Audit

WRONG: Thai Ministry of Health



Objective: let's improve

Lets find out lots of stuff

Usual massive report

another offender
(action plans)



RIGHT: UK NHS (can you believe it?)



add value to client
(see client selection tough)



do your paperwork
(look at controls)



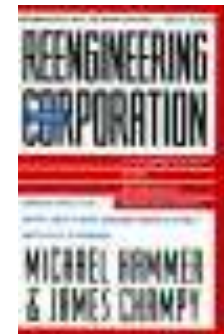
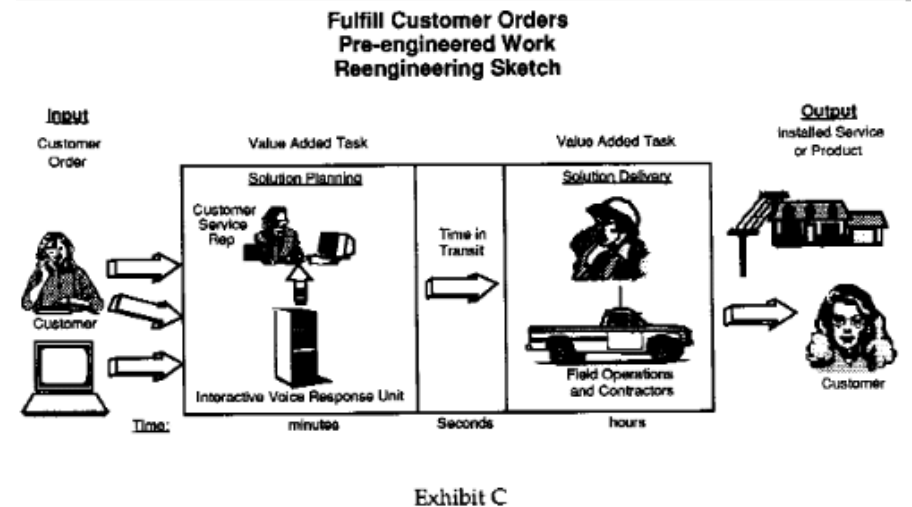
test



recommendations
(let org structure work around
your recs like glove)

Government get Mike Hammered

- Business process re-engineering
 - “start from clean slate and redesign based on what customer wants”
 - Business fad captures WB in early 1990s
 - but late 1990s even high priest of BPR recants
- Not appropriate for public sector
 - precautionary principle
 - body of administrative law
 - politics
 - “complex system”



What many of your consultants are doing isnt functional audit at all!

Participatory Functional Audit

- Participation as another fad
- results in rubbish
 - intl dev. empirical studies show participatory policy over-turned after 20 months
 - audit literature (on control self-assessment CSA shows key risks not managed
- Return of the Expert (CAE)
 - legal skills = 2 years
 - economic skills = 2 years
 - functional specialisation = 2 years
 - Part III and IV of CIA = 1 year



≠



audit has own jargon and methods – we can spot a ‘consultant fraud’ when we see one

Washington and Florida Schools Compared

Washington School



- ❑ go and collect data (manpower, budget and anything else)
- ❑ make metrics if needed
- ❑ let the data guide you
- ❑ “right-size”
- Disadvantages
 - ❑ always find keys under lamp
 - ❑ ad hoc methodology of consultant
 - ❑ often cut-and-paste from last country
 - ❑ impractical – little legal analysis
 - ❑ adversarial

Florida School



- ❑ start with risks and returns (objectives)
- ❑ follow pre-defined audit methodology
 - looks at laws and controls
 - only focuses on what client wants
 - data with a purpose
- ❑ learning of 100,000s of professionals world-wide
- ❑ not any slacker can do it - CIA



CIA has to do with intelligence, but its not about spies

Back to Basics: Risk versus Return

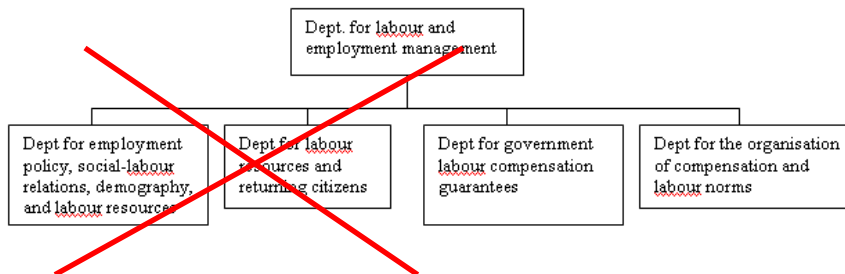


Scoping and Controls

'fair and full employment'



reg error + enforcement error



she is not worker, but
“bundle of competencies”
(org memory, know of regs)

not just re-designing in way “that makes sense” - its not an audit w/o C/B analysis

Tests of Controls and Recommendations

*Organise depts around risks and rewards...
Recommendation 5: Have policy expert go with inspectors to look for regulatory issues (in new dept for labour regulation)*



audit looks at fairness of labour contracts in random sample and according to limited scope
-- biggest error is not scoping right



ANNEX II. REGULATORY IMPACT ANALYSIS

The following table represents the net annual savings to the [redacted] of adopting the following regulation.

	working days	wage per day	totals
Existing System			
Existing time to create regulation per regulation	120	€ 30	€3,600
x 50 regulations per year			€ 180,000
Director's review	120	€90	€ 10,800
Sub-total expense (excluding opportunity cost)			€ 190,800
Salaries of T Legal Staff	1540	€ 50	€ 77,000
Director's review	30	€90	€ 2,700
Sub-total expense			€ 79,700
Net savings (excluding effects on quality and opportunity costs)			€ 111,100

it aint an audit unless it has C&B

All organisational change – in govt and business – begins with SOCIAL VALUE

Why Cant Just any Civil Servant do a Functional Audit?

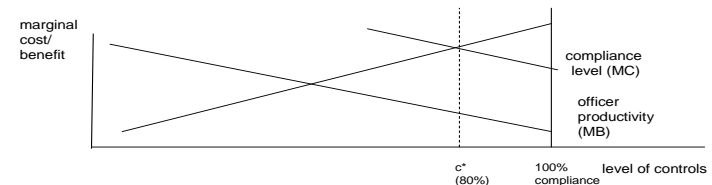
Total Costs and Benefits

The table below shows the estimates benefits and costs of implementing the recommendations made in this audit report, along with the total benefit to the [redacted] taxpayer. The net gain from adopting these audit recommendations comes to €260,640.

Recommendation	Benefits	Costs
1. Integrity Awards	€ 150,000	€ 4,560
2. Inform Regional Customs House Chiefs	€ 83,520	€ 7,500
3. Regulatory Compliance Counselor	€ 27,840	€ 7,500
4. Anti-Corruption Certification	€ 1800	€ 300
5. Anti-Corruption Working Group	€ 13,920	€ 6,000
6. Expand Rulebook on Order and Discipline	€ 13,920	€ 4,500
7. Notification of Proposed Rulemaking	€ 0 (direct)	€ 0
Sub-totals	€ 291,000	€ 30,360
Total gain/loss		€260,640

extract from recent audit of Internal Affairs Audit...

Figure 3c: Award Scheme to Provide Incentives to Increase Returns to Compliance



example graph from accompanying academic paper...



Royal Economic Society

Home

or team with different competencies on same assignment

Why Learn to Do Functional Audit?

- “Fungible skills”
 - change depts is only way up now
 - you should move out of govt! (heresy!) PSD
 - intl salary is €55,000
 - intl audit law in most countries
- Internationally recognised credential
- Blind them with science
- Put results, not activities on your CV



Learning functional audit aligns your private incentives and those of Dept

And if there is time...

- **Audit is like dancing (must show, not tell)**
- **Lets do a mock review together**
- **volunteers?**
- **remember:**
 - focus on RISKs and RETURNS (not “what makes sense)
 - scope me (your client) correctly
 - what docs you need to assess controls? (which span org divisions!)
 - data?
 - answer who, what, where, when and how in recs

