

Texas State Auditor's Office's Methodology Manual

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Introduction

To meet increased expectations and complexity, the Texas State Auditor's Office began the Methodology Project in 1993. While in the past our audits focused mainly on agency compliance, safeguarding of assets, and financial reporting, they now often target issues related to overall performance, including economy, efficiency, and effectiveness. At the same time, government itself has become more complex. This has motivated the Office to develop more comprehensive methodologies.

The Project incorporates several key objectives of the Office:

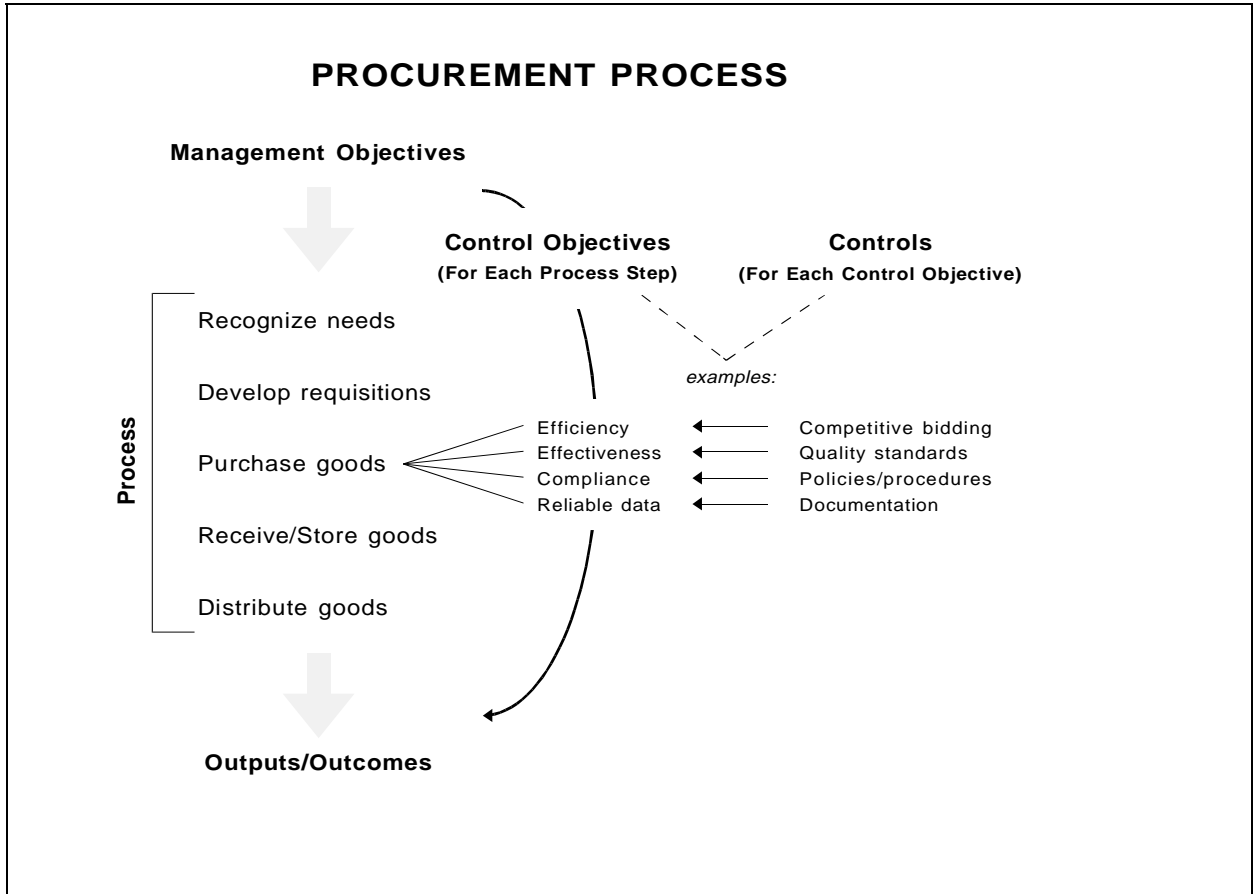
- Establish benchmarks, standards, and expectations for preferred agency management practices
- Maintain good client relations with state agencies by clarifying the criteria to be applied throughout the audit and minimizing audit "surprises"
- Rather than just identify problems, help to prevent them and offer solutions
- Maintain information on agency control systems to aid in statewide risk assessment
- Ensure that agency processes and controls provide reasonable assurance that desired results will be obtained and that unwanted results will be identified and corrected

Each methodology module views auditing from the perspective of the process being managed rather than the technical specialty needed to audit it, thus linking management theory with auditing practice. This process/control approach has required us to integrate our diverse audit disciplines -- such as financial, electronic data processing, and performance auditing. For example, when we review an area such as inventories we need to know if:

- inventory balances are correctly reported on the financial statements (financial approach)
- inventories are safeguarded against waste and abuse (financial-related, economy/efficiency, fraud approaches)
- the information systems that are used to manage and monitor inventories are reliable (data processing approach)
- the inventory process provides the right items at the right time (effectiveness/performance approach)

The following graphic of the procurement process demonstrates the relationships between management objectives, processes, and controls used in developing the modules, where:

- **Management objective** is what management wants to happen.
- **Process** is a description of how management uses resources in delivering products or services.
- **Control objectives** are the links between processes and controls. They tell us the purpose of each control. Some common control objectives are: efficiency, effectiveness, compliance with laws and regulations, and reliable data.
- **Controls** are the steps management uses to guide, monitor, and adjust the process.
- **Outputs and Outcomes** are the results of the process.



Most methodology modules contain the following elements:

- **Management Objective(s)** Results entity management seek by engaging in the process
- **Background** Theory, definitions, legal and accounting references
- **Overview of the Process** Steps normally included in the process in their usual, though not prescribed, order
- **Criteria/Procedures** Normative criteria and procedures applicable to managing *and* auditing the process, structured according to the elements of a finding (criteria, condition, cause, and effect). May include benchmarks, suggested audit procedures, and “red flags.”
- **Resources** Books, periodicals, journals, databases, and other sources of additional information

Internally at the Texas State Auditor’s Office, the Methodology Project also maintains resource files on various audit topics and coordinates just-in-time training for audit teams.

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