Public accountability, transparency and open government are among the cornerstones of American democracy. In recent years, expectations have intensified as available reporting mechanisms continue to expand with rapid advances in technology and data analytic capabilities. Demands for instantaneous access to public information challenge the financial reporting practices historically used by governments.

Over the past decade, several state and local governments have created “open checkbook” and government spending websites to provide real-time access to financial information. These governments have experienced varying levels of success in improving data quality and providing real-time information on how they spend taxpayer dollars. An important lesson learned is that making reliable and timely spending information readily available helps restore public confidence in government as a financial steward; enables more effective and efficient spending; and helps prevent fraud, waste, and abuse.

Similarly, the federal government began providing real-time spending information in earnest following passage of the Federal Funding Accountability and Transparency Act of 2006, which has since been amended by the Digital Accountability and Transparency Act of 2014 (DATA Act). The DATA Act requires each federal agency, as applicable, to report standardized spending information, beginning in May 2017, in order to provide better access and visibility to the public into how the federal government spends its money. This spending data goes far beyond the basic set of financial statements and footnotes required by the Chief Financial Officers Act of 1990. Furthermore, a key demonstration of accountability and transparency for spending under the American Recovery and Reinvestment Act of 2009 is the public reporting of all spending on Recovery.gov in a manner that is user-friendly and utilizes analytic tools.

The gradual movement toward providing online, real-time financial information is disrupting how the American public, government managers, lawmakers and others make decisions about government priorities and spending. With the evolution of reporting online financial information among all levels of government, two key questions have arisen that require continued dialogue. First: Is the government meeting the demands of the internal and external user community? Put another way, are governments just providing data, or are they providing information that will enhance oversight through transparency and decision making? Second: What is the current state of the professional standards; and what changes are needed to assure the reporting of real-time financial information? This article discusses these two questions in connection with the federal government’s ongoing implementation of the DATA Act, but is relevant to the challenges facing all levels of government.
Is the DATA Act about providing data or providing information?

The goal of the DATA Act is to make federal spending data “accessible, searchable, and reliable,” and usable as a “tool for better oversight, management decision-making, and innovation both inside and outside of government.” Built around a robust set of 57 different data elements, the DATA Act requires federal agencies to periodically report spending information on a standard schedule. Federal agencies provided their first submission during the second quarter of fiscal year 2017. Going forward, federal agencies will provide quarterly assurance on the reliability and validity of agency data reported for display on USAspending.gov.

The information required by the DATA Act is not only what the government spends its money on, but also with whom and how often, and to which specific program activity is linked. Transparency at this level of reporting is expected to provide the public and government stakeholders with a more complete spending picture, and to support agency management in receiving information on spending decisions, program oversight, and cost management. Using data made available through the DATA Act, imagine being able to display federal grant spending in your congressional district as a percentage of the local economy, while comparing grant spending to the national average. DATA Act information could influence local economies by raising awareness about government spending priorities, and help shape public policy and promote political change when needed. Previously, this type of information was compartmentalized within many different agencies and, when feasible, could take significant effort to compile into a single point of view. This spending data may also be made available on mobile devices and to news feeds, to enable a more relevant, faster, portable perspective. As a point of context, in 2009, its first full year of operation, USAspending.gov averaged 2.7 million hits per month. By contrast, the public infrequently accesses agency financial statements.

In line with goals outlined in the U.S. Department of the Treasury’s DATA Act Playbook, there is no doubt that real-time innovation using publicly available data analysis tools will continue to significantly impact and disrupt the way the government meets accountability challenges. As technology improves for visualizing patterns in complex datasets, and real-time information disrupts the way government services are delivered, government decision makers will continue to place greater emphasis on the reliability of the information available through the DATA Act.

Online Financial Reporting: Auditing Considerations

Along with management’s accountability challenges, the auditing community will have to be equally responsive to evolving stakeholder needs and the advanced capabilities of technology. Continuing breakthroughs in intelligent automation, which includes cognitive systems such as IBM’s Watson, enable highly sophisticated reasoning and analysis. The necessary auditing considerations will have a profound impact on how and what type of assurance auditors give related to the data reported under the DATA Act. Under current provisions of the law, the inspector general of each federal agency shall “(A) review a statistically valid sampling of the spending data... and (B) submit to Congress and make publicly available a report assessing the completeness, timeliness, quality, and accuracy of the data sampled and the implementation and use of data standards.” Evaluating the reliability of any data set can be challenging, especially when data comes from disparate sources within a federal agency and from a variety of information technology environments.

In future, reporting under the DATA Act or other online reporting requirements could require near real-time data feeds of information. Providing third-party assurance to real-time reporting, though, may present a challenge under current professional standards.
The federal auditing community follows the attestation standards issued by the Government Accountability Office (GAO) in Government Auditing Standards, which incorporate by reference auditing standards issued by the American Institute of Certified Public Accountants (AICPA). In such audits, the auditor provides reasonable assurance, with respect to the subject matter taken as a whole.

What is reasonable assurance with online data? Under what framework will the auditor determine materiality with respect to a listing of financial transactions? The audit community may have to close the “expectations gap” between the levels of assurance that readers presume an auditor’s report might deliver, and the level of assurance that it actually provides.

Determining and selecting the appropriate standards to address the reporting options under the DATA Act will depend on what assurance is most appropriate to meet the needs of agency management and external users. Government Auditing Standards includes guidance for conducting financial audits, attestation engagements and performance audits. AICPA professional standards include guidance for financial statement audits and examinations, reviews, and agreed-upon procedures.

When considering the assurance options under the current professional standards, it is also necessary to consider the level of assurance needed, and what each assurance option may mean in relation to reporting under the DATA Act. Furthermore, under professional auditing standards, the assurance provided is at a point in time or for a period of time, and does not provide for forward-looking or near real-time assurance reporting. Providing for a single point-in-time assurance versus providing perpetual or ongoing assurance allows for two very different uses for decision makers. For example, would management and other internal and external users benefit from an engagement addressing the completeness and accuracy of data reporting by an agency in accordance with established criteria at a point in time, or for an ongoing basis throughout a defined period of time?

Where do we go from here?

As governments continue on the path of online reporting, the following actions could be useful for government leaders, legislators and stakeholders:

1. Continue to evaluate the needs of the user community.

AGA’s research report, e-Reporting, serves as a solid foundation for evaluating the needs of users and preparers. The researchers surveyed financial information users and preparers, asking a range of questions related to electronic reporting that covered financial, non-financial, and performance data. For example, the research addressed stakeholders’ desires for user-friendly, easily accessible, understandable and reliable information. The reporting, auditing, regulatory and standard-setting communities will need to collaborate to determine the most useful reporting for data users.

2. Prepare for additional requests for auditor assurance.

In addition to the auditor evaluating the online data, would management and other internal or external users benefit from auditor reporting on the data security (cyber and privacy risks), processing integrity, and confidentiality of online reporting information? This range of risks might be acute enough to require third-party evaluation to determine whether the government’s systems and controls provide adequate protection of this information. What about auditors reporting on the design and operation of the systems producing the information and the quality of controls?

3. Adopt a leveraged approach to online reporting.

Leveraging and maximizing efficiencies between financial statement audit efforts and online reporting requirements would
likely make the most of limited resources. The nature of data tests, timing of when audit procedures are performed, and extent of testing will differ between a financial statement audit and an evaluation of the reliability and accuracy of online reporting. However, to maximize audit efficiencies, auditors working on both types of engagements should work shoulder-to-shoulder to explore the opportunities to leverage the audit test work across those engagements.

Continue workforce training and skills-based investments.

The additional requirements for online financial reporting, along with analysis of larger sets of data to make more informed decisions, will require a more robust base of knowledge and insight. Data preparers and auditors will require experience, knowledge and continuous training in a diverse array of fields, such as data analytics; data visualization software; data integrity techniques, including cognitive tools; information security; and system coding. Additional training will be a constant for the evolving workforce, and the skills needed to provide the maximum value to decision makers will continue to adapt to the changing environment and technological capabilities.

Provide input to the auditing community on reporting needs.

As the reporting of real-time data becomes more commonplace, the type of assurance sought by the users of the data may not yet be covered under current professional standards. This will require all parties to be agile, and the audit community to contemplate additional or revised standards. Providing input routinely on emerging reporting requirements to and working with the standard-setting bodies, like the GAO and the AICPA, will assist in establishing timely standards as online reporting continues to expand.

Closing Thoughts

Governments continue to face substantial budget constraints and long-term fiscal sustainability challenges. Daunting budget choices will eventually lead to transformational change in the role and operations of governments. As governments continue to adapt to these changes, online reporting will remain a viable, cost-effective way to communicate valuable information to the public, government leaders, legislators and other stakeholders.

The evolution of new mechanisms for online reporting will continue to require governments adapt to the changing needs of users, while also obtaining assurance on the information. Ultimately, this information will become a greater resource, or may even become the primary resource, to aid day-to-day management, including oversight and decision making. This evolution will be predicated on the information becoming more consistently available, comprehensive, accessible, and — most importantly — reliable, as evidenced by an auditor’s opinion.

Moving to the next stage of financial reporting is critical for any government to continue demonstrating its public accountability, transparency and openness to its citizens. The role of independent third-party assurance will be an important leg in this journey. In the words of President Ronald Reagan, “Trust, but verify.”

Endnotes


2. Ibid.


4. For the purposes of the DATA Act, “federal agency” encompasses an executive department, a government corporation or an independent establishment.


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Continue workforce training
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The KPMG Government Institute was established to serve as a strategic resource for government at all levels, and also for higher education and not-for-profit entities seeking to achieve high standards for accountability, transparency, and performance. The Institute is a forum for ideas, a place to share leading practices, and a source of thought leadership to help governments address difficult challenges such as performance management, regulatory compliance, and fully leveraging technology.

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