

*MIAF's Fall 2007 Meeting:
"Retooling Auditors To Work Smarter"*

Auditor Roles in Government Performance Measurement and Accountability

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Chicago, Illinois

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Why Should Auditors Support Performance Measurement and Accountability?

Government:

- Precedents in the U.S. and other countries
- Citizens want the auditor's involvement

Emerging in Private Sector:

- Assurance of business performance measurement (AICPA)

Strengthens Auditor's Role in Any Sector:

- Increase auditor value-added to entity
 - Congruent with auditor's mission, values, and standards
 - Auditors have the right knowledge, skills, and abilities
 - Decision makers need the auditor's involvement
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A New Service Model:

Five Roles Auditors Play in Government Performance Measurement



The five roles that have emerged include two "traditional" auditor roles:

Role 1: Audit Performance or PM Systems:

Auditing Performance or Performance Management Systems

Role 2: Assess Performance Information:

Assessing the Quality of Performance Information or Performance Reports

... and three "nontraditional" roles for auditors:

Role 3: Define or Measure Performance:

Developing Performance Measures or Measuring Performance *Outside the Traditional Audit Process*

Role 4: Encourage or Assist Management:

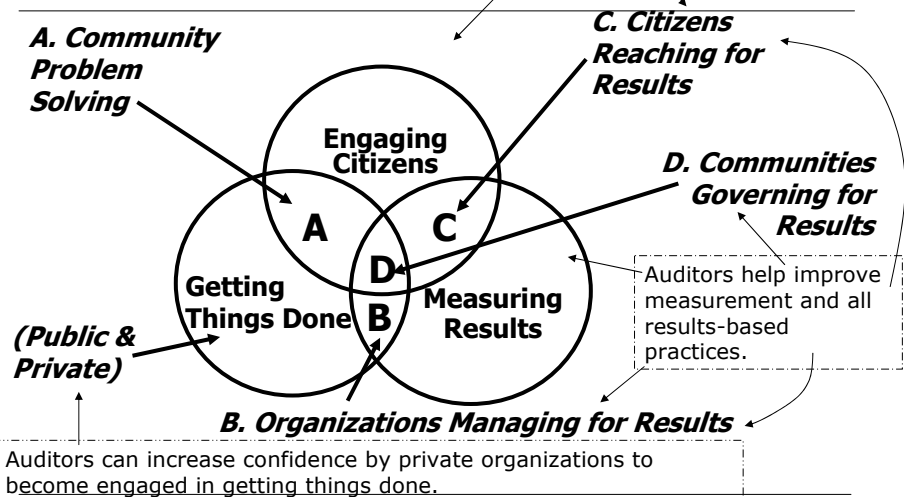
Planning, Designing, Improving, or Advocating for Performance Management Systems and Their Use

Role 5: Assist Elected Officials or Citizens:

External Reporting, Capacity Building, or Advocacy for the Use of Performance Information

Auditor PM Roles & Effective Government

Auditors can increase citizen confidence in government performance data, leading to more engagement and use of data.



Role 1: Auditing Performance and Performance Management Systems

Practice 1a:

- ***Measure or assess performance during an audit or other study based on authoritative auditing standards.***

(Very Common) e.g. Kansas City, MO; Phoenix, AZ

- Identify the program's inputs, processes, outputs, and outcomes
 - Develop and implement "ad hoc" performance measurement system
 - Using performance goals as "criteria" and measures as "condition," analyze program performance
 - Identify causes of variances and develop audit recommendations
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Role 1: Auditing Performance and Performance Management Systems

Practice 1b:

- ***Audit or assess existing performance management systems or practices (e.g., Portland, OR; Metro Auditor-Portland Region; Austin; Michigan; Texas)***
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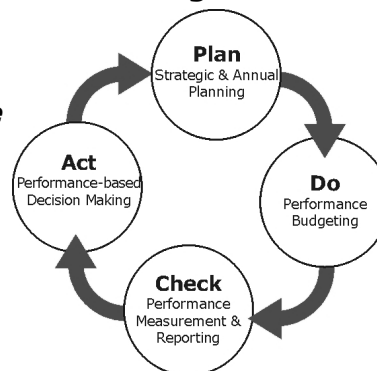
Role 1, Practice 1b —
Audit Performance Management Systems

- Determine if existing performance accountability or measurement systems are adequate
 - Compare to models, guidelines, requirements, or other criteria
 - Recommend system improvements
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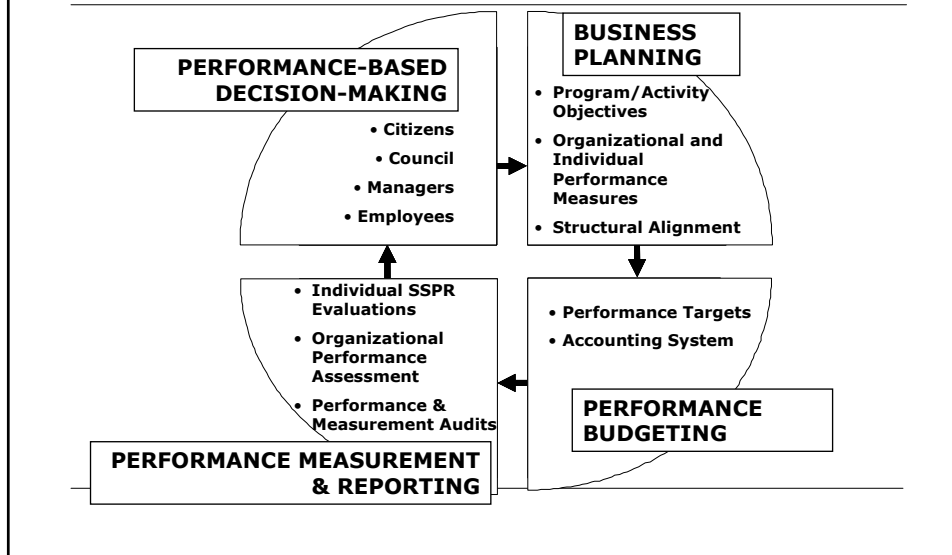
Models to aid Practice 1b —
Audit performance management systems

Many “Managing for Results” Models Are Available to Provide Criteria for Performance Management Systems Audits

Austin City Auditors Used the **Government Performance Accountability System** as **Criteria** for Citywide Audits in 1996, 1998 and 2002.



Managing for Results Framework: City of Austin



Role 2: Assessing the Quality of Performance Information or Performance Reports

Practice 2a:

- ***Test or certify performance measure relevance, reliability, or both***

Role 2, Practice a – Assessing the Relevance of Performance Measures

Measures should be:

- **Pertinent** > Purpose-linked
 > Aligned with mandate, mission, expectation
 - **Completeness** > Not omitting information that could alter decisions
 - **Inclusive** > Includes essential aspects of performance
 > Meets broad needs of users
 - **Comparable** > Benchmarked against targets, standards, prior years,
 or comparable entities
 - **Timely** > Available when needed
 > Provided when required
 - **Understandable** > Communicated well
 > Clearly portrayed and explained, so users can understand
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Role 2, Practice a – Assessing the Reliability of Performance Measures

Measures should be:

- **Accurate** > Neither overstated nor understated
 > Computed correctly
 - **Impartial/Fair** > Neutral and unbiased
 > Represented objectively
 > Appropriately precise
 - **Correctly Defined** > Corresponds to the phenomena being reported
 > Complies with measure definition
 - **Consistent** > Consistent with previous periods
 > Controlled by adequate systems
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Practice 2a – Test Relevance or Reliability

Test or certify performance measurement relevance, reliability, or both, e.g.:

- Austin City Auditor
 - Austin Corporate Internal Audit
 - British Columbia Auditor General
 - Colorado Springs City Auditor
 - Florida OPPAGA
 - Kansas City (Mo.) City Auditor
 - Louisiana Legislative Auditor
 - Maricopa County (AZ) Internal Audit
 - Nevada Legislative Auditor
 - Phoenix City Auditor Department
 - Portland (OR) City Auditor
 - Prince William County (VA) Internal Audit
 - Texas State Auditor
 - Virginia Auditor of Public Accounts
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See examples at
www.AuditorRoles.org

Role 2, Practice 2b – **Assure Performance Reports**

Audit, attest to, assure, or certify performance reports, e.g.:

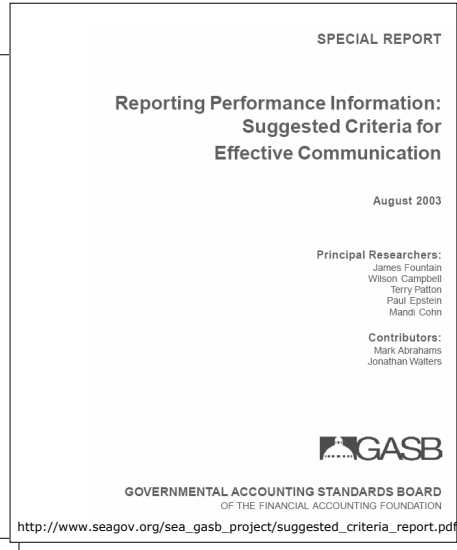
- Milwaukee County
- Alberta
- British Columbia
- Quebec
- Saskatchewan

Examples at www.AuditorRoles.org

Tools to Aid *Practice 2b* — **Assure performance reports**

Example:

State and Local
Government
Reporting Criteria



Useful Criteria for *Practice 2b* — **Assure performance reports:**

GASB Performance Reporting Criteria

The External Report on Performance Information

1. Purpose and scope
2. Statement of major goals and objectives
3. Involvement in establishing goals and objectives
4. Multiple levels of reporting
5. Analysis of results and challenges
6. Focus on key measures
7. Reliable information

Useful Criteria for *Practice 2b* — **Assure performance reports:**

GASB Performance Reporting Criteria

The Performance Information to Report

8. Relevant measures of results
9. Resources used and efficiency
10. Citizen and customer perceptions
11. Comparisons for assessing performance
12. Factors affecting results
13. Aggregation and disaggregation of information
14. Consistency

Communication of the Performance Information

15. Easy to find, access, and understand
 16. Regular and timely reporting
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Role 2: Assessing the Quality of Performance Information or Performance Reports

Practice 2c:

- ***Support external review processes to assess and improve performance information or reporting, or the performance basis for planning, budgeting, or other decision making.*** (Future Practice)
 - AGA's Certificate of Excellence in Accountability Reporting (CEAR) Program
 - AGA's Certificate of Excellence in Service Efforts and Accomplishments Reporting (COE in SEA Reporting) Program
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Role 3: Developing performance measures or measuring performance outside of the audit process

Practice 3a:

- ***Provide advice on determining performance measures or performance expectations*** (e.g., *Palo Alto; Kansas City, MO; Phoenix; Portland, OR Metro-Portland, Region*)
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Role 3, Practice 3a — **Help choose measures or targets**

Provide advice on determining performance measures or performance expectations

- Select measures for public reporting from various sources (e.g., Palo Alto)
- Research, focus groups, procedures testing to help management determine useful, practical measures (e.g., Phoenix)
- “Special studies” to identify performance measures (e.g., Kansas City, MO)

Examples at www.AuditorRoles.org

Role 3, Practice 3b — **Collect Data**

Collect performance measurement data

(Kansas City, MO; Portland; Prince William County, VA; Phoenix; several department internal auditors).

- Identify the sources of data needed to support the measures.
- Decide how, on a recurring basis, to collect the data and to assure its reliability and validity. Whenever feasible, use existing information systems to provide the data
- Select the most appropriate technology architecture to maintain the data
- All examples identified to date are citizen or customer surveys and focus groups

Examples at www.AuditorRoles.org

Role 4, Practice 4a — **Encourage Management**

Encourage management to develop and implement performance management systems

(Alberta, Florida OPPAGA, Texas, Portland, OR).

- Advocate by researching and identifying “best practices” and benefits of performance management.
- Point out needs or opportunities to improve current systems and practices.
- Provide guidance on initial performance management system design.

See examples at www.AuditorRoles.org

Role 4, Practice 4b —
Assist Management

Assist management in designing, improving, or maintaining performance management systems, or build the capacity of management to do so

(Austin, West Palm Beach, Phoenix, British Columbia, Saskatchewan).

- Provide advisory assistance, consulting, training, or “hands on” assistance at any or all stages of the performance management initiative.
- Serve on internal teams to design and implement performance management systems.

See examples at www.AuditorRoles.org

Role 4: Planning, Designing, Improving, or Advocating for Performance Management Systems and Their Use

Practice 4c:

- ***Assist management in conducting self-assessments of existing performance measures and systems (e.g., City of Austin Corporate Internal Audit Office).***
 - Assess measure definitions
 - Assess system controls
 - Assess data accuracy
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Role 5 —

Assist Elected Officials or Citizens

In this role, auditor practices especially relate to external stakeholders, including...

- Non-executive elected officials
 - Citizens
 - Interest groups
 - Grantees & contractors (non-profit & for profit)
 - Media
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Role 5: External Reporting, Capacity Building, or Advocacy for the Use of Performance Information

Practice 5a:

- ***Advocate to, or assist, external stakeholders concerning the development, implementation, or improvement of government performance management systems (e.g., Montgomery County, MD; Austin; Kansas City; Portland).***
 - Provide evidence (analyses, reports, etc.) demonstrating benefits of performance management.
 - Write resolutions, ordinances, and guidelines.
 - Testify or make presentations about need to develop or improve performance measurement systems.
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Local, State, & Provincial Performance Accountability Mandates

- *Mayor's Management Report* in New York City Charter, since 1977.
 - Texas HB 2009, 1991.
 - Austin "Performance Measurement and Reporting" Resolution, 1992.
 - Prince William Co. "Government services planning, budgeting, and accountability" ordinance (PWC County Code Section 2-1), 1994.
 - Alberta Government Accountability Act, 1995.
 - Chapter 94-249, Laws of Florida, 1995-96.
 - British Columbia Budget Transparency & Accountability Act, 2000.
 - Quebec Public Administration Act, 2000.
 - Saskatchewan mandated performance reporting guidelines, 2000 & 2003.
 - Virginia House Bills 1002, 2097, 2002 - 2003.
 - Portland Resolution in support of Managing for Results process, 2003.
 - By 2000, 33 states had passed "broad governing for results legislation."
(Liner et al. *Making Results-Based State Government Work*, Urban Institute and National Conference of State Legislatures, 2001)
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Role 5, Practice 5b — Report performance **Produce and Issue External Performance Reports** (See example at www.AuditorRoles.org)

- Auditor takes on role more typically played by management
 - Performance reporting is still in the "experimental" stage with various models being promulgated.
 - GPRA's/OMB's Performance Reporting Requirements
 - FASAB's Accountability Model
 - GASB's "Reporting Performance Information: Suggested Criteria for Effective Communication"
 - PSAB Statement of Recommended Practices (Canada, supersedes CCAF-FCVI Principles)
 - Balanced Scorecard (City of Charlotte—not Auditor)
 - Blend of Print & Web-based Reports (e.g., NYC MMR—not Auditor, Portland City Auditor: on-line neighborhood survey results)
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Portland's Service and Efforts and Accomplishments Report

- Issued annually since 1991 by the City Auditor's Office.
 - Report is conducted as a performance audit consistent with the Yellow Book.
 - Work is conducted in accordance with generally accepted government auditing standards.
 - To assess reliability of reported performance data, audit work includes several levels of review.
 - Has left open the question of who audits a performance report produced by the auditor rather than management.
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Role 5, Practice 5b — Report Performance

Produce and Issue External Performance Reports

- In *Practice 2b. Assure performance reports*, auditors play an **"assuror"** or **"attester"** role
 - By reviewing management's reports against criteria or principles for good external reporting and recommending needed improvements.
 - In *Practice 5b. Report performance*, auditors play a **"preparer"** role
 - By preparing and issuing an entity's performance report.
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Role 5, Practice 5c —
Assist External Decision Making

Assist external stakeholders in using performance information to make decisions (Portland, OR—Progress Board Staff, Florida OPPAGA).

- Provide education and training
- Provide technical support
- Provide special analyses and reports
- Provide easy access to information and informational “alerts” (e.g., via the Internet)

See examples at www.AuditorRoles.org

Role 5, Practice 5d —
Engage Citizens

Engage citizens in determining performance goals, objectives, or measures (Kansas City, MO; Phoenix; Multnomah County, OR).

- Public forums
- Focus groups
- Advisory committee meetings
- Preference surveys

See examples at www.AuditorRoles.org

Role 5, Practice 5e —
Assess Citizen Engagement

Assess or improve citizen engagement related to performance management.

Potential “Future Practice.” Two “precursor examples” identified: Auditors assessed citizen engagement in other matters:

- “Governance Assessments” of boards & commissions (Kansas City, MO)
- Assessment of effectiveness and representativeness of citizen participation for public planning processes (Metro Auditor, Portland, OR).

See examples at www.AuditorRoles.org

Where Did the Five Roles and 14 Practices Come From?

- Previous Sloan-IIA Research Foundation project led to a ***framework of auditor roles & practices*** published in a 2004 book.
 - New 3-Year Project (2007-09) funded by the **Sloan Foundation & The IIA; ALGA and NASACT signed on as early partners.**
 - ***Large Sloan grant to support government auditor adoption of the five roles and selected practices.***
 - ***More partners welcome.***
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Framework of Auditor Roles & Practices ("New Service Model") Developed From:

- Auditors' responses to surveys and interviews.
- Auditors' reports and methodologies.
- An analysis of exemplary practices from audit organizations across North America.

So these roles and practices not only form a logical framework, they are also experienced-based: they work in practice.

- Published in: ***Auditor Roles in Government Performance Measurement: A Guide to Exemplary Practices at the Local, State, and Provincial Levels*** by Paul D. Epstein, Stuart S. Grifel, and Stephen L. Morgan (IIA Research Foundation, 2004)
 - Publication supported grant application to fund new Sloan/IIA Project
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New Sloan Foundation-IIA Project: Auditor Roles in Government Performance Measurement

Project Mission

Advance how auditors contribute to strengthening government performance and accountability by stimulating greater auditor involvement in improving how public performance is measured and managed.

What Services Does the New Sloan-IIA Performance Measurement Project Provide?

- **Training courses** to support development and implementation of any of the defined auditor roles your organization may consider establishing or strengthening.
 - **Multifunctional, regularly updated website** with examples from practice, tools, & resources to support auditors pursuing any of the defined auditor roles.
 - **Special presentations & dialogs** at conferences, meetings, and other events to encourage auditors and non-audit officials (in 2008-09) to support government performance measurement and management.
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Auditor Roles in Performance Measurement Website Has:

- **Professional Context & Issues**, e.g., contextual models, independence issues.
- **Exemplary Practices:** numerous examples from audit offices across North America, many with links to reports.
- **Tools for Auditors**, e.g., criteria, audit programs & steps, checklists, guidance for audit staff or auditees.
- **Case Histories** of how audit offices have changed roles & practices over the years to add more value.
- **Training Courses & Schedule**
- **Topical Articles**

www.AuditorRoles.org

Sloan/IIA Project Will Impact Evolution of Auditor Roles and Practices

- **Experimental:** Ad-hoc engagement in performance measurement related practices.
 - **Regular practice:** Significant capabilities in a limited number of performance related practices.
 - **Leadership:** Progressively built the number of performance related practices it uses. Has taken on at least two or three major performance measurement related roles.
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Key Lessons from Practice-based Research

- **Auditors can add credibility** to performance information, which can increase the value and use of performance information for decision making and accountability.
- **Auditors can be effective advocates for improvement** of performance measurement and performance management systems of the government organizations they serve, **both internally** (with management) **and externally** (with elected officials and citizens).
- **Auditors can play multiple roles** with respect to performance measurement, and **can increase the value they add to their governments by changing the roles they play over time** as performance management evolves in the entities they audit.

See www.AuditorRoles.org for case histories demonstrating added value with changing roles.