



Association of Local Government Auditors

**A Government Official's
Guide to Establishing a
Performance Audit Function**

The Association of Local Government Auditors (ALGA) is providing this brief introduction to performance auditing to answer questions that local government officials frequently ask about establishing an independent performance audit function. We also list resources and include a brief survey to help you assess whether a performance audit function would benefit your organization.

Frequently Asked Questions

1. Q: What is performance auditing?

A: In a performance audit, auditors independently evaluate the performance and management of government programs or functions compared with objective criteria or best practices. The term performance audit can encompass a variety of objectives dealing with a government's use of public resources, use of authority, compliance with laws and regulations and delivery of public services.

2. Q: What do performance auditors audit?

A: Performance auditors measure program performance to assess whether and how programs can be improved. They may:

- a) review program goals and objectives compared with actual results,
- b) analyze the efficiency and effectiveness of alternative methods of service delivery,
- c) determine whether programs comply with applicable laws, rules, regulations, or policies and procedures,
- d) assess whether management reports are accurate and reliable,
- e) determine whether assets are adequately safeguarded,
- f) work to detect fraud or abuse and assess controls and risks to reduce opportunities for corruption, and
- g) identify emerging issues or risks before they become crises.

3. Q: What are the potential benefits of performance auditing in government?

A: Performance auditing strengthens public governance by enhancing the government's accountability to the public for its use and stewardship of resources and the extent to which the public's objectives are being achieved. Performance audits often recommend improvements in service delivery, identify potential cost savings or revenue opportunities, and detect and deter improper activity. An effective, independent performance audit function can increase credibility with the public, as well as external oversight agencies, granting authorities and bond markets.

4. Q: How can an internal office be independent?

A: In order to be independent in fact and appearance, auditors must be free from conflicts of interest and free from interference in how they conduct and report their work. Different reporting relationships can ensure that the audit function is independent of the areas subject to audit. The auditor can be elected, appointed by a legislative body, or report to a committee, the majority of whose members are independently elected or appointed and come from outside the areas subject to audit. Regardless of the reporting relationship, the auditor's reports should be made public. ALGA's Model Legislation provides sample legislation to help ensure the independence of the audit function, including reporting relationships; how the audit director may be appointed; how the audit director may be removed from office; appointment of employees; scope of audits and other duties; access to employees, records and property; and professional auditing standards. In addition, the audit function must have systems in place to identify, resolve, or report impairments to independence and must protect their independence by not performing management functions and by not auditing their own work.

5. Q: Who audits the auditors?

A: Audit organizations that follow professional standards are required to have periodic peer reviews by independent reviewers. Peer reviews determine whether the audit organization's internal quality control system is suitably designed and operating effectively to provide reasonable assurance of complying with applicable professional standards.

Perceived Obstacles

Obstacles to establishing an independent performance audit function in local government usually center around one or more of the following misconceptions:

- **Too Expensive:** Skeptics often cite the cost of auditing as a disadvantage. However, it is not uncommon for an audit function to realize annual returns on investment between 200% and 400%.
- **Adversarial:** Skeptics may view the implementation of a performance audit function as pitting management against the auditors. However, an effective audit director works hard to establish a respectful working relationship with management and staff. Auditors remain independent of operations but treat other employees with professionalism and respect.
- **Lack of experience in area audited:** Managers may be concerned that audit staff lack the real world experience necessary to understand and fairly evaluate their operations. Professional auditing standards require auditors to have the requisite knowledge and skills to complete individual assignments. Auditors don't need to be subject experts in the area under review, but need to be able to provide an independent perspective and conduct work objectively using auditing standards, generally accepted management practices and common sense as guides.
- **Airing Dirty Laundry:** Government audit reports are often public records, which can increase media interest and exposure of problems. An effective audit director reports findings, conclusions and recommendations in an objective, balanced manner and includes the views of responsible officials in the report. Such public disclosure provides greater accountability and increases the public's confidence in government operations.
- **More Red Tape:** Skeptics sometimes perceive that audit recommendations will generate burdensome policies, procedures and paperwork. However, an effective performance audit function minimizes organizational "red tape" as auditors ferret out policies, procedures and management practices that contribute to unnecessary and inefficient practices.

Self-Assessment Survey

The following self-assessment survey can help you assess whether establishing a performance audit function would benefit your local government. Answer the following questions "Yes" or "No" based on your current knowledge of the organization. Be as independent and objective as possible in responding. Be aware that you may have a tendency to be overly optimistic in your response.

- ___ 1. Does a mechanism exist within the organization that serves as a monitoring and oversight function over government performance?
- ___ 2. Is the monitoring and oversight function organizationally independent of management?
- ___ 3. Does the management staff of your organization consistently provide relevant, timely and useful information regarding government performance?
- ___ 4. Are you comfortable with the reliability of analytical and performance related information provided?
- ___ 5. In your government, when inefficiencies, poor performance or substandard program results are identified, are problems addressed and resolved within a reasonable period of time?
- ___ 6. Do you feel accurately informed regarding issues affecting your government?
- ___ 7. Are you comfortable making a request for key management information regardless of political sensitivities or a desire to avoid "ruffling feathers"?
- ___ 8. Is there a sense in the community that government is accountable and responsible?
- ___ 9. If you could invest personal funds in your government operations in a manner similar to a public for-profit corporation, could you expect a reasonable return on your investment?
- ___ 10. Are you proud of your government?

A "No" response to any one item can indicate reduced accountability and trust in government operations. Consider getting in touch with ALGA for guidance on establishing an independent performance audit function if you answered "No" to one or more questions. ALGA is a not-for-profit organization.

Additional Resources Available to Assist in Establishing a Performance Audit Function

Association of Local Government Auditors (ALGA)

449 Lewis Hargett Circle, Suite 290
Lexington, KY 40503
www.governmentauditors.org

United States Government Accountability Office (GAO)

Washington, D.C. 20548-0001
(202) 512-2600
www.gao.gov

Institute of Internal Auditors (IIA)

247 Maitland Avenue
Altamonte Springs, FL 32701-4201
(407) 830-7600
www.theiia.org

Association of Government Accountants (AGA)

2200 Mount Vernon Avenue
Alexandria, VA 22301-1314
(703) 684-6931
<http://agacgfm.org>

Association of Certified Fraud Examiners (ACFE)

716 West Avenue
Austin, TX 78701
(800)245-3321
www.acfe.com



Association of Local Government Auditors

449 Lewis Hargett Circle, Suite 290
Lexington, KY 40503
p. (859) 276-0686
f. (859) 278-0507
www.governmentauditors.org