Evaluating Audit Performance

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Challenges and Using Information

- We'll describe challenges to governments' effectively evaluate audit office performance.
- No matter how good evaluation information is, it needs to be used!

Performance Info Only Works When Used

- Data and evaluation information about audit offices are like parachutes -- they function only when open!
- Dog vs. school bus – what do we do once we obtain the information?

Techniques and Tools – Use What Works

- I will discuss an overture and set of concerns around evaluating audit offices, as well as a “toolkit” of solutions to consider in your organization.
- Use what works for your organization in your situation.

Our Overture

- Performance data is critical.
- BUT accountants and auditors are often the first cut in budget reduction (they are not “line” employees).
- BUT decision-makers may not use or internalize the results.
- Having car trouble? Don’t fire your mechanic!

Top Four Challenges

- The biggest challenges to using performance data to improve management in audit offices (as with any other organization) are:
- Absence of an “executive champion” to support and encourage measurement in your organization (or, alternately, the departure of someone who had acted as a champion for measures).
- Insistence of organizations to use traditional budget exercises (cuts and add-backs) rather than basing budget changes on performance information.

Top Four Challenges (Continued)

- Lack of integration between the budget and the performance information.
- (Potentially) Disconnect between the folks who prepare the measurement information and the folks who manage.
  - Remember – measurement information is for performance management holistically, not just for the budget process.
- Viewing measurement as a once-a-year effort rather than an ongoing process.

Top Four Challenges (Continued)

To summarize, evaluating your office's audit performance will probably fail if:

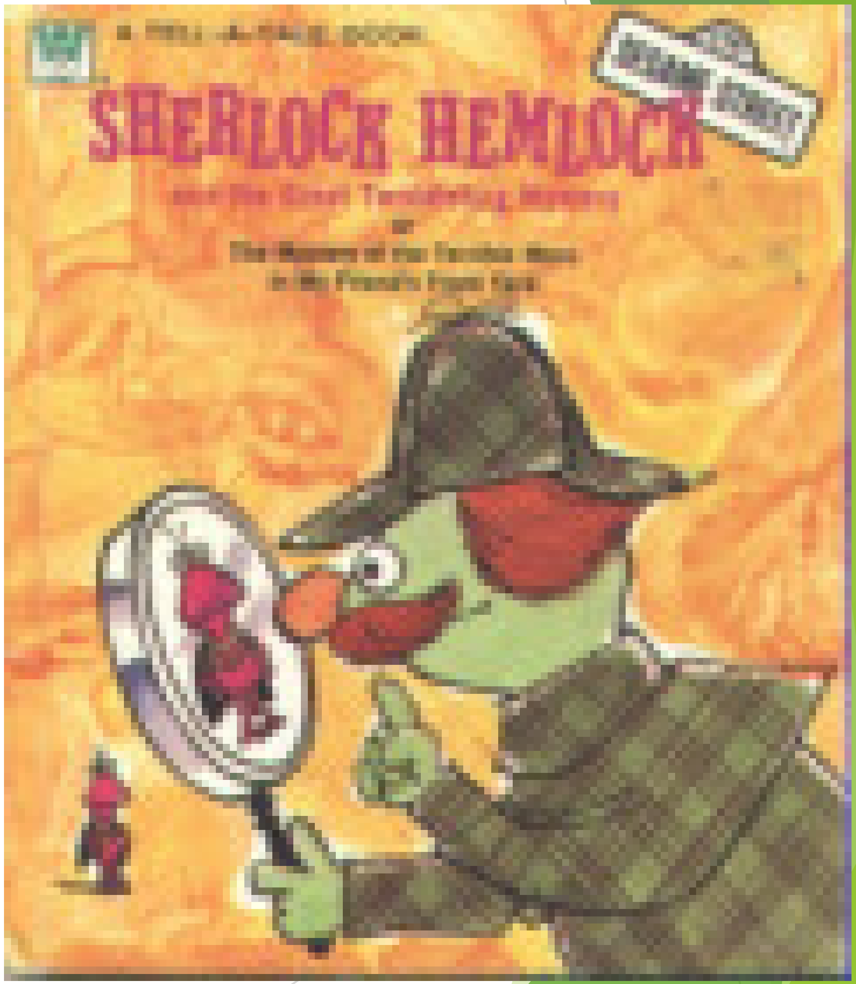
- It lacks an executive champion
- It occurs in an environment that does not use or appreciate it (and persists in traditional budget exercises) or integrate measurement with management
- It's not led by employees connected with or responsible for overall management
- It's a once-a-year exercise.

The “Executive Champion”

- It takes leadership to “coach” successes in any organization.
- Informed leaders use the tools at their disposal to study and make changes.
- Remember the “Plan, Do, Review” effort? TQM? MBO?

The "Two Percent Solution"

- Some organizations base next year's plans and budgets on what happened last year (plus or minus two percent).
- Enhanced management might consider other issues, like how much of that service is needed!



Across-the-Board Cuts Don't Work

"Typically the cost-reduction program aims at cutting a little bit – say, 5 or 10 percent – off everything. **This across-the-board cut is at best ineffectual; at worst, it is apt to cripple the important, result-producing efforts which usually get less money than they need to begin with.** But efforts that are sheer waste are barely touched by the typical cost-reduction program. . ."

Peter Drucker, <u>Managing For Results</u> (1964), p. 13.

Use and Act on Information, Keep Advocating

- If offices do not use and act on measurement information, they miss a chance.
- If measurers lose or temper their advocacy for governance based on measures, they miss a chance, too.

All The Time, Not Once A Year

- Brigadoon was the story about the Scottish village that appeared only once each century.
- Measure regularly!
- Make sure management uses the information regularly and not episodically.

But It's Not All "Doom and Gloom"!

- Measurement by itself can provide a critical public accountability and lens into government operations.
- Measurement helps transparency and accountability.
- Management may act on information later.
- Happy Halloween!!

Options for Audit Office Measurement

- Number of audit reports/products issued per year
- Cost per “billable” audit hour
  - (Total office budget / number of charged audit hours)
- Cost per hour tracked over time, or compared to other offices/providers
- Percentage of audit recommendations implemented
- Others?

Number of Reports – Good and Bad

- Good
  - Tracks visible productivity
  - Tracks number of "touches" to decision-makers, media, and public
  - Can be tracked over time to see if the office is producing more or fewer reports
- Bad
  - Can cut audit work to make more reports, may not indicate underlying productivity
  - One great report that takes longer may be better than more shorter reports

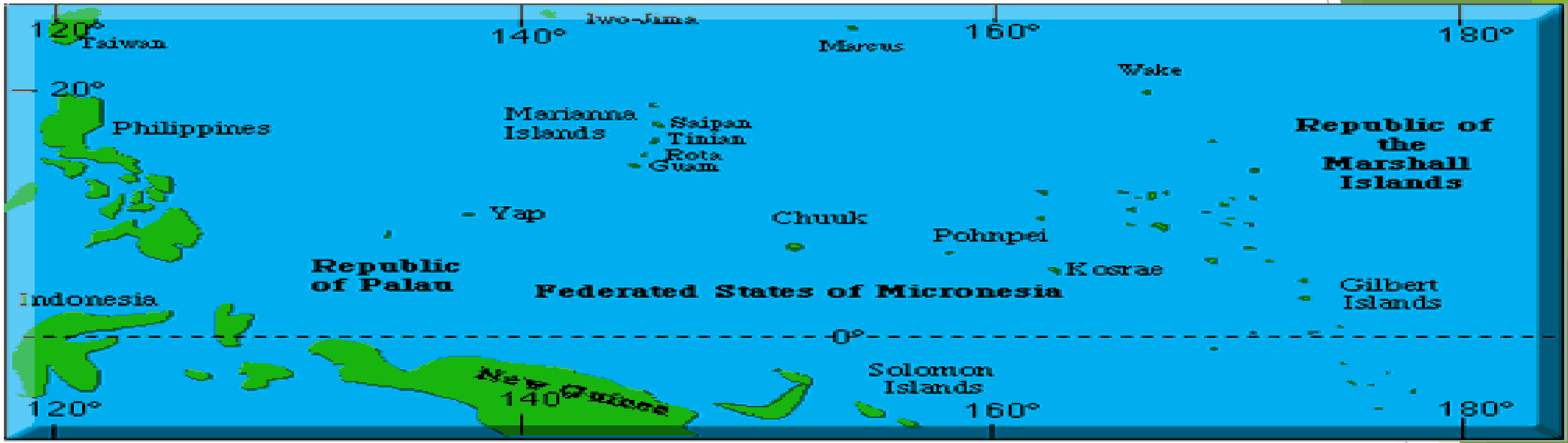
Cost per Hour – Good and Bad

- Good
  - Adjusts for true time spent on audits, not complicated by leave, training, or other administrative time
  - Allows comparison to other offices/providers
  - Lets you show value and cost per audit based on hours and track over time
- Bad
  - Allows comparison to other offices/providers (this is good and bad if the comparison is not like-to-like)
  - May not accurately track all factors
  - Some factors (like benefits and other costs) beyond office’s control, yet still impact cost per hour

% of Recommendations Implemented – Good and Bad

- Good
  - Shows whether audit recommendations are being implemented by your jurisdiction, can track over time
- Bad
  - May not track complexity or reasons why a recommendation was or wasn't implemented (did management disagree or just can't afford to do it?)
  - A great, value-added recommendation that management passes on would show up as "not implemented" but may be great audit work
  - A minor but agreeable recommendation would show up as "implemented" but may not be great audit work

Other Validation



- Many other sources can confirm and validate audit work:
  - Peer Reviews (NSAA, NLPES, APIPA and others
  - Awards Programs (NSAA, NASACT, ALGA and others)
  - Other External Validation (IIA, AGA Citizen-Centric Reporting)
  - Public and media discussion of audit results

Pacific Island Colleagues

- WIAF's base includes many island government audit offices in addition to the Hawaiian Islands:
  - Guam
  - Republic of the Marshall Islands
  - Federated States of Micronesia
    - Chuuk
    - Kosrae
    - Pohnpei
    - Yap
  - Commonwealth of the Northern Mariana Islands
  - Republic of Palau
  - American Samoa
- The Association of Pacific Island Public Auditors (APIPA) also has a peer review program.

Your Ideas?

- Other areas to measure?
- Other strengths/weaknesses of these measures?

Thank You For Attending!

Please call or e-mail if you have questions!

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