

Agents of Accountability and Catalysts of Performance Improvement? Performance Auditing in U.S. Local Governments

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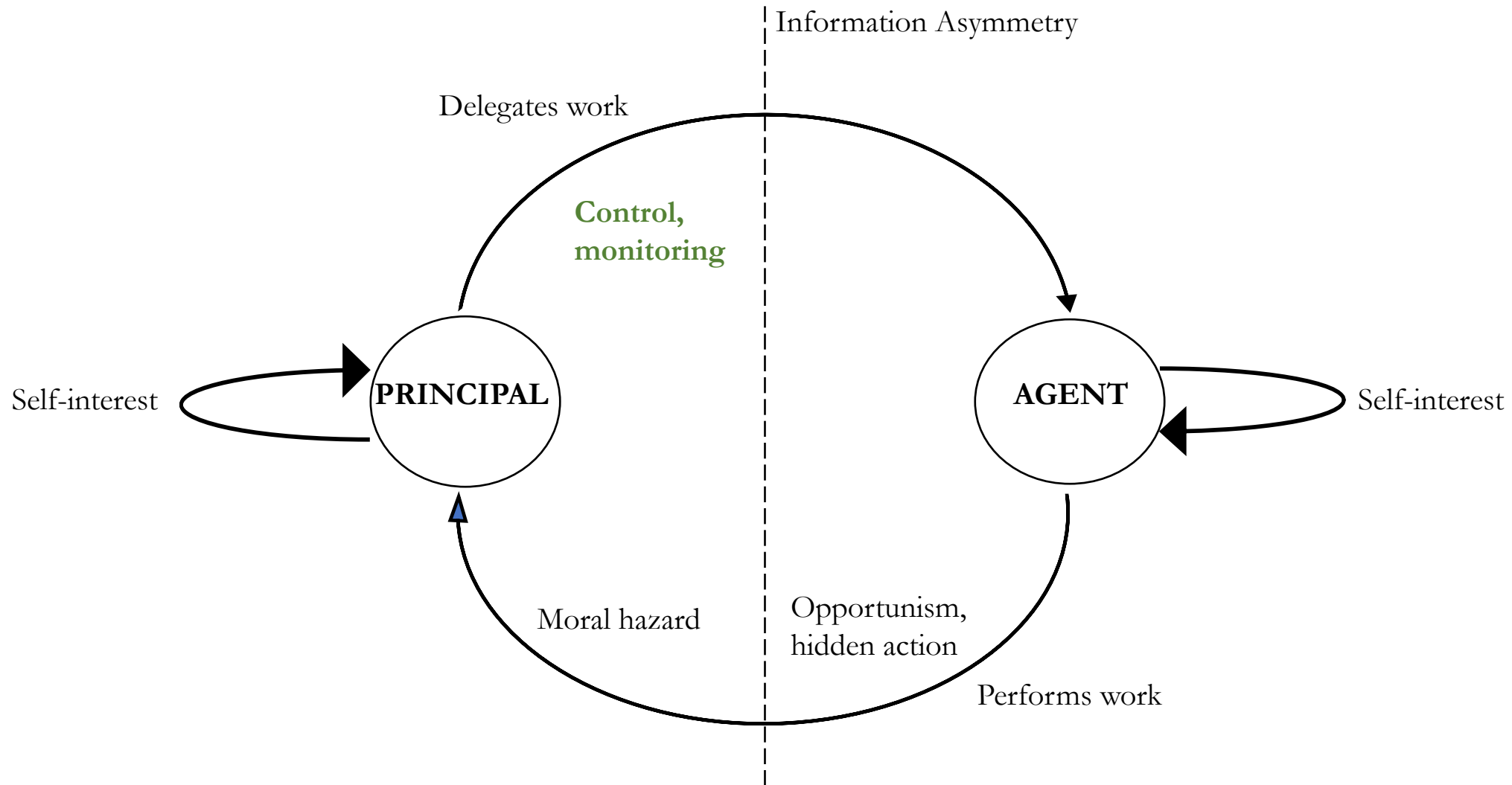
Introduction

- Performance improvement has been a salient goal in public sector reform.
- Proliferation of tools and techniques to achieve this goal (e.g., performance measurement, performance budgeting, strategic planning).
- The rise of performance auditing.

Performance Auditing Rationale

- Assumption that auditing performance will improve performance, decision making, and accountability.
- Public agencies may be more willing to improve their performance, knowing that it will be monitored and assessed.

Principal-Agent Model



Source: Snippert, Witteveen, Boes & Voordijk, 2015

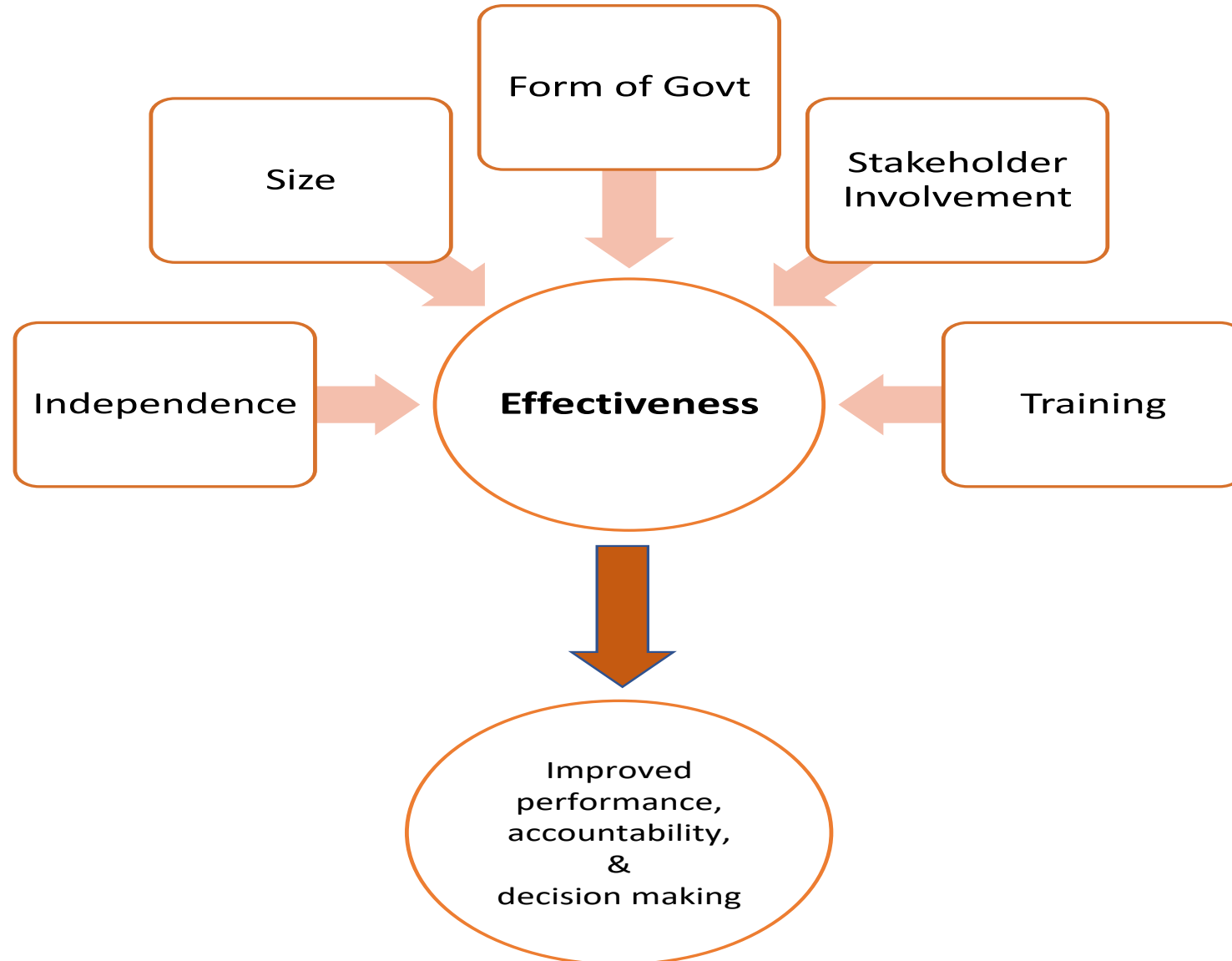
Literature Review on PA Effectiveness

- The potential value of PA is strongly debated.
- Mixed evidence from other countries.

Positive	Limited/Negative
<ul style="list-style-type: none">• Improved performance (Funk & Owen, 2020),• Improved fiscal governance, and accountability (Santiso, 2009).	<ul style="list-style-type: none">• Symbolic without substantive benefits (Kells 2011).• Increases compliance burden (Kells 2011).• Sugarcoats problems (Kells 2011).• Lowers employee morale and stifles innovation (Hood, 2002; Hunt, 2003).• Decreases citizen trust (O'Neill, 2002).

- Whether auditing can deliver its potential benefits remains an unresolved question.

Theoretical Framework



Hypothesis 1: Organizational size

Larger is better

- Established reputation and impact
- Higher productivity and performance
- Higher technical knowledge and capacity
- More resources

Smaller is better

- More flexible and responsive
- Lower communications and coordination costs
- Fewer information distortion
- Less conflict



Hypothesis 2: Form of Government

Predominant expectation: city managers are superior in their management and supporting practices that improve government performance (Jimenez 2020; Nelson & Svara, 2012; Poister & Streib, 1994).

- Professionalism (Nalbandian, 1990)



Hypothesis 3: Independence

- The degree of independence can be described in terms of performance auditors' position and reporting relationship with the auditee (GAO, 2018).
 - Reporting internally to the chief executive or,
 - A separate agency that reports to the governing body.
- Increases the potential for judgements free from the interference of any interested party.

Hypothesis 3: Independence Cont.

Predominant expectation: internal auditors are less likely to effective than external auditors:

- Authority pressure (Patton, 2012)
- Loyalty (Conley-Tyler, 2005)
- Organizational socialization (Scriven, 1997)



Hypothesis 4: Stakeholder Involvement

Stakeholders are “individuals, groups, or organizations that can affect or are affected by an [audit process] and/or its findings” (Bryson, Patton, & Bowman 2011, p.1)

- **Internal** (e.g., executive management, department heads, program managers, direct service staff, front-line employees, occupational specialists, and experts).
- **External** (e.g., elected officials, interest groups, the media, and citizens).

Hypothesis 4: Stakeholder Involvement

- Benefits:
 - Quantity and quality of information (Thomas & Poister, 2008)
 - Trust-building and sense of ownership (Thomas & Poister, 2008)
 - Veto-power and resistance (Bryson, 2004; Fernandez & Rainey 2006)
 - Diversity of ideas, innovation, and organizational learning (Moynihan, 2005).
- Concerns about responsiveness and independence.

Stakeholder Involvement  PA effectiveness

Hypothesis 5: Training

- Provides opportunities for knowledge acquisition, information sharing, and multisource feedback.
- Strengthens capacity to think, analyze, and report organizational performance problems.
- Improves rational cognition and increases self-awareness.
- Promotes shared mental models.



Data Collection

- 2017 Survey of performance auditors who work in U.S. local governments.
 - Population: Members of the Association of Local Government Auditors.
 - Response rate:
 - 158 of 344 local governments (45.9%).
 - Valid responses:
 - Cities = 151, Counties = 90 (multiple responses)

Supplemented by:

- Data from Comprehensive Annual Financial Reports, ACS 5-year estimates, and Bureau of Census.

Dependent Variable – Perceived Effectiveness

Performance auditing effectiveness

<i>How effective do you think the work of your audit organization is in...?</i>	Frequency	Percentage
<i>Influencing decisions made by the governing body of your government</i>		
Very ineffective	4	1.67
Somewhat ineffective	25	10.42
Uncertain	35	14.58
Somewhat effective	134	55.83
Very effective	42	17.50
Total	240	100

Influencing decisions made by the executive management of your government

Very ineffective	8	3.33
Somewhat ineffective	18	7.50
Uncertain	28	11.67
Somewhat effective	141	58.75
Very effective	45	18.75
Total	240	100

Dependent Variable – Perceived Effectiveness

Performance auditing effectiveness

How effective do you think the work of your audit organization is in...?

Frequency Percentage

Improving your government's programs and services

Very ineffective	1	0.42
Somewhat ineffective	10	4.20
Uncertain	20	8.40
Somewhat effective	143	60.08
Very effective	64	26.89
Total	238	100

Independent Variables

Independent Variables	Frequency	Percentage
<i>How many full-time equivalent auditors does your audit organization have?</i>		
1	15	6.25
2-3	28	11.67
4-5	36	15.00
6-10	88	36.67
11-20	41	17.08
21-50	30	12.50
51-100	1	0.42
more than 100	1	0.42
Total	240	100
<i>Which of the following best describes the nature of your audit organization's reporting relationship?</i>		
A separate branch of government	144	60.50
Top management, audit committee, or CFO within the government	94	39.50
Total	238	100

Independent Variables

Independent Variables	Frequency	Percentage
<i>How much does your audit organization engage the subjects of your audits in each of these components of the performance audit?</i>		
<i>Planning the audit</i>		
Not at all	46	19.17
To some extent	140	58.33
Extensively	54	22.50
Total	240	100
<i>Choosing audit methods</i>		
Not at all	158	65.56
To some extent	63	26.14
Extensively	20	8.30
Total	241	100
<i>Reviewing and interpreting audit findings</i>		
Not at all	39	16.39
To some extent	120	50.42
Extensively	79	33.19
Total	238	100
<i>Reviewing and commenting on draft reports</i>		
Not at all	14	5.83
Occasionally, but infrequently	88	36.67
Frequently	138	57.5
Total	240	100

Independent Variables

Independent Variables	Frequency	Percentage
<i>To what extent does your audit organization engage with your governing body as part of its auditing work?</i>		
Not at all	27	11.34
Occasionally, but infrequently	139	50.40
Frequently	72	30.25
Total	238	100
<i>To what extent does your audit organization engage with the executive management of your government as part of its auditing work?</i>		
Not at all	6	2.52
Occasionally, but infrequently	92	38.66
Frequently	140	58.82
Total	238	100
<i>Do you think your audit organization provides adequate training for your performance auditing staff?</i>		
No	39	16.39
Maybe	58	24.37
Yes	141	59.24
Total	238	100
<i>Form of Government</i>		
Council-Manager	131	56.22
Mayor-Council	102	43.78
Total	233	100

Data Sources and Summary Statistics

Variable	Data Source	Obs.	Mean	SD	Min	Max
<i>Dependent Variables</i>						
Influence governing body	Survey	240	3.77	0.92	1	5
Influence executive management	Survey	240	3.82	0.94	1	5
Improve programs and services	Survey	238	4.09	0.74	1	5
<i>Independent Variables</i>						
Organizational size	Survey	240	3.88	1.40	1	8
Council-manager	CAFRs	233	0.56	0.50	0	1
Independence	Survey	238	0.61	0.49	0	1
Engage audit subjects	Survey	241	8.10	1.93	4	12
Engage governing body	Survey	238	2.19	0.62	1	3
Engage executive management	Survey	238	2.56	0.55	1	3
Training adequacy	Survey	238	2.43	0.76	1	3
<i>Control Variables</i>						
Resource change	Survey	239	3.19	0.85	1	5
Program evaluation	Survey	239	2.79	1.19	1	5
Audit process proficiency	Survey	240	4.12	0.85	2	5
Performance measurement	Survey	240	3.37	1.07	1	5
Median household income	ACS	241	62599.30	16815.78	27854	147537
Region	BC	241	3.29	0.86	1	4

ACS — American Community Survey; CAFR — Comprehensive Annual Financial Reports; BC — Bureau of Census.

Estimation Method

Ordered logistic regression

$$\text{Perceived Effectiveness}_i = \alpha + \text{Size}_i \beta + \text{Council-manager Government}_i \beta + \text{Independence}_i \beta + \text{Stakeholder Engagement}_i \beta + \text{Training}_i \beta + C_i \beta + \varepsilon_i$$

where C represents the control variables: resource change, familiarity with program evaluation, audit process proficiency, performance measurement, median household income (log), and region.

Results of Ordered Logistics Regression

Variables	Dependent Variable: Performance Auditing Effectiveness					
	Model 1		Model 2		Model 3	
	Influencing Governing Body		Influencing Executive Management		Improving Programs and Services	
	Coefficient	SE	Coefficient	SE	Coefficient	SE
<i>Main Independent Variables</i>						
Organizational size	0.099	0.105	-0.039	0.107	-0.072	0.109
Council-Manager	-0.233	0.312	-0.152	0.319	(-0.769 **)	0.327
Independence	(0.640 **)	0.316	0.442	0.312	(0.761 **)	0.325
Engage audit subject	-0.133 *	0.079	-0.010	0.079	0.089	0.079
Engage governing body	(0.532 **)	0.257	0.005	0.258	-0.274	0.257
Engage executive management	0.365	0.287	(1.128 ***)	0.299	0.327	0.294
Training	(1.021 ***)	0.225	(0.624 ***)	0.224	(0.724 ***)	0.231
<i>Control Variables</i>						
Resource change	0.236	0.173	0.227	0.167	0.251	0.176
Program evaluation	-0.096	0.171	-0.039	0.170	0.090	0.173
Audit process proficiency	0.269	0.193	0.701 ***	0.198	0.629 ***	0.206
Performance measurement	0.580 ***	0.192	0.202	0.195	0.164	0.193
Median household income (Log)	-0.929	0.714	-0.979	0.714	-1.539 **	0.726
Region						
Northeast	-0.069	0.963	-0.892	0.872	1.328	1.013
South	0.550	0.570	1.047 *	0.561	1.760 ***	0.583
West	1.252 *	0.641	1.155 *	0.630	2.099 ***	0.643
Pseudo R ²	0.175		0.152		0.141	
Observations	216		216		215	

*** p<0.01, ** p<0.05, * p<0.1

Predicted Probabilities

Model	Variable		Very ineffective	Somewhat ineffective	Uncertain	Somewhat effective	Very effective
Model 1 (Influencing Governing Body)	Independence	Reporting to top mgmt (0)	0.024	0.128	0.160	0.556	0.132
		Reporting to a separate branch (1)	0.013	0.086	0.124	0.572	0.204
	Engage Governing Body	Not at all (1)	0.024	0.135	0.164	0.557	0.119
		Frequently (3)	0.010	0.070	0.108	0.572	0.240
	Training	Did not provide enough training (1)	0.050	0.256	0.241	0.415	0.038
		Provided enough training (3)	0.006	0.056	0.109	0.611	0.218
Model 2 (Influencing Executive Management)	Engage Executive Management	Not at all (1)	0.259	0.294	0.198	0.237	0.011
		Frequently (3)	0.016	0.051	0.086	0.612	0.235
	Training	Did not provide enough training (1)	0.065	0.145	0.179	0.542	0.069
		Provided enough training (3)	0.018	0.054	0.090	0.619	0.219
Model 3 (Improving Programs & Services)	Council-Manager	Other (0)	0.003	0.030	0.059	0.564	0.345
		CM (1)	0.006	0.058	0.096	0.621	0.220
	Independence	Reporting to top mgmt (0)	0.007	0.063	0.101	0.631	0.199
		Reporting to a separate branch (1)	0.003	0.034	0.063	0.583	0.317
	Training	Did not provide enough training (1)	0.010	0.099	0.153	0.634	0.104
		Provided enough training (3)	0.002	0.025	0.055	0.604	0.313

Discussion

- The perceived effectiveness in improving government programs and services is likely to be higher:
 - In forms of government other than council-managers'
 - Competition argument
 - When auditors are more independent, and
 - Provided adequate training.

Discussion Cont.

- Engaging each branch is more likely to improve auditors' effectiveness in influencing them, respectively.
- Independent auditors are more likely to influence decisions made by the governing body but not the executive management.

Implications

- Ensure independence.
- Foster collaborative relationships with city managers.
- Engage stakeholders.
- Continue to provide technical training.
- Exercise diligence and recognize the competition dynamics.

Contributions

- Develop and test a theoretical framework of performance auditing effectiveness.
- Inform the practice.
- Strengthen the oversight and performance improvement roles of local government auditors.

Thank you!

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