



Principles of Performance Auditing

Presentation to
WASL Work Group
September 22, 2008

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What is JLARC's Work?

- Fundamentally, we answer questions for the Legislature.
- The reports we issue may have many different titles (reviews, assessments, evaluations, sunset reviews, audits.)
- However, ALL assignments on the work plan are conducted using a performance auditing process.
- Why? Because the most important thing about performance auditing is the process used to answer questions and make conclusions about those answers.

So, What Is a Performance Audit?



- Analysis that answers a question.
- The analysis objectively identifies:

“What Is”

- And attempts to compare this to:

“What Should Be”

Lots of Things Can Be Performance Audits



Yellow Book lists four types of performance audits:

1. Program effectiveness
 - ✓ How well is an agency doing? This can include economy and efficiency audits.
2. Internal control
 - ✓ Does an agency have management controls in place to help ensure their performance?
3. Compliance
 - ✓ Is an agency meeting the letter of the law, regulation, or contract/grant agreement?
4. Prospective analyses
 - ✓ What conclusions can we make about things that may happen in the future, based on evidence about existing practices or policies?



A “Negative” Definition

Performance audits are not projects that:

- Advocate for a policy perspective.
- Assert *personal opinions* about what agencies should do, or *personal opinions* about what programs should achieve.
- Rely on information that is biased, unverified or conjecture (no matter how well informed or respected the source is).

Two Basic Types of Performance Audits



- Process:
 - Look for organizational structures and operating practices that waste time and resources, cause delays and lead to error.
- Accomplishment:
 - Assess input, output and outcome performance in comparison with some ideal to identify opportunities for performance improvement.

Elements of a Performance Audit



- Objectives
- Criteria
- Findings
- Recommendations



“Objectives”: What the Audit is to Accomplish

- Requests for audits may be imprecise.
- It’s our job as auditors to develop precise audit objectives to provide clear direction for planning, fieldwork and reporting.
- Without precisely stated objectives, the risk is that the audit work will not produce the desired results.
- Therefore, it’s important to define the issue, problem or concern that the audit is to examine.

Two Prerequisites to Get to “Findings” and “Recommendations”



1. Must be possible to measure the performance aspect that is the focus of the audit (e.g., efficiency, timeliness, quality.)
2. Must be possible to make comparisons with other entities or another acceptable benchmark.

Comparison is the Name of the Game



- You **CAN** answer an audit question if there are no criteria.
 - ✓ The audit can establish the “condition,” using appropriate and sufficient evidence.
- But, you **CANNOT** have a recommendation without criteria.
 - ✓ Can’t say the “condition” is good, bad, wrong, or right without a “criterion” against which to judge it.

Performance Auditing – Not as Easy as it Sounds



- Performance auditors are primarily in the business of providing new information for accountability and decision-making.
- There are standards and principles for doing performance auditing.
- But the availability of standards does not mean the work is easy to do.
- No cookie-cutter approach ever works.
- Performance auditing involves lots of professional judgment.
- Starting with a well-defined issue or problem makes the audit more useful.



A Performance Audit Story

Let's suppose...

- Legislature asks JLARC to “Determine how Agency X is doing in conducting its soil erosion problem.”
- JLARC excitedly reports back that we have found evidence the agency can perform its work with 10% less staff.
- Response: “Well, that’s great, but we wanted to know whether the agency was successful in reducing soil erosion.”



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