



# Performance Audits Impacts and Implications

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## Overview

- What are Performance Audits?
- What impacts do they have?
- How can management better utilize them?

# What are Performance Audits?

- GAGAS defines them as “engagements that provide assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits may provide objective analysis so that management and those charged with governance and oversight can use the information to improve the program performance, reduce costs, facilitate decision making... and contribute to accountability.”



# What are Performance Audits? (continued)

- For performance audits, GAGAS does not incorporate other standards by reference, but recognizes that auditors may use or may be required to use other professional standards in conjunction with GAGAS.
- **WORKING DEFINITION:**  
Independent and objective assessment and/or evaluation of a program, function, operation, or systems of an entity to:
  - Determine effectiveness (including cost-effective), efficiencies, and compliance
  - Identify opportunities for improvement in controls, process, etc.



# Distinctions of Performance Audits

## Financial vs. Compliance vs. Performance Auditing

	Financial	Compliance	Performance
<b>Objective</b>	Attest to the fairness of financial statements	Determine the adherence to policies, procedures, laws, and regulations	Evaluate and improve the effectiveness, efficiency, and economy of operations
<b>Information primarily for</b>	Legislators Stakeholders	Regulators	Management Audit Committee
<b>Direction of Audit</b>	Looking Back	Looking back	Looking at the present and to the future
<b>Audits based on</b>	Financial reporting standards such as IFRS	Specific laws and regulations; Government standards of business conduct; internal policies;	Mission, vision, and objectives of the organization and it's management
<b>Examples</b>	Annual audits performed by public accountants - may be supported by specific internal audits	Contract audits; business conduct reviews; audits by banking or other regulators	All other audits such as those of departments, processes, information systems and other functions



# Audit Objectives

- Objectives define what the audit is intended to accomplish
  - Objectives are designed to be assessed or evaluated against criteria or standards
- Objectives can be related to:
  - Programs (effectiveness, efficiency, economy)
  - Internal Controls
  - Compliance

# Fundamentals for Effective Public Sector Audits

The Institute of Internal Auditors (IIA) lists several key factors for effective public sector audits (e.g. Performance Audits). These include:

- Independence – the audit function must be independent (or at least objective per Yellow Book) of management.
- Formal Mandate – the audit duty and function must be empowered.
- Unrestricted Access – the scope of the audit and procedures can not be limited or inhibited.
- Sufficient Funding – the procedures and resources must be supported.
- Objective Staff – Auditors must approach audits objectively and without bias or conflict.
- Competent Staff – Staff must be knowledgeable and experienced regarding the audit scope.
- Stakeholder Support – Management and auditees need to be cooperative and integrated into the audit approach.
- Professional Standards – Audits need to comply with standards & criteria.



# A Critical Component: Stakeholder Support

- Auditors need management support and cooperation to conduct procedures.
- However, auditors, while staying independent, should certainly ensure that management is involved in the determination of the audit objectives and criteria. The success of audits is often predetermined by whether management was involved in the process, or feels like a “bystander”.
- This approach almost always enables better reporting and more effective results of audits.





# Collaboration and Culture

Management and the auditors have roles to play in working together and fostering a culture of collaboration and cooperation. Audit effectiveness is inextricably linked to this “symbiotic” relationship.

- What approach would best describe the approach? What is the approach that best fits the organization/entity?
  - ◇ Magnifying glass
  - ◇ Telescope
  
  - ◇ Hunting Dogs
  - ◇ Watch Dogs
  
  - ◇ Policemen
  - ◇ Consultants

*Courtesy of the IIA*



# Internal/Performance Auditing - Process

- ✓ Define Objectives
- ✓ Identify Risks
- ✓ Assess Related Controls

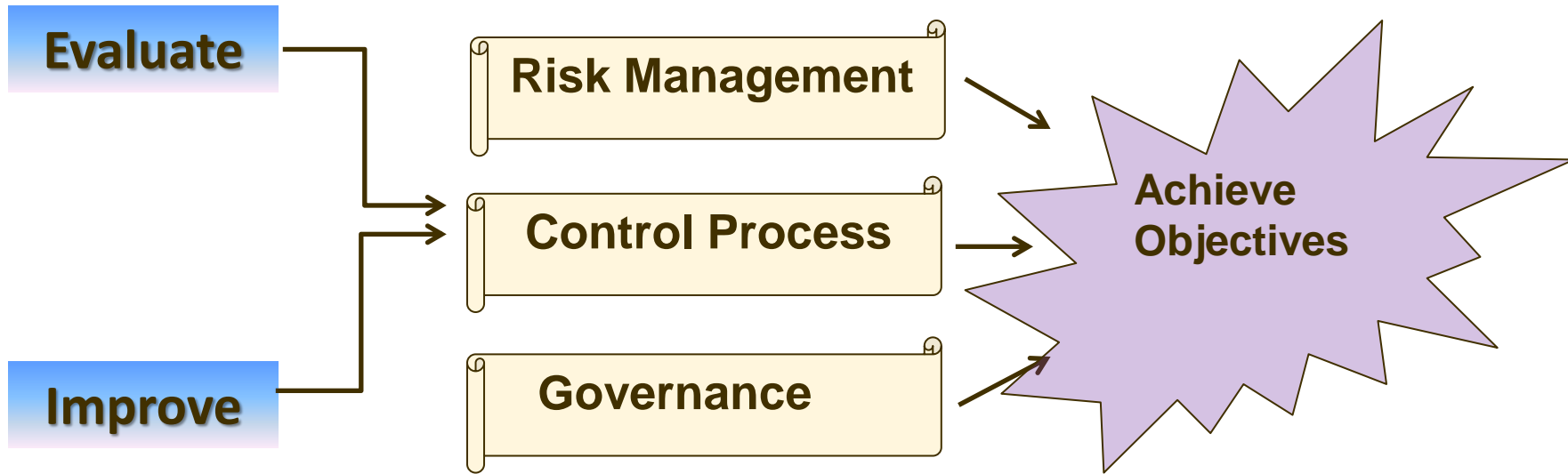


# How the Process Helps

Procedures to:

Effectiveness of:

Help Focus on:



# Performance Audits - Reporting

- Written assertions and representations are not required
- Report formats can vary widely based on the purpose and audience/needs.
- Reports should include at least the following:
  - Description of the audit objectives, criteria, and/or scope
  - The methodology used for addressing/assessing the audit objectives
  - The nature and extent of audit work performed, including the criteria and exceptions or limitations



# References

- [http://www.aicpa.org/Research/Standards/AuditAttest/ASB/Documents/Mtg/1305/2013\\_05\\_ASB\\_Item6.pdf](http://www.aicpa.org/Research/Standards/AuditAttest/ASB/Documents/Mtg/1305/2013_05_ASB_Item6.pdf)
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