

The performance audit is an evaluation of the use of public resources to achieve policy objectives. Therefore the essential characteristics of the performance audit are

- examination of metrics that reflect input/output relationships
- examination of factors that separately or jointly affect inputs
- examination of expected outcomes
- examination of actual outcomes
- examination of processes to convert inputs to outcomes via outputs

# Public Sector Performance Auditing in Developing Countries

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## LITERATURE REVIEW POINTS

### Performance auditing as improvement building blocks

Performance auditing is a systematic, objective assessment of the accomplishments or processes of a government program or activity for the purpose of determining its effectiveness, economy, or efficiency. This determination, along with recommendations for improvement, is reported to managers, ministers, and legislators, who are responsible for enacting the recommendations or ensuring accountability for corrective action. Performance auditing is an important building block with which to improve accountable and responsive governance of public resources.

As government programs continue to grow in magnitude and complexity, public sector auditing has evolved and extended its scope beyond mere financial or compliance audits to the auditing of performance to support policy makers in their oversight role.<sup>1</sup> Performance auditing is a very new development in the history of auditing. Its growth parallels the evolution of politics and public administration from a one-dimensional focus on control of inputs (resources) toward broader attention to accountability for outputs and outcomes. This evolution of auditing represents both a means by which auditors can continue to be relevant and a move toward fulfilling their accountability role in governance.

Stage 2

Sources of need for auditing of performance:

- Growth pressures
- Accountability pressures
- Innovation pressures

Implications of VFM for:

- Strategies:
- Structures: alignment
- Systems: ERP
- Staff
- Skill
- Style
- Shared values

Stage 1

METHODS

ORGANISATION OF THE REPORT

Standards & objectives  
Measures (KPI)  
Controls  
Resources

Constructivist

Agency theory

Throughout its history, auditing has served an **accountability function**. It first developed as a **risk-reduction strategy** for the owner (“principal”) who entrusted assets into the custody of an agent. The agent’s responsibility was to make an accounting back to the principal as to the proper application of the assets. **Because of the risks associated with physical distance or lack of expertise in the relevant activity**, the **principal employed an independent third party** (the auditor) to **attest to the believability of that accounting**. **Performance auditing** is similar in its aims: it involves the examination of the performance of a public organization or program **on behalf of a client—ultimately citizens—**by an independent auditor.

Agent-principal managed over distance to achieve joint accountability

strategic customer

Requirements:  
- inputs  
- process  
- outputs

**This chapter is a practical guide to performance auditing. It focuses on auditing methods and practices that facilitate economy, efficiency, and effectiveness in the delivery of government services**; the implementation of such programs in Sub-Saharan Africa; and the **requirements** to ensure that performance audits can be used by legislatures, civil society, and the managers of the audited organization or program to **improve outcomes**. The **first section** of the chapter **identifies** the objectives of performance audits and **describes** the types of audit findings. The **second section** **outlines** the steps involved in conducting a performance audit. **The third section** **examines** the challenges of institutionalizing a performance audit function in Sub-Saharan African countries.

Elements of a Performance Audit

Performance audits examine the extent to which government programs or activities have achieved **expected performance**. Despite the multiplicity of methods by which various organizations conduct performance audits, most descriptions of this branch of auditing **converge** around the concept of the three E’s—economy, efficiency, and effectiveness. This type of audit examines

- the economy of administrative activities in accordance with sound administrative **principles and practices**, as well as **management policies**;
- the efficiency of utilization of human, financial, and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies; and
- the effectiveness of performance in relation to achievement of the objectives of the audited entity and audit of the **actual impact** of activities compared with the **intended impact**.

**Performance auditing** is based on **decisions** made or **goals** established by the legislature. It may be carried out throughout the whole public sector (Auditing

Standards 1.0.38 and 1.0.40 of the International Organization of Supreme Audit Institutions (INTOSAI).

## HOW PERFORMANCE AUDITS DIFFER FROM FINANCIAL AUDITS

### Performance Audit Objectives, Findings, and Findings Elements

The managing and the auditing proceed along the same lines - reflection

Performance auditing works with the same performance management concepts used by program managers and their principals to plan, monitor, and evaluate how public resources are used to achieve public policy ends. The concepts of inputs, processes, outputs, outcomes, and impact, as well as their interface with the above goals of economy, efficiency, and effectiveness, are common tools for public managers and public performance auditors alike. However, as performance auditing represents an evaluation of public performance management processes, it uses an additional set of concepts that describe its component processes and outputs. Key to this language is the concept of an audit finding and its component elements.

"interface" = mapping

This claim must be carefully evaluated in terms of

- its scope
- tools
- relevance and
- efficacy

what are they?  
Why are they needed?

The structure of performance audit knowledge-building:

- control objective
- audit objective
- expected outcome
- actual outcome
- variance or discrepancy
- evaluation of variance
- remediation

Therefore, there is a focus on defining outcomes.

The fundamental component of a performance audit is the audit finding. An audit finding is made up of standard elements, including criteria, conditions, effects, and causes. The structure of an audit finding is determined by its audit objective (the key query that needs answering) and the model on which the audit is constructed using these elements.

Criteria represent the ideal against which actual performance will be measured. They can include expectations, standards, rules, policies, benchmarks, program goals, or average performance in similar programs or institutions. In designing fieldwork methods, auditors design data collection and analysis procedures to meet the audit objectives and subobjectives. Criteria can be established by benchmarking to comparable programs, eliciting customer expectations or demands, determining the program intent, identifying internally established targets, comparing individual comparable units within the same organization, locating industry or sector standards, comparing to historical trends, identifying optimal or average performance achieved in a trend, comparing working time to actual elapsed time, or comparing an intervention group's performance to that of a control group.

Performance criteria by which the finding can be evaluated

How to set criteria

Conditions set the operational standards by which performance can be regulated.

Conditions are the actual state, as depicted by current performance, actual practices, or circumstances. Identifying condition involves collecting or creating data and information that allow comparison to the criteria. The primary methods for developing evidence of condition are analyzing existing performance data gathered by the auditee, analyzing performance data gathered by an outside organization, and developing an ad hoc performance measurement system. If an ad hoc measure is chosen, care should be taken to control for variables, or the audit results should be qualified.

Give case study examples - too abstract.

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**ATTRIBUTION****Performance criteria**

The *effect* is the difference between the established criteria and the condition(s) or the consequences of the difference. Effect can also represent the measured impact of the condition, where the condition represents a program intervention. To develop evidence of effect, auditors must quantify the difference between the criteria and the condition and identify the impacts on the organization or its customers of not meeting the standard.

The *cause* describes why or how the condition came about, or the reasons why performance is not as expected when problems are found. Although it is tempting to assert cause by focusing on the absence of specific controls, to ensure their analysis of cause is valid, auditors must examine a variety of potential reasons for variances between condition and criteria. Auditors may find insight into causes by identifying and verifying barriers and constraints to achieving standards (inadequate resources, external variables, acts of providence). They should also assess the legal authority, support systems—that is, the clarity of expectations, the timeliness of feedback, empowerment and efforts to improve process—and accountability systems within which staff work. Other factors that should be considered are the qualifications and training needs of staff and critical shortages.

Although performance auditors are frequently tempted to assert that the cause for every deficiency found is an inadequate control system, several potential reasons must be explored. The theoretical framework may be flawed, a direct relation between program processes and outputs and desired outcomes may not exist, program goals may be unrealistic, or inputs or resources may have been inadequate. Intervening or external variables may exist that negate, deflect, or mask the program's effect. These variables may be related to an act of providence that could not be foreseen by program planners, such as a drought that negates the effects of an agricultural support program.

**Types of Audit Findings and Relevant Elements**

The elements of a particular finding vary based on the audit objective. Findings can be descriptive, normative, traditional or causal, or impact (table 11.1). A descriptive finding refers to the condition only. A normative finding involves both criteria and condition. A traditional finding constructs a causal argument involving the criteria, condition, cause, and effect. An impact finding compares the condition with and without the program intervention.

***Program “footprints” and their performance auditing aspects***

Performance auditing is frequently based on decisions made or goals established by the legislature. It may be carried out throughout the public sector.

Conceptual incompatibility

Ambiguous as insert a program or insert factor extraneous to program

broadly defined

Flawed conception  
Unclear relationships between  
- Actions (processes)  
- Outcomes

Lack of resources

Unrealistic goals

**TABLE 11.1** Types and Examples of Audit Findings

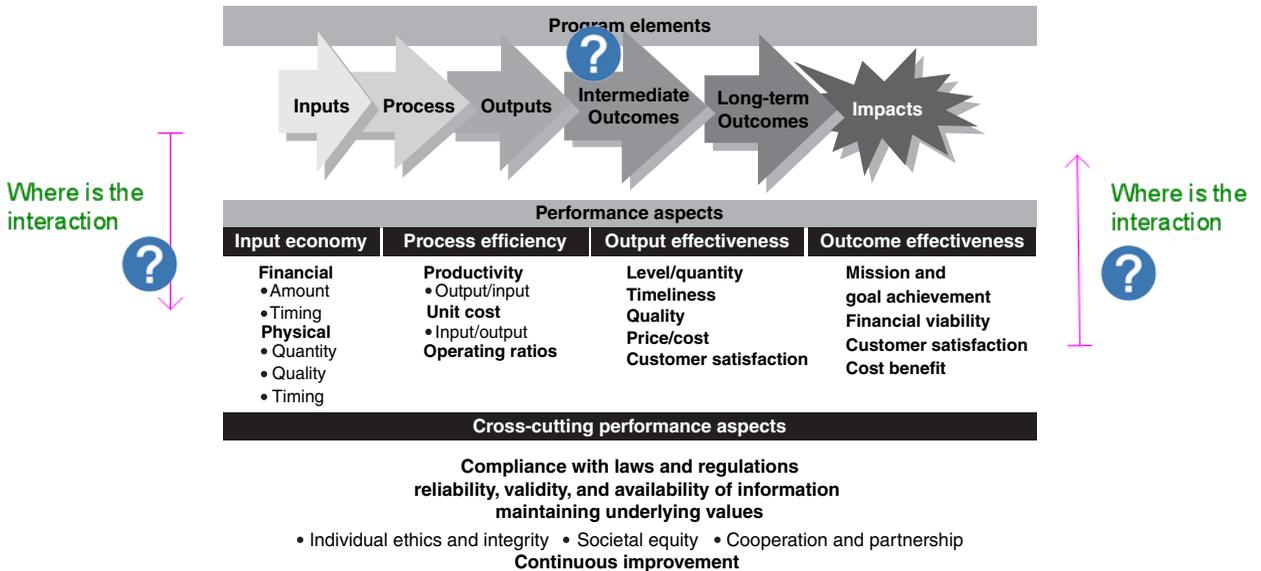
| Type of finding    | Elements   | Sample audit finding  |
|--------------------|--|---|
| Descriptive        | Condition only   | Annual cost to incarcerate a prisoner was \$67,800 in 2005.   |
| Normative          | Criteria and condition   | Annual cost to incarcerate a prisoner was \$67,800 in 2005, compared with \$52,000 at comparable prisons.   |
| Traditional/causal | Criteria, condition, cause, and effect   | Annual cost to incarcerate a prisoner was \$67,800 in 2005. Budget appropriation authorized \$58,000 per prisoner, resulting in a deficit of \$17.8 million. The additional costs were caused primarily by a significant increase in labor and benefit costs following implementation of the May 2005 union contract. |
| Impact             | Condition with cause (intervention) compared with condition without cause (effect) | Recidivism (re-arrest) rates among alcohol-dependent inmates who participated in the alcohol treatment program before release were significantly lower than rates among alcohol-dependent inmates who did not receive the treatment.  |

Source: Raaum and Morgan 2001.

However, whether or not the government has explicitly stated the expectations against which achievements are examined through public instruments such as plans or budget statements has little bearing on the legitimacy of undertaking performance audits. Those who provide government with its authority and resources—for example, the electorate and their representatives in parliament—expect that the authority and resources will be used in accordance with certain values. Those values—economy, efficiency, and so on—are referred to as *performance aspects*.

Performance aspects tie directly to the basic “footprint” of any government program—the program elements. The elements of every government program are the inputs used to support the program, the processes that carry out the program, the outputs produced by the process, and the outcomes. This footprint is represented by a model that characterizes the relations among program elements (figure 11.1). Each element of the program links to a specific aspect of performance that describes the expectations for performance. Specifically,

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Source: Authors.

**FIGURE 11.1** Government Program Elements and Performance Aspects Subject to Audit

governments are expected to obtain and use inputs economically, conduct processes efficiently, and produce effective outputs that result in effective achievement of intended outcomes.

In addition to the aspects of performance that are relevant to a specific program element, there are cross-cutting performance aspects that apply as expectations to every element of the program. These include compliance with laws and regulations; reliability, validity, and availability of information; maintenance of underlying governmental values, such as ethics, integrity, and equity; and continuous improvement.

Because these performance aspects represent the expectations for government performance, they are relevant both to the planning and ongoing monitoring that should be carried out by government managers themselves and to the conduct of performance audits.

### *Examining the economy of inputs*

Inputs are the financial resources (measured in monetary units) and physical resources (such as staff, equipment, and building space) used in a program. The performance that is expected with respect to acquisition of inputs is

called *economy*. *Input economy* describes the expectation that governments minimize the cost of program resources (relative to required levels of resource quality). Methods for measuring input economy include comparison of cost or prices paid for inputs to benchmark costs, such as private sector charges, historical costs, or costs as a ratio, such as the ratio of the audited program's resources to total organizational resources or expenditures. An audit of input economy can focus on economy in the use of financial resources, physical resources, or both.

Auditing economy in the use of financial resources entails determining the extent to which cash expenditures for specific nonmonetary resources, such as staff, facilities, and equipment, were reasonable or minimized relative to the quality needs of the program. Where borrowed funds are used for the program, it may also evaluate the economy of the financing cost. Overhead costs can also be evaluated, by comparing them with costs in similar programs.

Examining economy in using physical resources includes determining, for example, whether space is used optimally (measured as square feet per full-time staff equivalent compared with benchmarks, standards, or comparable operations). Equipment costs can also be evaluated. (Are fleet expenses directly relatable to the program activities? Are equipment features directly relevant to program needs, or has the program "gold-plated" its equipment acquisition?)

### ***Examining the efficiency of processes***

Processes are the systems, steps, tasks, and management decisions involved in providing government services. Processes include not only activities associated with the direct delivery of services (such as solid waste pick-up or police patrol) but also the planning, organizing, monitoring, and decision making associated with the program under audit.

Process efficiency is technically measured as the relation between outputs and inputs. Outputs are the services or products produced by government program. Inputs are the resources expended or consumed. Inputs are measured by such units as person days, person hours, staff time, or full-time staff equivalents. The relation between outputs and inputs is measured by two primary efficiency ratios: unit cost and productivity. It is also measured through the use of surrogates, such as utilization rates or backlogs.

Unit costs express the number of inputs used to produce an output. (How does the cost per client vary across health clinics? Is the local government's clinic cost per client at or below the national health insurance reimbursement rate per client?) Productivity measures the number of units (outputs) produced per unit of input. A productivity audit could seek to determine, for

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example, if there are significant variances across branch offices in the number of passports issued per staff-year. Utilization ratios include measurements such as rates of equipment use, percentage of hospital beds occupied, and recreation center occupancy.

***Evaluating the effectiveness of outputs***

Outputs are the units of service actually provided, such as the number of construction permits issued or the number of students completing a training class. Even a government's internal service functions (such as the accounting function) produce outputs, although they may be provided to or internally consumed by the organization's direct service providers rather than the government's ultimate clients. An output of the payroll function, for example, is the number of payroll checks issued.

Output effectiveness represents the quality of the services or products produced. In addition to the expectation that government programs should obtain inputs economically and conduct processes efficiently, citizens, taxpayers, and parliamentarians also expect governments to produce effective outputs. Expectations for output effectiveness can be established in a variety of forms, including output quantity, quality, and timeliness.

In auditing output quantity performance, the key question is the extent to which the number of units is congruent with demand or need. One method for determining the adequacy of a program's output quantity is to examine backlogs or work in process. Another is to measure outputs as a ratio of demand (requests for service). Output quality is achieved if there are no defects in the units completed and the services are adequate. Quality might be an attribute of the unit of output itself or of the delivery of the output. It can be audited in relation to accuracy (does the construction inspection process accurately identify all critical violations?); reliability (can citizens count on their hospital staying open?); consistency (do safety inspections consistently address key safety conditions?); durability (how does the average pothole failure rate in an area compare with industry standards?); serviceability (what is the average return rate for vehicle repairs?); and appearance (how do bus riders rate the cleanliness of public buses?). Auditors may also choose to measure the cost of quality, by examining the resources spent on correcting failures, controlling quality, and collecting delinquent payments; waste; injury and mortality rates; and warranty expenses, for example.

Output timeliness refers to the speed of work completion and delivery. In the safety and security sector, an important audit objective may be how average police response time compares with other cities.

Auditors can also measure output timeliness in terms of cost of delays, variance from established deadlines, and various dimensions of customer wait times.

### *Evaluating outcome effectiveness*

Outcomes are the results achieved by the program intervention. They often represent the most difficult performance aspect to measure, for both government managers and auditors.

One means of distinguishing the program output from the outcome is by identifying the actor: the output is the product or service created or delivered by the program itself. The outcome represents the change in state or action of the recipient of the program services. For example, the outputs in an education program would be the number of students enrolled or attending classes. The immediate outcome is the number of students graduating (or successfully completing) the program. The longer-term program outcome is the percentage of graduates employed in the field of their degree.

It is sometimes difficult to distinguish between output quality and near-term or intermediate outcomes. The key is to define or map the inputs-processes-outputs-outcomes chain to show what products or services are produced by the program's processes.

Outcome effectiveness measures the quality of outcomes and the extent to which program results are directly related to the program. Characteristics that can be measured for assessing outcome effectiveness are the results of a program or the degree to which the program mission was achieved. For example, key audit questions in the education and integrated justice sectors might be whether a school's tutoring program increased the graduation rate of the target population and what percentage of inmates who received drug treatment were rearrested for drug-related offenses. The performance audit can also examine cost-benefit or cost-outcome relations, such as the total cost for each job training graduate who is still gainfully employed after three years, or financial condition indicators, such as the extent of unfunded benefits in a pension program.

Financial results can also be relevant to outcome effectiveness. In public transport investment, for example, a performance audit may examine the degree to which user charges cover the cost of the system. Key characteristics for measurement are profit, cost recovery, and return on investment.

Customer satisfaction is another method used to ascertain outcome effectiveness. In services that become necessary as a result of external events, such as military, fire, police, hospital emergency, ambulance, and snow removal services, readiness presents another performance dimension that

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can be measured. A common measure is the percentage of services mobilized within a target response time.

Impact, the ultimate measure of a program's outcome effectiveness, is measured as the proportion of the problem that has been reduced as a result of a program. In housing, for example, impact can be measured by determining the extent to which the need for affordable housing has been reduced each year.

### Relation between Audit Objectives, Audit Structure, and Audit Steps

The underlying model for undertaking a performance audit involves first clarifying the objective of the audit (box 11.1). This involves determining whether the performance audit is aimed at auditing the economy of input use, the efficiency of program processes, or the effectiveness of program outputs and outcomes—in other words, the aspects of performance to be examined.

In principle, the audit objective determines what steps need to be followed. For instance, a performance audit objective that requires a descriptive finding as to the efficiency of a specific activity would involve a simplified process of evaluating and establishing the measures to be used, collecting the relevant

#### **BOX 11.1** Does the Drug Abuse Resistance Education (DARE) Program Work?

Drug Abuse Resistance Education (DARE) is a drug abuse prevention program that aims to reduce drug use among school-age children in the United States. The performance audit of the program measured the extent to which it was achieving its goals.

The audit used an experimental design, comparing juvenile arrest rates for youth who participated in the program (the intervention group) with those who did not (the control group). The demographic profiles (ethnicity, income levels, age) of both groups of students were identical. The audit found that students who participated in the program were actually arrested more frequently than the control group, for both drug-related and non-drug-related offenses.

The design of this audit was heavily dependent on the existence of sufficient amounts of reliable data for determining student involvement in the program and identifying their arrest information in the local juvenile correctional system. These conditions are often difficult to meet, unless such comparisons have been planned from the initiation of the government program itself.

*Source:* Location fictionalized from the 1994 audit of the Austin DARE Program, Office of the City Auditor, Austin, Texas.

data, and formulating a finding. In contrast, if the objective is to measure the efficiency of a program and to provide a causal finding involving the criteria, the condition, the cause, and the effect, the performance audit would involve the following steps:

- *Establish the efficiency measures (or indicators) that will be used for the audit.* Auditors need to evaluate the existing measures used by the program itself, construct ad hoc efficiency measures, or both. A key step is critiquing existing measures against standard criteria for good measures and identifying where measures are deficient.
- *Establish the criteria to be used.* Auditors need to establish what ideal will be used to measure process efficiency. Will the audit use the program's own stated ideal or a standard or rule, or will it construct a benchmark by measuring efficiency using the selected measures in other similar institutions or programs? Is the stated goal adequate, or should it be changed?
- *Determine the validity of the efficiency reports produced by the program.* Auditors need to assess the quality of the measure and the quality of the data. Are measures consistent over time? Do they represent the output? Do the data have integrity (are they open to manipulation or collected independently from the function being measured)?
- *Determine whether the achieved efficiency levels meet the established goals or criteria.*
- *Determine what causes the efficiency rates to vary from the criteria.* Auditors must try to determine what is responsible for variances in efficiency from the standard or average.
- *Formulate the performance audit finding and recommend efficiency improvements.* As part of its recommendations, the performance audit can calculate the projected savings to be achieved if the efficiency improvements are implemented.

### Conducting the Performance Audit

Performance auditing is carried out in three phases: planning, fieldwork, and reporting. The methods used to carry out the phases vary widely among auditing organizations around the world.

Performance audits are well suited to being conducted in a team environment, as a diversity of perspectives and experiences can enhance the value of the product. To ensure harmonious functioning, all parties involved in the assignment must understand and accept their roles and responsibilities.

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Most fundamentally, they must agree on and share a basic understanding of the performance audit's objectives.

Throughout the audit, performance auditors will need to communicate actively with members of the audited institution. The auditor's motto in terms of auditee relations should be "no surprises." The audit begins with an "entrance conference," which is used to introduce the audit team to the management staff and key employees of the institution being audited. Following the entrance conference, auditors should brief managers at all levels on a periodic basis: one of the worst mistakes an audit team can make is to assume that the liaison or manager most closely involved with the audit will keep his or her peers and upper management informed about the audit's findings. This rarely, if ever, happens in the real world of audit communication.

**Planning**

Unlike financial audits, performance audits are seldom repeated (box 11.2). Consequently, audit tests and procedures that apply to one audit will not necessarily be relevant or useful in the next audit. For example, the measures for success of a school—such as the completion rate for students entering the program or the ultimate percentage of graduates who become gainfully employed—have no relation to the measures of success for a road construction activity. This variation among the government's programs means that auditors must create a unique audit to evaluate the most significant issues of each program.

Unlike in audits of financial statements, in a performance audit the objective of fieldwork is often developed after the audit begins, based on an assessment of the risks and vulnerabilities associated with the activity being audited. However, in some cases the performance audit is initiated at the request of parliamentarians or ministers. When this is the case, the audit's objective can be established at the outset, based on their specific questions or concerns.

Auditors must ensure that their own managers participate actively and continuously raise questions during the planning phase. They can encourage this participation by submitting a written plan that details the steps, schedule, and resources that will be used to accomplish the five phases of planning: (a) gathering information; (b) conducting a risk assessment; (c) assessing the vulnerabilities to the significant risks of the program; (d) defining/refining the audit objectives; and (e) developing the audit scope, audit methodologies, fieldwork programs, and audit budget/resources. The process of developing an audit that best fits the relevant and most critical issues of the particular

**BOX 11.2** Conducting a Performance Audit of Child Immunization Services at the Local Level

A national law requires all children to be immunized before enrolling in school, and the national budget authorizes funds for conducting immunization programs. The goal of the national immunization program is to eliminate preventable childhood diseases, including measles (rubella), whooping cough (pertussis), tetanus, polio, and diphtheria. At the national level, the National Health Ministry (NHM) conducts awareness marketing aimed at educating parents on the importance of immunization. At the local level, the NHM provides funds for local government immunization services. The NHM sets regulations that prescribe limits on the use of funds: health care providers must use the NHM sliding-fee scale to charge for immunizations based on income ability. The NHM also sets standards for safe handling and appropriate administration of vaccines. Local governments are responsible for monitoring to ensure compliance with regulations.

The NHM allocates funds annually on a formula basis, using census data to calculate a fixed amount for each school-age child in the receiving jurisdiction. The local Health Bureau uses these funds to contract with private sector providers and to supplement the costs of municipal health clinics. For fiscal year 2006, the total allotment from the NHM to the city of B—was \$5.94 million. The city's Health Bureau paid \$1.23 million to local private clinics (as reimbursement for vaccinations), using the remaining \$4.71 million to supplement the operating expenses of city-owned clinics. The Health Bureau reported that 72,366 vaccinations were performed, at a cost of \$82 per vaccination.

*Source:* Authors.

activity or program involves learning about the program, assessing its risks and vulnerabilities, and using the information to develop audit objectives, scope, and methodology. (To illustrate each step of the audit process described below, a fictional case study audit of a local government's immunization program is described in text boxes and tables at relevant points.)

**Step 1: Gathering information**

To begin tailoring the audit to the activity being audited, auditors conduct background research into relevant literature on the type of activity, review the activity's enabling legislation, and familiarize themselves with its plans, budget and expenditure trends, and program processes (table 11.2). All of the auditors' activities are enriched by interviews of relevant program staff and managers, which can provide insights into the culture, context, and nuances of the environment.

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**TABLE 11.2** Pre-audit Information-Gathering Activities and Their Benefits

| Activity   | Benefit   |
|--|---|
| Literature review  | Understanding of issues and risks inherent in activity, accepted management practices, and performance standards      |
| Study of enabling legislation, other rules and regulations   | Insights into authorized scope of activity and its legal environment  |
| Study of activities plans  | Understanding of intended mission and expected results; mapping strategies and processes developed to achieve results |
| Study of budgets and expenditure trends  | Insights into scope of operations and real priorities of activity   |
| Study of policies and procedures, operating manuals, performance reports, activity logs, organization charts | Insights into formal rules of operation and actual processes  |
| Flowcharting to observe how activities are carried out   | Understanding of front-line experiences and barriers to service delivery  |

Source: Authors.

### **Step 2: Assessing risk**

Most performance audits are customized to the nature of the activity or program being audited. This tailoring process begins with assessing risks associated with the activity, in order to focus the audit effort on the most relevant issues. As used in performance auditing, *risks* are events that, if they occurred, would have a negative impact on the organization or its ability to achieve its objectives.

Auditors consider two types of risk: “inherent” and “control” risk. Inherent risks are the events that face the organization by the very nature of its activities. Police officers, for example, face safety risks in engaging in law enforcement activities. Risks of loss or misappropriation of funds are inherent in a cash-handling operation, such as might exist in a health clinic or a bureau that collects traffic fine payments. Control risk (also called *vulnerability*), addressed in the next section, is the risk that remains in the activity after the effects of any internal controls are considered.

Risk assessment involves two steps. The first step is identifying the inherent risks associated with or arising from the type of activity being

audited. Auditors will have collected much of the inherent risk information during the background review process.

The second step is ranking the risks based on their potential impact on the organization. Risk ranking can be done through a variety of methods and at various levels of rigor. Basic risk assessment involves asking the common-sense question, how great will the impact be if this risk event occurs? The impact of the risk event focuses on the activity or organization being audited and can range across any of the standard program performance aspects. What is the impact on the program if it fails to obtain inputs economically? What is the impact if its processes are inefficient? Risk ranking prioritizes the list of inherent risks, ranking each risk as high, medium, or low impact. Whatever factors or means are used, the criteria or reasoning used to rank the risks should be documented in order to ensure that future questions about the decisions made in this crucial phase of the audit can be answered fully.

The product of the risk assessment is a prioritized list of inherent risks, any of which might ultimately become a key focus of the audit objectives. A performance audit of child immunization services, for example, might identify risks that threaten program impact: excessive staff cost for city health clinics, a low rate of children immunized per full-time-equivalent staff, underutilization of government-owned immunization facilities, and prohibitively high fees for immunizations.

### ***Step 3: Assessing vulnerability to risks***

Once the risks are assessed and ranked, the next step is to determine how vulnerable the organization is to each risk. Vulnerability represents the probability that a specific risk will occur, given the control procedures that are in place (or not) to prevent it. Auditors assess vulnerability by evaluating the controls and making judgments about whether the controls are likely to be effective. The control risks should be clearly linked to the inherent risks that exist in the ministry, department, or agency being audited.

The output of the vulnerability assessment (table 11.3) will be an additional dimension incorporated into the original risk assessment ranking results. This dimension is critical in determining the issues to focus on during audit fieldwork. Vulnerability assessment is an essential aid in preventing auditors from wasting valuable audit resources examining high-risk issues that already have well-developed controls in place.

### ***Step 4: Defining/refining the audit objectives***

With the completion of the risk and vulnerability assessments, auditors must determine what focus their fieldwork should take to add the most

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**TABLE 11.3** Vulnerability Assessment of Risks Facing Child Immunization Services

| Risk/controls  | Is control present? | Risk level | Vulnerability level |
|--|---------------------|------------|---------------------|
| <b>Excessive staff costs for city health clinics</b>   |                     |            |                     |
| ■ Human resource management system that identifies appropriate professional grades, establishes competitive market pay rates, tests candidates, and determines placement | No                  |            |                     |
| ■ Separation of duties for establishing position pay grades and hiring decisions   | No                  | 4.5        | High                |
| ■ Objective process for determining pay grade for new hires  | No                  |            |                     |
| <b>Lower-than-benchmark rate of children immunized per full-time-equivalent staff</b>  |                     |            |                     |
| ■ Collection and monitoring of data on clinic productivity   | No                  | 4.0        | High                |
| ■ Evaluation of productivity data during contract renewals   | No                  |            |                     |
| <b>Underutilization of government-owned immunization facilities</b>  |                     |            |                     |
| ■ Use of objective population criteria for location decisions  | No                  |            |                     |
| ■ Local placement of facilities based on availability of public transportation and proximity to concentrations of target population                                      | No                  | 4.0        | High                |
| <b>Prohibitively high fees for immunizations of target population</b>  |                     |            |                     |
| ■ National Health Ministry regulations requiring clinics to charge on sliding-fee scale  | Yes                 |            |                     |
| ■ City Health Bureau monitoring of fees in contract clinics  | No                  | 4.0        | High                |
| ■ Review of fees and charges during contract renewal   | No                  |            |                     |

Source: Authors.

Note: Risk is scored on a scale of 1–5. The highest risk score (5) indicates that a risk event could significantly impair achievement of objectives.

value. Audit objectives focus the fieldwork phase of the audit. Ultimately, the audit report will answer the question posed by the audit objectives.

The objective queries should be phrased in as specific terms as possible, posed in a close-ended rather than open-ended format. That is, rather than

asking, “How is the city’s immunization program performing?” the objective query should ask, “To what extent is the immunization program providing full coverage for the eligible population, as measured by the percentage of local children 2–7 who receive the full series of required vaccinations?”

Objectives should also be framed keeping in mind the realistic scope and methodology of the audit. If, for instance, more than one element of performance is to be reviewed, the objectives should be separated.

The steps for developing audit objectives can be summarized as follows:

- Understand the primary report user.
- Identify the subject, problem, or concern that will be explored.
- Create an “input-process-output-outcome” diagram, and determine if it concerns processes, outputs, or outcomes.
- Decide which aspect or aspects of performance to include in the audit (economy, efficiency, effectiveness).
- Decide which elements of the audit finding to develop, and link them to subobjectives.
- Develop subobjectives as a series of separate questions addressing each finding element required to meet the audit objective.

Before selecting an audit objective for fieldwork, the audit team must evaluate the “auditability” of potential objectives. A variety of constraints can limit the auditors’ ability to answer the question posed by an audit objective in time for the information to be relevant. For example, an audit question may require considerable staff resources or specialized expertise in order to find the answer. Issues to be considered in determining auditability include audit skill, audit power, the availability of evidence and information, the required audit hours, the audit morale, and the time frame within which the results must be provided to the decision maker. Based on the risk and vulnerability assessments, a series of objectives is formulated (table 11.4).

***Step 5: Determining the audit scope, methodology, fieldwork program, and audit budget***

The audit scope defines the depth and coverage of audit work and any limitations to that depth or coverage. Auditors typically determine scope based on a compromise between the ultimate objective of the audit and the time, cost, and expertise constraints. Scope decisions include the time period covered by the audit, the kinds and sources of evidence, the universe (population) that will be examined, the sample size and site selection rationale, and the need for and means of obtaining expert advice. In selecting evidence

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**TABLE 11.4** Performance Objectives Based on Assessed Risks of Child Immunization Program

| Risk  | Objective question   |
|---|--|
| Staff costs for city health clinics are excessive.                                  | Are staff costs in city health clinics comparable to market rates for pay and benefits for similar work, experience, and education?  |
| Rate of children immunized per full-time-equivalent staff is lower than benchmarks. | What is the immunization rate per full-time equivalent in city-owned clinics? How does it compare to local private sector clinics and the national average?  |
| Government-owned immunization facilities are underutilized.                         | To what extent are city immunization clinics used? If utilization is lower than capacity, what is the impact on the clinics' average unit costs? If utilization rates are lower than capacity, what are the causes?  |
| Fees for immunizations are prohibitive for target population.                       | Are all subsidized clinics charging the National Health Ministry sliding-fee scale for immunizations? If so, are the fees correct with respect to the actual income level of the patient's family (that is, are income levels correctly reported)? If not, what is the total amount charged incorrectly to families or inappropriately subsidized to families? |

*Source:* Authors.

types and sources, auditors consider the type and number of records to be collected, the location of operations that will be visited, what new data need to be created, the form of the information to be collected, and the reliability of the data that will be collected.

Methodologies are the data collection and analysis techniques used in performing the audit (table 11.5). For each type of methodology, audit plans (sometimes called “audit programs”) spell out the detailed steps to implement the methodology. Audit methodologies may involve collecting and analyzing data or forms routinely kept by an organization for purposes other than the audit or analyzing information collected by auditors.

**TABLE 11.5** Methodologies for Gathering and Analyzing Data

| Methodologies for gathering data  | Methodologies for analyzing data  |   |
|---|---|---|
|   | Quantitative methods  | Qualitative methods   |
| <ul style="list-style-type: none"> <li>■ Sampling</li> <li>■ Automated data retrieval</li> <li>■ Questionnaires, surveys, focus groups</li> <li>■ Trained observer ratings</li> <li>■ Interviews</li> <li>■ Benchmarking</li> </ul> | <ul style="list-style-type: none"> <li>■ Content analysis</li> <li>■ Ratio analysis</li> <li>■ Trend analysis</li> <li>■ Flowcharting</li> <li>■ Cost-benefit analysis</li> <li>■ Inferential statistics</li> <li>■ Variance/comparative analysis</li> <li>■ Regression</li> <li>■ Interrupted time series</li> </ul> | <ul style="list-style-type: none"> <li>■ Case studies</li> <li>■ Expert judgment</li> <li>■ Document examination</li> <li>■ Case studies</li> </ul> |

Source: Authors.

The audit team considers several variables in choosing the appropriate methodology with which to answer the audit objective questions:

- *What information is needed to answer the objective question?* For example, if the audit objective relates to the unit cost performance of an environmental inspection program, the data required will be the number of outputs (number of inspections) and the inputs (cost data).
- *Where will auditors obtain the information they need?* Before authorizing and initiating an audit methodology, auditors should anticipate any barriers, such as the location, availability, and reliability of information and information sources.
- *How will auditors obtain the information they need?* Once the specific types and sources of data are identified, the data collection method must be determined. If original data must be collected, a data collection instrument should be designed and pretested during the planning phase.
- *What will auditors do with the information once they have it?* Auditors must ascertain the specific data analysis methods they will use to answer the audit objective question.
- *What questions will the information answer?* This critical question helps ensure that the auditors begin with the end in mind. Without it, relevant information that was not previously considered might go ignored, or time might be wasted collecting information that proves to be inadequate to meet the audit objective.

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- *What are the limitations of the audit?* It is important to communicate with clients about the limitations of the work to be done.

An important principle of performance auditing is to select methodologies that will accomplish the audit objectives at the least cost. The methodology should be linked to the fieldwork program by specifying the evidence to be collected and the techniques for analyzing the evidence.

When selecting methodologies, auditors must choose whether to conduct the audit as a measurement-based or process-based audit. A process-based approach entails a review of the control system over performance. This type of audit focuses on the way things are done, the systems that are in place, and the procedures that are used. The measurement-based approach focuses on the achievement of specific aspects of performance. It provides findings that describe actual performance, such as the unit cost to provide a service or the percentage of clients who are satisfied. In an ideal audit world, the most comprehensive and persuasive audit would combine both approaches. However, auditability considerations generally make this too expensive or time consuming to be practical.

Once the audit objectives, scope, and methodology have been selected, the audit team develops an audit fieldwork program. A fieldwork program worksheet should present a clear chain from the audit objectives and sub-objectives through the scope description to the required tasks, the sampling methodologies, the data collection and analysis methodologies, and the proposed data sources, documents, and systems. It should also contain confirmation of supervisory approval, an audit budget and allocation of resources, a time line, and the means to be used to involve external resources and communicate with the audited organization or program. The fieldwork program should be presented to and discussed with the audit organization's management before fieldwork begins, ideally leading to agreement on its main parameters. A sample matrix for making the linkage from the audit objective to the design of the audit structure and the fieldwork is provided for the immunization case study (table 11.6)

### Fieldwork

The fieldwork program sets out the required tasks and maps out processes for each aspect of fieldwork (box 11.3). While the exact steps to be followed are specific to each audit and determined in the fieldwork plan, some data collection considerations are common to all audits. The rigor and security of data collection play an important role in the data's ultimate credibility as

**TABLE 11.6** Finding Elements, Data, and Analysis Methods Needed to Conduct Performance Audit of Child Immunization Program

| Objective question   | Finding element   | Data needed  | Analysis method  |
|--|---|--|--|
| <p><b>Process based</b></p> <p>Does city have system in place to ensure that staff costs in city health clinics are comparable to market rates for pay and benefits for similar work, experience, and education?</p> | <p><i>Criteria:</i> Best-practice human resources procedures and recommended controls for compensation programs</p> <p><i>Condition:</i> Actual city practices</p>  | <ul style="list-style-type: none"> <li>■ Policies and procedures for pay determination</li> <li>■ Actual practices of human resource and hiring managers</li> <li>■ Hiring documents for compliance with pay range thresholds</li> </ul> | <ul style="list-style-type: none"> <li>■ Evaluate controls or processes to determine if they are adequate to ensure comparable pay and benefits.</li> <li>■ Conduct content analysis of policies, hiring forms, and procedures and compare it against actual hiring documents to assess congruence between policy and practice.</li> <li>■ Compare pay rates paid to authorized pay rates for specific positions.</li> </ul> |
| <p><b>Measurement based</b></p> <p>How does actual utilization of immunization clinics compare with capacity? If utilization is under capacity, what is the impact on clinics' average unit costs?</p>               | <p><i>Criteria:</i> Optimum utilization rate of city clinics</p> <p><i>Condition:</i> Actual utilization rates of city clinics</p> <p><i>Effect:</i> Unit cost differential for underutilized clinics</p> | <ul style="list-style-type: none"> <li>■ Number of clinic visits per day, week, month, and year</li> <li>■ Current average service time per clinic visit (sign-in and sign-out logs)</li> <li>■ Available clinic hours</li> </ul>        | <ul style="list-style-type: none"> <li>■ Calculate average number of daily and weekly clinic visits for selected seasonal months in the year.</li> <li>■ Compute average time per visit.</li> <li>■ Multiply number of visits times average time for actual utilization.</li> </ul>  |

(continued)

**TABLE 11.6** (continued)

| Objective question   | Finding element                            | Data needed   | Analysis method  |
|--|--|---|--|
| If utilization rates are lower than capacity, what are the causes? | <i>Cause:</i> Reasons for underutilization | <ul style="list-style-type: none"> <li>■ Clinic staff schedules</li> <li>■ Number of examination rooms</li> </ul> | <ul style="list-style-type: none"> <li>■ Compute optimum number of possible visits based on hours, staffing, and available exam rooms.</li> <li>■ Compare optimum to actual.</li> <li>■ If actual usage is less than capacity, interview staff and customers to determine causes.</li> </ul> |

Source: Authors.

**BOX 11.3** Cost of Child Immunization Services Clinic Staff:  
Site Visit Fieldwork Plan

To determine each position's title and pay rate, auditors will collect current job descriptions and personnel files for every staff member employed during the year. From each job description, they will record the position's primary duties, required types and years of experience, required amount of education, and any licenses or other required certifications.

From each employee's personnel file, auditors will

- collect pay status documents and record the current authorized salary amounts and any supplemental pay (mileage allowance, telephone allowance, and so forth);
- assemble job application and resumé documents, and record the date of hire, reported experience, education, and licenses and certifications at time of hire; date and type of additional education, licenses, or certifications since hire date; and ratings from last three performance appraisals; and
- collect last three months' canceled payroll checks for all staff currently on payroll.

They will then compare actual pay amounts with authorized salary amounts from pay status documents and resolve variances while on site.

*Source:* Authors.

audit evidence. The audit team's composition, characteristics, and training must be adequate to minimize bias and interpretation errors. Ensuring that the sampling strategies are appropriate for the evaluation questions improves credibility. The audit manager can also elect to obtain an opinion on the adequacy of the methodology from an independent party.

When undertaking data analysis and interpretation, it is important to ensure that all competing explanations for effect and cause are considered. Teams should be trained to look for data that will negate their initial findings. Important values that apply to all stages of the fieldwork process are to be careful and precise and to limit the final interpretation and description of the data to the boundaries set by the characteristics of the methods used and data obtained.

Auditors classify the information they collect into four types: testimonial, documentary, analytical, and physical (in order of increasing strength). As the audit team begins to plan the audit procedures, it should consider the types of evidence and information it will be collecting and build in means to ensure that the information will be relevant to the audit objective and sufficient and competent to support expected conclusions. Some of

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these means including paying attention to interviewing strategies (eliminating leading questions, for example); triangulating, by combining data sources, methods, and other factors to examine the question under study; performing consistent analysis (by compiling complete, rigorous, and accurate field notes, for example); weighting evidence; using debriefings and feedback; and carefully documenting audit processes, data, and findings.

**Reporting**

For each audit, the audit team will have determined the means of reporting the audit findings at the beginning of the fieldwork. The decision on reporting medium will be based on the audit organization's relevant auditing standards and the customer's needs—both for timeliness in receiving the audit results and for the ultimate use to which the findings will be put. Audit reports may take the form of a complete report that describes the audit objectives and fully describes the conclusions along with the evidence that supports those conclusions, or they may be provided in the form of a high-level presentation that highlights the objectives and results in a series of headlines. Other, less conventional media for audit reporting include video- or audio-taped presentations by the auditors and one-on-one briefings by the auditors to the requesters of the audit.

The performance audit report is not a prewritten, fill-in-the-blank form. In order for it to be used effectively, the audit report should be clearly understandable to its intended audiences. Just as the audit itself was tailored to the specific issues and vulnerabilities of the activity being audited, the audit report must present the specific conditions along with the particular audit procedures used and results obtained. All audit reports must contain an explanation of the origination or reason for conducting the audit; sufficient background on the audited activity to enable readers to understand its findings; a clear statement of the audit objectives; a description of the scope and methodologies; the audit findings; and conclusions and comments by the responsible managers over the audited activity. However the results of the audit are communicated, auditors should take care to ensure that the results are documented in a form that is retrievable, to ensure that the public and other interested parties have appropriate access, in accordance with the government's transparency laws, and to enable oversight authorities to review and provide ultimate accountability for the findings and audit recommendations.

Government audit reports usually have a variety of audiences, each of which has different needs and levels of preexisting understanding of the

issues presented. Each audience will have a different amount of time available to devote to reading and digesting the audit report's contents. These differences in needs and level of attention to findings can best be served by providing the audit report information at various levels of detail. The primary audiences for audit reports are the managers and decision makers within the audited activity, policy makers over the audited activity, the public (through the media), special interest groups, and civil society organizations. More and more, audit organizations are also providing press releases with their audit reports as a way of helping the media discern the key points and understand the context of the findings.

### ***Communicating audit findings***

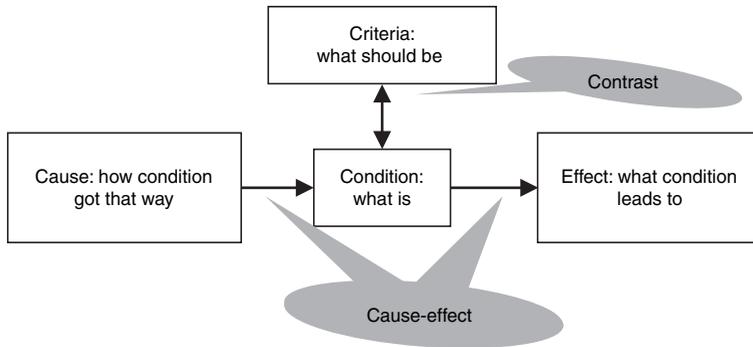
Because every performance audit is unique to the environment and issues it covers, the corresponding audit report must also be unique. This presents challenges to auditors, who must decide what information and how much detail to include in the report, how to organize the information, and which words to choose that will accurately and precisely portray their conclusions without overstating or obscuring the nature of the problems they found.

Key requirements for effective audit report writing involve presenting an understanding of the relations among the elements of the finding so that those relations can be clearly portrayed and organizing information in a manner that corresponds with readers' existing conceptual frameworks. Describing audit findings clearly involves determining and conveying the finding elements in their proper logical relations. The specific elements needed for any single finding will depend on that particular audit objective. However, the logical relation among the elements of a finding is fixed. Understanding that relation is the key to establishing which element is which. This logical relation is best portrayed graphically (figure 11.2).

The audit team must examine and sort its findings before drafting its report, in order to determine the most appropriate organizational structure. Using a logical order and classification in presenting the findings can help readers understand the report. Reports can be organized chronologically (presenting findings in the same order as the steps of the process), in order of importance, or by themes (categorical).

Audit findings need to be both understandable and readily accessible in the report. Toward this end, auditors should organize the material deductively and provide different report elements to meet the differing needs of various audiences. This means that although the audit process itself proceeds inductively (from the collection of detailed data and information to the development of a general rule or conclusion), the report

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Source: Authors.

**FIGURE 11.2** Interaction among Elements of an Audit Finding

should first present the key messages or conclusion and then provide the evidence to support that conclusion. The report also needs to provide headlines and summary information that accurately and clearly convey key messages.

Designing an effective audit report begins with audience analysis. Who will be reading the audit report? What are their preexisting understandings and questions about the report? How much time will they be able to devote to reading the findings? Because different audiences have different needs, questions, and time constraints, audit reports are often segmented into several separate “documents,” each designed to meet specific audience needs and often presenting the same information in different formats. Formats include the following:

- A one-page summary with bulleted messages summarizing the findings to provide for a quick scan.
- Deductive headlines that summarize findings to allow readers to quickly find a section of interest. Longer reports list these headlines in a table of contents to support quick access to particular issues or findings.
- A background section describing processes, environmental characteristics, and program scope and design characteristics, such as budget, staffing, locations, program goals, and strategies.
- The main text, which details the supporting evidence for each conclusion, to allow staff and management of the organization being audited to examine and understand the audit’s messages.
- A list or table of audit recommendations or corrective actions identified, which enables readers to quickly scan the solutions. The auditee’s

concurrence with the recommendation and action plan for implementation can be included here.

- Appendixes, which amplify and provide reference information for the reader's use. These may include detailed methodology descriptions, tables and charts with supporting data, and reference material about the audited activity.

A new technology currently being explored by educators—the podcast (a videotaped message of any length, recorded and available for replay by clicking a Web link)—may become a powerful means for auditors to explain and present their findings at the user's convenience.

### ***Facilitating positive reception by the auditee***

Regardless of the degree of independence accorded to the audit function, auditors must balance their role of watchdog with the goal of improving the program. Both auditors and auditees can benefit from a collaborative approach to the performance audit, by focusing on the improvements that can be made from a thorough and critical evaluation of the activity being audited.

Although the primary role of a government audit is to ensure accountability for meeting citizens' expectations, performance audits also provide an excellent opportunity to set out a road map for change. The audit organization that focuses its attention and report solely on deficiencies and weaknesses will ultimately find that the auditees' natural defensiveness overcomes the desire to improve. The delicacy of balancing between being a watchdog on behalf of the principal and being a constructive agent for change underscores the importance of effective communication skills. Auditors need to be helpful and constructive, even as they maintain their integrity to the government's laws and the highest values of public service.

An effective way to achieve this balance during the final stages of the audit is by including auditees' comments in the body or appendix of the audit report. Other means include recognizing improvements made by auditees during the audit, citing best practices exhibited by the auditee, and highlighting instances of exemplary performance. Citing these achievements in the audit scope produces a more balanced audit report, and it increases the likelihood of achieving the desired outcomes for accountability and improvement.

## **Conducting Performance Audits in Sub-Saharan Africa**

Despite overwhelming challenges, many countries in Sub-Saharan Africa have succeeded in establishing many features of good public governance. In governments that have not documented their operations or established

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tracking mechanisms for recording and monitoring the outputs they produce, both process- and measurement-based performance audits can help establish some of these foundations. Although auditors must maintain their objectivity about the activity being audited, at the end of the project they often share with managers the information and systems they have created to carry out the audit steps. For instance, where flowcharts and process descriptions did not exist, audit documentation has often served as the initial basis for a training or policy manual that helps establish routine practices. In a measurement-based audit for which ad hoc systems were developed to collect performance information, auditors often share copies of their data collection instruments (forms, surveys, and so forth) or reproduce copies of analysis tools used in the audit for managers or staff to adopt.

When performance auditing is first introduced, it is advisable to focus audits on readily measurable indicators, such as the reliability of reported information or the effectiveness of selected processes to achieve specified outputs. Until the audit function has built sufficient credibility and established its expertise in advanced methodologies, it may be overreaching to perform program effectiveness audits on experimental or long-term impact programs (such as research or disease prevention).

The most valuable performance audits that can be conducted in countries in Sub-Saharan Africa, at the local, regional, or national level, include the following:

- Effectiveness of revenue-collection processes, as measured by the percentage of assessed taxes or fees collected and received by the government, the timeliness of debt collections, and the accuracy of reporting by taxpayers
- Reliability of reported performance data (are services provided, clients eligible, program funds spent as reported?)
- Asset management (equipment and infrastructure maintenance, repair, utilization, and replacement)
- Validity of performance measures (do measures indicate real performance, important or relevant elements of performance?)
- Cost of services, such as cost per patient visit in health clinics, cost per household for sanitation and solid waste pick-up, and cost per thousand gallons of water
- Service timeliness, access, equity, and availability
- Staffing ratios compared with benchmarks (teacher/student, nurse/patient, doctor/patient, jailer/prisoner)
- Utilization rates (hospital beds, school desks, fleet vehicles)

- Regulatory enforcement effectiveness, measured by real change in regulated activity or by ability of regulators to assess penalties, enforce corrective actions, and provide meaningful coverage of regulated industry
- Effectiveness of procurement processes (compliance with competitive requirements to ensure least cost, means to ensure the quality of goods or services purchased, and equity in opportunities to all qualified vendors for government purchasing dollars).

Performance audits are capable of providing information and accountability about the provision of services that is not available from the financial and regularity audit alone. However, the decision to implement a performance audit program should be predicated on the existence of certain prerequisites that form the foundation from which to apply accountability to government actions or omissions. These include the rule of law, clearly defined government organizations with well-understood roles and responsibilities, and the existence of policy planning and budgeting structures and basic accounting systems capable of and used in the tracking, categorization, and reporting of economic transactions (Adamolekun 1999; Madavo 2005). In addition, certain caveats should be borne in mind (table 11.7).

Addressing the broader role of audit in public sector governance, a new practice guide by the Institute of Internal Auditors entitled *The Role of Auditing in Public Sector Governance* (Waring and others 2006) cites several key requirements to an effective audit function. These include organizational independence, a legal mandate, unrestricted access to information, sufficient

**TABLE 11.7** Caveats about Conducting a Performance Audit

| Before you...  | You should...   |
|--|---|
| Move to performance auditing   | Have effective financial auditing                           |
| Seek to control outputs  | Control inputs  |
| Install an integrated financial management system                    | Operate a reliable accounting system                        |
| Introduce internal control   | Establish external control                                  |
| Insist that managers efficiently use the resources available to them | Adopt and implement predictable budgets                     |
| Introduce performance or outcome budgeting                           | Foster an environment that supports and demands performance |
| Introduce performance contracts in the public sector                 | Enforce formal contracts in the private sector              |

Source: Adapted from Schick 1998, cited in World Bank 1998.

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funding, competent leadership, competent staff, stakeholder support, and professional audit standards. A few of these elements are present in some countries in Sub-Saharan Africa. Even the most advanced countries around the world will not have all of them fully in place.

Some good examples of strong legal mandates exist in Sub-Saharan Africa. South Africa's 1999 public finance management legislation, directed to the national and provincial governments, includes requirements and strong support for public sector audit. The East and Southern African Association of Accountants-General (ESAAAG) has adapted the Institute of Internal Auditors standards and promulgated public sector internal audit standards that provide a solid foundation for professionalism. Several pieces of supreme audit institution and internal audit legislation include language mandating unrestricted access to data and information to the auditors.

Challenges remain, however, in creating an institutional environment that is conducive to reaping the benefits of a regular performance audit function. These challenges include the needs for competent staff and leadership, stakeholder support, and organizational independence, none of which can be met by mandates or pronouncements.

The barriers to conducting and reaping the benefits of an effective government performance audit function stem from the fundamental challenges facing development in Africa, including corruption, poverty, poor governance, poor infrastructure, and a continuous brain drain to developed countries in Asia, Europe, and the Americas (Madavo 2005). All of these challenges constrain the introduction and effective functioning of a performance audit function in the public sector. Some, such as poverty and infrastructure problems, can be incorporated into the performance audit plan. The tractability of other challenges—primarily corruption and poor governance—depends on the level at which they occur. If the highest levels of government are corrupt or incompetent, it will probably not be possible for the performance auditor to be effective. However, if the audit function enjoys unwavering support at the highest levels of government, it can serve as a powerful tool in rooting out corruption and identifying needed improvements in management practices. This is especially true if the performance auditors combine forces with fraud investigators, forensic accountants, and law enforcement officials.

Support at the highest level is the most important requirement for conducting a performance audit. Second in importance is finding and retaining competent staff. Given that the role of the audit is to evaluate government activities and identify ways to improve them, auditors need to be among the best and brightest in the public service—the very people who

can most easily find well-compensated work anywhere. In addition, as in some developed countries, some African countries have evolved a civil service bureaucracy that can limit audit organizations.

To attract and retain the best and the brightest, governments must be able to provide competitive salaries and conditions of service. (Competitive public service salaries would also help support efforts to reduce corruption, insofar as petty kickbacks or bribes are tied to public servants' inability to survive on their salaries.)

Other challenges to staffing a performance audit function lie in the education and competencies of the candidate pool. Performance auditors should be well educated and capable of continuous learning.

Opportunities for strengthening the knowledge base could be improved and the skills for successful performance auditing improved by establishing performance audit boot camps—one- or two-month on-the-job immersion programs supported by systems or capacity development groups, such as the African Capacity Building Foundation. The boot camp approach would allow participants the opportunity to conduct a narrow-scope performance audit under the tutelage of experienced senior auditors.

Another strategy would be to endorse university programs or establish communities of practice, such as the South African Institute of Internal Auditors (SAIIA). SAIIA's current expertise and service array is oriented toward private sector auditing. However, with the advent of strong, new financial management and audit legislation for all levels of government, South Africa's public sector auditors are becoming more involved with SAIIA and requesting more capacity development assistance.

The East and Southern African regions have also begun to assemble government auditors to discuss their challenges and develop strategies for the way ahead. The primary support group for government auditing outside of South Africa appears to be ESAAAG, whose focus is financial audits. It recently approved an updated internal audit guideline that parallels the Institute of Internal Auditing's *Standards for the Professional Practice of Internal Auditing*. Together with the INTOSAI standards, these standards can provide a general foundation for performance audit training.

Governments may also individually or regionally develop toolkits. Respondents to a survey of central government internal audit functions in five southern African countries (Botswana, Malawi, Namibia, Zambia, and Zimbabwe) reported that their greatest needs were for an up-to-date audit manual, tailored to local needs, that could be used to conduct training within their organizations. Respondents also reported that their libraries were limited and expressed a desire for more access to books and periodicals.

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Information on management practices and other criteria is essential to the credibility and usefulness of the performance audit (Wynne 2001).

The development of an effective performance audit function in Sub-Saharan Africa should be preconditioned by the existence of some basic administrative systems. Where administrative systems are weak and ineffective, sponsors of the performance audit function will need to evaluate whether their resources would be better directed at designing and putting in place effective systems than at attempting to use resources to create audit evidence where none has been created or retained. The large number of backlogged financial audits (in Kenya and Zambia, for example) may be attributable to inadequacies in the accounting systems (Stephens [2004] details some fundamental systems that are needed to build capacity for adopting more advanced practices).

Administrative systems do not need to be functioning optimally to begin developing a performance audit function—if fully integrated and functional administrative systems were a necessary precondition, even many developed countries' governments would be years away from adopting them. Performance audits can be used to evaluate system capacity and help guide priorities for corrective action. Moreover, in environments in which the performance audit staff are proficient at measurement-based auditing, their work has sometimes served as the foundation for nascent monitoring or performance measurement systems.

Reporting and organizational relations should be well designed and clear. Government audit functions are organized in a wide variety of ways in Africa. Many of the national audit functions have evolved from their original colonial histories, taking their initial shapes from either the francophone (public law) or anglophone (Westminster) model.<sup>2</sup> From these initial roots, each country has evolved and hybridized different structural arrangements and scopes of responsibility for the supreme audit institution, as well as for the provincial/regional audit functions and the individual internal audit activities of the ministry, department, or agency. The structures of the supreme audit institution evolving from both models have generally resulted in environments that are supportive of the independence of the audit function. Among the more effective mechanisms is the (anglophone) use of a Public Accounts Committee, drawn from parliamentarians who serve on the audit committee of the supreme audit institution. These committees have proven effective in Botswana, South Africa, and Uganda (Adamolekun 1999).

Other organizational structures have placed internal auditors in the role of a pre-auditor of financial transactions. A survey of government internal audit organizations in Botswana, Malawi, Namibia, Zambia, and Zimbabwe

notes that “internal audit in each country, except for Namibia, spends a significant proportion of its time undertaking pre-audit checks, that is, ensuring that payments are valid, accurate, and proper before the payment is made” (Wynne 2001: 3). Transferring the auditors’ focus from pre-audits of payment transactions to the more complex and demanding performance audit process may involve a sweeping change in culture or at least necessitate reorganizing the allocation of staff resources between the accounting and auditing functions. Moreover, internal audit laws in several countries (Malawi, South Africa, Tanzania) place the internal audit function within the purview of the accounting officer of the ministry, department, or agency, a circumstance that can limit the ability to reallocate resources toward conducting audits of performance.

Auditor independence is the foundation on which the audit’s credibility is built. Achieving independence involves addressing three dimensions: structural, environmental, and personal. Structural independence arises from the organizational placement of the audit function. It is independent when it is appointed by and makes its reports to officials outside the hierarchy of the organization and activities under audit. Environmental independence is ensured when auditors are free to conduct their work without interference, limits, or pressure from the auditee, such as limitations on access to records or employees, auditee control over budget or staffing for engagements, or auditee authority to overrule or modify audit reports. Personal independence means that auditors are free from conflicts of interest or biases that could affect their impartiality, the appearance of impartiality, or how they conduct their work or report results. In countries in Sub-Saharan Africa with strong informal governance systems or tribal influences, the challenge of ensuring personal independence, particularly in local governments, takes on added significance.

Regardless of the country or continent, government auditors face tremendous challenges in speaking the truth to authorities. Supreme audit institutions are not always free to take the strongest critical positions. In countries whose democratic trappings are too new or too superficial to have taken root, the supreme audit institution may find its independence shaky. In cases where the supreme audit institution reports to a weak, submissive parliament or is appointed by and reports directly to the president, audits criticizing the administration can require tremendous personal courage to publish. These difficulties are exacerbated for the internal audit function whose head is appointed by the chief executive of the ministry, department, or agency, especially if the reports must be tabled in parliament or forwarded to a central oversight body, such as the ministry of finance. This concern is

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not as great in countries in which internal auditors' reports are not distributed outside the audited organization's hierarchy, but in these conditions a more dangerous risk exists—that of unresolved performance problems or irregularities. Stories abound of government performance failures in which the internal auditor had been finding and reporting problems internally for years before the conditions became public.

Financial independence poses another challenge to the integrity of performance audit results that must be addressed—worldwide—if auditors are to be capable of reporting sensitive findings about the government's performance to a public audience. At a 2004 INTOSAI symposium of the Organization of Supreme Audit Institutions, participants discussed challenges to independence. Highlighted in the discussion was the need for a budget process and sufficient resources that are outside the control of the organization subject to audit.

The preconditions for conducting performance auditing in Sub-Saharan Africa reflect the same capacity-development challenges faced for improving governance more generally. Accordingly, once fully mapped out, the process for building the appropriate foundations to support performance auditing may facilitate strengthening or developing the full range of governance capacity. In the long run, an effective and well-supported program of performance auditing can contribute to the growth and strengthening of public administration, as well as to the public's faith in the honesty and effective administration of government.

**Notes**

1. Although private sector audit organizations do conduct performance audits, their purpose is to provide their clients with the means to better manage their operations in order to ensure regulatory compliance or improve the return on investment. By contrast, while public sector performance audits offer advice or recommendations on operational improvements, the audit is more likely to concurrently represent a form of accountability for the government entity. "It is true that related new variants of audit have emerged which are used mainly in the private sector, such as operative audits, management audits, quality audits, or environmental audits. The essential difference between these and performance audits as carried out by the supreme audit institution is that these are characteristically internalized forms of corporate control, whereas performance or value-for-money audits are a part of the external control system operating on public organizations" (Girr and others 1999: 19).
2. The francophone model places the supreme audit institution in a court of accounts, which examines (audits) the financial accounts and may also authorize expenditures and assess judgments (including fines) for irregularities. The underlying philosophy of the pure francophone model relies on the assignment of responsibility to public

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servants through carefully defined administrative regulations. Accordingly, the audit role is narrowly focused on procedural and judicial examination of compliance with dictates. While the anglophone model also carries primary responsibility for auditing financial accounts, it is premised on the philosophy that public servants exercise wide latitude and discretion in decision making. The philosophical underpinnings of the anglophone model were initially more amenable to the more comprehensive approach of performance auditing. Despite the differences in philosophical approaches, many courts of accounts have embraced performance auditing.

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