Auditor Roles in Government Performance Management

By Paul D. Epstein

There are many valuable roles auditors can play, and have played, in advancing performance management in state and local government. Local, state, and provincial auditors often play one or more of these five major roles:

1) **Audit Performance or Performance Management Systems.** For example, performance audits give management valuable recommendations for improving program performance, one of the primary goals of performance management. And by auditing a government entity’s performance management system, auditors help management and elected officials understand how to improve the system and use it better to improve decisions, performance, and accountability.

2) **Assess Performance Information.** By auditing reliability and relevance of performance information and how it is communicated, auditors help build confidence in the information so managers, elected officials, and citizens are more likely to make good use of it.

3) **Define or Measure Performance (or Assist Management in Doing So).** Auditors often help management find better measures of performance. And in a number of governments, auditors survey citizens, providing a valuable cross-cutting function by asking about services provided by multiple departments and strengthening the perception of survey objectivity.

4) **Encourage or Assist Management.** Auditors have encouraged management through advocacy or other means (e.g., written guidance) to improve performance management. They have also served as key arm’s-length advisors or partners with management in developing or improving performance management systems that are stronger because of what the auditor brings to the effort.

5) **Assist Elected Officials or Citizens.** Auditors have related to elected officials and citizens concerning performance management in numerous ways. For example, they have often helped elected officials understand the importance of improving performance management so legislators will provide support for system improvements.

These five roles, along with fourteen related practices, are well documented in a 2004 book based on research of auditor practices. The book and updated materials, includ-

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new examples from state and local auditors and articles describing how auditor practices add value to government performance, are available on the Auditor Roles in Government Performance Measurement Web site (www.AuditorRoles.org), which has a wealth of supporting material.

Even though managing performance is a management function, auditors should be involved in improving performance management because they add value. In many governments, audit offices have one of the strongest pools of quantitative skills, performance analysis skills, and knowledge of good system controls and practices. And they can use the knowledge and skills independently, without being distracted by the demands of day-to-day management. Their independence also adds to the credibility of their recommended improvements, which can build broad support for performance management improvement among elected officials and citizens as well as managers.

No one auditor role or set of practices is “better” or “more appropriate” than the others, according to our research of audit organizations across North America. Or, more explicitly, the best role for a government auditor to play at any given time depends on the maturity of the government organization’s performance management system and the willingness and ability of others in the government to improve that system. One of the central findings of our research, especially of audit offices that have at least ten years’ experience playing these roles, is that auditors add more value by changing practices as entities’ systems evolve.

1) AUDIT PERFORMANCE OR PERFORMANCE MANAGEMENT SYSTEMS

Performance auditing is a well-established practice in government, with at least a 40-year history of auditors taking an independent look at government programs and recommending improvements. It continues to be valuable at all levels of government. Performance auditing has an interesting, mutually enhancing relationship with performance management. For example:

- When performance management of an agency or program is weak, a performance audit can identify those weaknesses and recommend, for example, improvements needed in how performance is measured, or in how performance data are used.
- A strong performance management system that produces relevant and reliable performance data can, in turn, make performance auditing more valuable. This is because auditors will not have to spend a lot of costly time and effort on primary data collection just to establish basic performance levels, as agencies will have data for auditors to use. This value can be captured in two ways:
  - Auditors can be more efficient and timely with performance audits. So, for the same overall auditing cost, they can produce more performance audits and complete them sooner, providing more recommendations that agencies can use to improve performance each year.
  - With basic agency performance levels reliably established, auditors can conduct more thorough performance audits, such as deeper evaluations of impact on the population served. These deeper audits can provide management or elected officials with valuable information for improving policies, resource allocation, or program designs.

In addition to auditing a program or agency’s performance, auditors can assess the systems and processes agencies or entire governments use to manage performance. This can be especially valuable in the following circumstances:

- If an agency or government has no real performance management system, or a weak one, the auditor can establish the need for implementing or improving such a system, and articulate the benefits of doing so. This can help elected officials understand the need for investing in performance management systems and help management find ways to use that investment to best effect.
- If a government is implementing a new performance management system or making major changes to an existing system, the auditor can review the implementation progress and recommend improvements to help agencies get up to speed faster with the new systems. Thus, new or improved performance management systems will be more useful, at an earlier date, to both management and legislative decision makers.

2) ASSESS PERFORMANCE INFORMATION

This is also a traditional auditor role in that it involves auditors assessing information, which increases the usefulness of information in the performance management system and helps build
the confidence of managers, elected officials, and citizens in that information. When stakeholders are confident about the information, they are more likely to use it to improve performance and accountability.

Testing the relevance or reliability (or both) of performance information can be especially useful in the early stages of implementing a new or improved performance management system. This can best be done by auditors on a broad scale, at a relatively fast pace (e.g., assessing selected performance measures from all agencies over one to three years), to build management and legislative confidence in performance data. Once all or most agencies have made their measures relevant and established the controls to keep their data reliable, then the audit office can perform this practice less often. Instead of testing a large number of measures each year, auditors might spot check agency data from time to time or simply make it a regular practice to test measures and data whenever they do program performance audits.

Beyond testing data reliability, auditors can play a valuable role making public performance reports more useful. In North America, Canadian provincial auditors have taken the lead on this practice. But state and local auditors in the United States can also use criteria such as those suggested by the Governmental Accounting Standards Board to review reported performance information and recommend how it can be more effectively communicated and made more valuable to intended users.

Auditors have been prominent among the reviewers the Association of Government Accountants (AGA) has used to evaluate state and local public performance reports. When state or local government organizations want to submit their performance reports for such a review, or have an external review of their performance management system conducted, auditors can help the jurisdiction prepare for such a review so they will get more from it.

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3) DEFINE OR MEASURE PERFORMANCE

This role, along with roles 4 and 5, are somewhat non-traditional for auditors because they are stepping out of the traditional audit process. When helping define or measure performance, the key word is help. It is inappropriate for auditors to decide what performance measures management should select or what performance expectations or targets should be set. But often, based on findings in audits or other studies, auditors have found either a lack of performance measurement, performance measures that are not sufficiently relevant, or a lack of a sound basis for setting targets. Sometimes auditors have seen opportunities for more useful comparisons if measures are changed or added, and have recommended that measures used by other jurisdictions be adopted to enable external benchmarking, such as measures in International City/County Management Association’s comparative performance measurement program. In all cases, the auditor’s role is to provide recommendations or advice, and for management and elected officials to decide what the actual measures and targets should be. Some situations where this practice can be especially helpful are:

- When either elected legislators or executive management feel that, for a particular program, service, or agency, current measures or targets do not give them a sufficient basis for decision making or assessing accountability.
- When a program is new — particularly a kind of program without a long history or “industry standard” method of measurement (e.g., transit-oriented development programs) — the auditor can help the agency running the program find a useful, practical way to measure and target the program faster than the agency might on its own.
- When an auditor finds that an agency is not taking advantage of available methods (e.g., practices proven elsewhere) or available bases for comparison that could provide valuable information for improving performance and accountability.
- When an auditor finds that the customers of a service, or members of the public with a particular interest in a program, do not identify with the measures used for the quality, timeliness, effectiveness, or results of that service or program.

All of the cases of this practice we have documented involve auditors conducting or commissioning sur-
veys or focus groups that cut across departmental lines, such as surveys of satisfaction and perceptions that ask about multiple services as well as cross-cutting issues such as livability or business climate. Government Auditing Standards allow auditors to perform such surveys “as an independent third party” without impairing auditor independence.\(^7\) Of course, there are many jurisdictions where management has conducted or commissioned surveys or focus groups. But auditors obtaining data from citizens, interest groups, or service customers is not intrusive on management as other kinds of data collection would be, such as collecting data that normally comes from service employees recording information on daily operations. Situations in which it can be useful for auditors to use this practice to improve performance management include:

- Where elected officials or management request the auditor to collect this kind of data.
- Where management was not collecting this type of data, and the auditor determined that such information would be useful to elected officials and citizens for decision making or accountability.
- Where there is a sense of a disconnect between how one or more agencies are reporting on their performance and how citizens or service customers perceive that performance.
- Where there are signs that the public might not completely trust management to ask unbiased questions about service performance or to provide unbiased reports of results.

### 4) ENCOURAGE OR ASSIST MANAGEMENT

The key words in these practices are “encourage” and “assist.” Developing, designing, implementing, and maintaining performance management systems are clearly management functions. But across the country, at the state and local levels, auditors have played valuable roles in encouraging or assisting management in developing and improving performance management systems and their use. There are many examples of extremely effective, productive working relationships between auditors and managers. That is the case in King County, Washington, where the auditor convenes and facilitates a work group of representatives from executive departments, the judiciary, the county council, and other elected officials. The auditor’s role is spelled out as advisory, but it has been valuable in helping the county develop a consistent approach to strategic planning and performance measurement. The effectiveness of the work group, and positive experiences across branches of government, are reflected in the Performance and Accountability Act the county council passed in July 2008, mandating performance management improvements recommended by the work group.

While it is always useful to have good working relationships between management and auditors concerning performance management, perhaps the best times for these practices are:

- When a jurisdiction is contemplating developing a new performance management system or making major improvements in an existing system, these practices can help bring together the best of the knowledge, skills, and perspectives of auditors and management to produce a better system than either group would produce on its own.
- When new performance management systems or major system improvements are being implemented, auditors can provide valuable training, technical assistance, or advice to help agency managers become productive users of the system sooner than otherwise possible.
- When implementing an existing performance management system is uneven in a jurisdiction, auditors can help executive management assist those agencies that most need to improve how they use the system.
- At any time, auditors can develop and provide guidance materials to encourage or assist managers in making better use of performance management systems.

### 5) ASSIST ELECTED OFFICIALS OR CITIZENS

This is a potentially extensive role in which auditors assist or relate to citizens, non-executive elected officials, or other external stakeholders such as interest groups and the media. Five auditor practices are encompassed in this role, including:

- Advocate to external stakeholders concerning the development, implementation, or improvement of government performance management systems.
- Produce and issue external periodic performance reports.
- Assist external stakeholders in using performance information to make decisions.
Engage citizens in determining performance goals, objectives, or measures.

Assess citizen engagement related to performance management.

Auditors have made valuable contributions to help state and local legislators understand the need for improving performance management and in formulating legislative guidance or mandates to do so. The King County example of the auditor assisting management could also be listed under this role, as the auditor’s office helped draft parts of the Performance and Accountability Act. There are other examples of auditors drafting legislation or policy guidance used by legislators to advance performance management, as well as assisting legislators and citizens in other ways.

For four of these five practices, there are no apparent issues involving auditor independence or auditors playing a management role. However, reporting performance involves issuing public performance reports of a government entity, which is generally considered a management function. And independence questions persist, as auditors cannot audit their own report, especially in view of recently tightened government audit independence standards. (Some auditors check management’s data before reporting it, but they cannot audit their own analyses, interpretations, or communications approaches.) However, auditors have produced some of the best public performance reports, including several that have won certificates of achievement from the AGA. Also, auditors have sometimes stepped in and provided this important public reporting service where management has not, providing important gains in public accountability.

CONCLUSIONS

State and local audit offices across the country have been helping improve performance management by performing the roles and practices described above. Some — such as auditors in the state of Florida and the cities of Austin, Texas; Phoenix, Arizona; and Portland, Oregon — have been doing it for more than 15 years. These and other auditors have changed their mix of practices over time as the performance management in their jurisdictions has changed, so they, as auditors, will add as much value to performance management as they can at any given time. They have demonstrated that there is no one role that auditors should play in performance management, but a variety of roles and practices that auditors can play to add value. All in all, improving performance management is not something that either managers or auditors should do. In the best case, auditors and managers work cooperatively to bring their different perspectives and skills to bear on developing good performance management systems and on consistently improving those systems over time.

Notes

4. For example, see Paul Epstein, “Performance Management Systems Offer High-value Audit Opportunities,” in GAP News, 1st Quarter, 2008.
6. The 2007 edition of Government Audit Standards (the “Yellow Book”) provides specific guidance to auditors on how to maintain independence while providing non-audit services. The Yellow Book specifies some services (e.g., “third-party surveys”) where no “safeguards” are needed to preserve independence. For other non-audit services, such as the auditor serving in an advisory capacity to management, Yellow Book safeguards represent good practice for any collaborative relationship. See “Organizational Independence When Performing Nonaudit Services” in Government Auditing Standards, (Washington, DC: U.S. Government Accountability Office, 2007), paragraphs 3.20–3.30, and Appendix I paragraphs A3.02–A3.03.
8. We have not identified auditors assessing citizen engagement that directly relates to performance management, but we have documented auditors assessing engagement for other purposes. We see this as a potential future practice, because if citizen engagement in performance management becomes more prevalent, it will be valuable for an independent auditor to assess and recommend improvements in the effectiveness and representativeness of that engagement.
9. Among currently listed 2007 AGA Certificate of Achievement winners (at http://agacigm.org/performance/sea/), the Palo Alto, California; Portland, Oregon; and Prince William County, Virginia, reports were prepared by auditors. Other auditors’ reports have won this award in previous years.
10. For case histories of these audit offices performing these practices over time, see Epstein, Grifel, and Morgan, pp. 20–23.

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