Performance audits and the three Es

MODULE 5 | 5.5.1 | STUDENT COMPANION

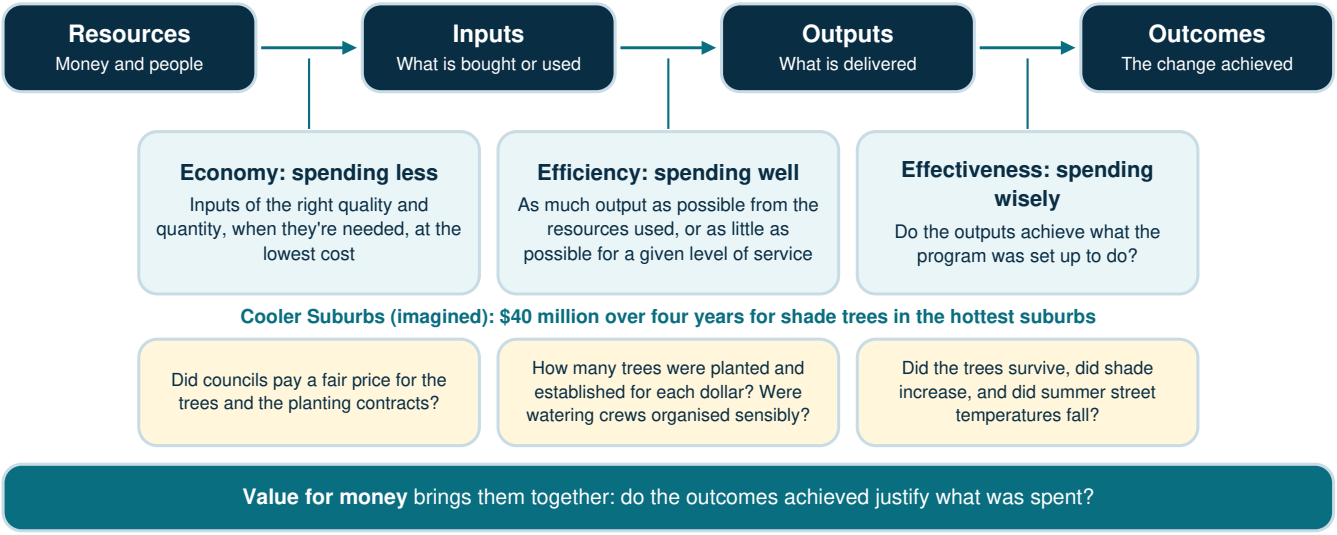
A **performance audit** asks whether public money is being well spent. In Australia it is carried out mainly by **auditors-general**, who report to parliament and never judge the merits of a policy. **Economy** concerns the cost of inputs, **efficiency** the link between inputs and outputs, and **effectiveness** whether outputs achieve the intended outcomes. **Indicators** measure each, but only mean something against a reference point. Performance audits differ from financial statement audits in their subject matter, criteria, evidence and reports.

Who carries out performance audits

Parliaments give governments money to carry out their policies, and departments and agencies do the work, so parliament needs independent assurance about how well it is done. In Australia that comes from the Auditor-General of each jurisdiction: the Auditor-General for Australia, supported by the Australian National Audit Office under the Auditor-General Act 1997, and an Auditor-General in each state and territory, each reporting to its own parliament. In the private sector, internal auditors and consulting firms do similar work, sometimes called an operational audit.

The boundary. The auditor never judges whether a policy is the right one; that is for parliament and voters. It examines how well the policy is being put into practice.

The three Es along the chain



The Australian standard on performance engagements (ASAE 3500) describes all three as **performance principles**, alongside others such as ethics. **Only the effectiveness question tells you whether the money did any good:** a fair price and plenty of trees per dollar mean little if the shade never arrives.

Performance indicators for Cooler Suburbs

Input Measures resources	Dollars spent, contractor hours, the number of trees bought
Output Measures what was delivered	Trees planted, streets covered
Efficiency Relates inputs to outputs	Cost per tree planted, or better still, cost per tree still alive after two years
Outcome Measures the change sought	Growth in tree canopy over the target suburbs, measured from aerial images; the fall in summer surface temperatures
Quality and timeliness Sit alongside the others	Share of trees planted in the right season

Compare with a reference point
A target, the program's earlier results, or a similar program elsewhere

Outcomes take time
And are affected by things the program can't control, such as a run of hot, dry summers

Read indicators with care. Compare each with a reference point. Outcomes take years and are pushed around by outside factors, so look at trends and corroborate them.

Can a program be efficient and still fail?

Yes. Trees planted cheaply in midsummer with no watering plan look efficient on the output figures, but if half die within a year, the money spent on them is largely wasted. That is why auditors push past outputs to outcomes wherever they can.

Performance audit and financial statement audit

	Performance audit	Financial statement audit
Subject matter	An activity or program: is public money being well spent?	A set of financial statements: are the numbers right?
Criteria	Often selected or developed by the auditor from legislation, government rules, the program's objectives or better practice, and agreed with the agency	A ready-made framework: the accounting standards
Evidence	Often persuasive rather than conclusive, from many sources: files, data, interviews, surveys and site visits	Mainly the entity's records, documents and confirmations, gathered for each assertion
Report	Long and detailed: findings, conclusions and recommendations; Commonwealth reports tabled in parliament include the agency's comments	A standard-form opinion on the financial statements
Engagement	Usually direct: the auditor evaluates the activity itself. If the agency reports on its own performance, that attestation engagement falls under the umbrella standard (ASAE 3000)	Attestation: management prepares the statements, and the auditor reports on them

Standards. The revised ASAE 3500 covers direct engagements; where the agency reports on its own performance and the auditor concludes on that report, the engagement falls under the umbrella standard, ASAE 3000. At the Commonwealth level, the Auditor-General's own auditing standards build on the performance engagement standard.

Case note: the Community Sport Infrastructure audit

On 15 January 2020 the Australian National Audit Office tabled its audit of a $100 million Commonwealth program of grants for community sport facilities, covering 684 projects, run by Sport Australia, with the Minister for Sport approving the grants. It found that the funding decisions were not informed by an appropriate assessment process and sound advice. The minister's office had run its own separate assessment; 61% of the approved projects had scored below the agency's merit cut-off; and there was evidence that grants had favoured electorates the government had targeted before the 2019 election. The legal authority the minister relied on to approve the grants was not evident. After weeks of public debate, the minister resigned from the ministry on 2 February 2020, following a separate review that found a breach of ministerial standards, and on 5 February the Senate set up a select committee to inquire into the grants. **The lesson:** how public money is allocated, not just how much is spent, is a central question of effectiveness and accountability.

Source: ANAO Report No. 23 2019-20 (January 2020); Senate Select Committee on Administration of Sports Grants (2020).

Practice questions

MODULE 5 | 5.5.1 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 - Splash Ready's indicators

Splash Ready (imagined) is a state program that pays accredited swim schools to give primary school children ten free lessons. Its aim is that every child finishing primary school can swim 50 metres and stay afloat for two minutes (the state's water safety benchmark), with places offered first in suburbs where few children have had lessons. Classify each indicator and link it to one of the three Es.

Indicator	Input, output, efficiency or outcome?	Economy, efficiency or effectiveness?
(a) Number of lessons delivered		
(b) Cost per child who completed the course		
(c) Total funding paid to swim schools		
(d) Share of children who couldn't swim at the start and met the benchmark by the end		
(e) Average fee paid per lesson, compared with the swim schools' usual price		
(f) Number of children who completed all ten lessons		
(g) Average number of children per instructor in each class		
(h) Share of children finishing primary school who meet the benchmark, compared with before the program		

Question 2 - How is Splash Ready performing?

Here are Splash Ready's first-year results. Assess the program's economy, efficiency and effectiveness, and say what further evidence you would want.

Measure	Target	Year 1 result
Funding paid to swim schools	$12.0 million	$11.4 million
Average fee per lesson (the swim schools' usual price is $24)	$21.00	$19.50
Children enrolled	60,000	60,000
Children completing all ten lessons	51,000 (85%)	38,000 (63%)
Cost per child completing the course	$235	$300
Average children per instructor in each class	5	7
Non-swimmers meeting the benchmark at the end of the course	75%	58%
Places taken up in the priority suburbs	At least 40%	18%

Question 3 - Which audit would answer it?

Members of an imagined state parliament raise four concerns.

Concern	Financial statement audit or performance audit? Why?
(a) Has the state housing authority recorded all the rent its tenants owed at year end?	
(b) Is the free trade-training program actually helping graduates find jobs in the trades the state is short of?	
(c) Did the arts department pay too much for its new collection storage building, and manage the contract well?	
(d) Is the land held by the state's development agency shown at the right value in its financial statements?	

Worked answers

MODULE 5 | 5.5.1 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1 - Splash Ready's indicators

Indicator	Type	Links to
(a) Lessons delivered	Output	Efficiency (the output side); says nothing yet about results
(b) Cost per child completing	Efficiency	Efficiency
(c) Total funding paid	Input	Economy
(d) Non-swimmers reaching the benchmark	Outcome	Effectiveness
(e) Fee per lesson against the usual price	Input	Economy: the price paid for each input
(f) Children completing all lessons	Output	Efficiency (the output side)
(g) Children per instructor	Efficiency	Efficiency, though it also bears on quality and safety
(h) Benchmark rate at the end of primary school, against before	Outcome	Effectiveness: the program's real aim, best judged over several years

Question 2 - Splash Ready's first year (sample answer)

- **Economy: good on price.** Lessons cost $19.50 against a $21 target and a usual price of $24, and spending was $0.6 million under budget. But classes averaged 7 children per instructor against 5, so some of the saving may have come from lower quality.
- **Efficiency: weak.** Only 63% of children finished the course, so the cost per child completing was $300 against $235, about 28% higher. Money spent on children who dropped out bought little.
- **Effectiveness: weak.** Only 58% of non-swimmers met the benchmark, against 75%, and only 18% of places went to the priority suburbs, against at least 40%, so the program is missing many of the children it was meant for.
- **Overall:** economical, but not yet efficient or effective.
- **Further evidence:** why children dropped out (surveys of parents; lesson times, places and transport); who tests the benchmark, and an independent check of a sample of results; whether bigger classes produced worse results, swim school by swim school; why priority suburbs took up so few places (how enrolment works, access to pools); a baseline and comparison with children outside the program; and benchmark rates at the end of primary school over several years.

Question 3 - Which audit would answer it?

Concern	Answer
(a) Rent owed	**Financial statement audit.** Whether all rent receivable is recorded is a question about the completeness and accuracy of amounts in the statements.
(b) Trade-training jobs	**Performance audit.** It asks whether the program achieves its outcome, which is effectiveness. A financial statement audit would only confirm what was spent.
(c) Storage building	**Performance audit.** Paying a fair price is economy, and contract management is a management system. The statements would show the cost, not whether it was too much.
(d) Land values	**Financial statement audit.** Valuation of an asset in the statements is an assertion the auditor's opinion covers.

The pattern: questions about whether the numbers are right belong to the financial statement audit; questions about whether money was well spent belong to the performance audit.