Conducting a performance audit

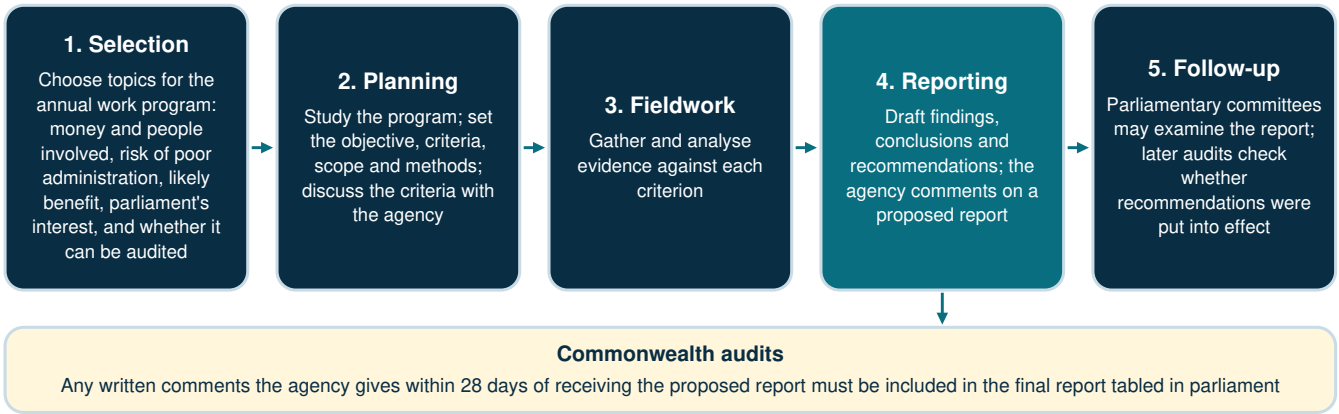
MODULE 5 | 5.5.2 | STUDENT COMPANION

A **performance audit** has the elements of any assurance engagement, but its mandate comes from **legislation** and its report is **tabled in parliament**. It runs through five stages: **selection, planning, fieldwork, reporting and follow-up**. Criteria may be established or developed, but must be relevant, complete, reliable, neutral and understandable, and are best agreed with the agency. Fieldwork looks at the **management systems** behind performance, and findings explain the gap, its cause and what should change.

The elements of a performance audit

Element	In a performance audit
Intended users	Parliament and, through it, the public
Responsible party	The head of the agency that runs the activity
Practitioner	The Auditor-General, whose mandate comes from legislation rather than an engagement letter: the agency can't refuse the audit or narrow its scope, and independence doesn't depend on fees the agency pays
Subject matter	The activity or program
Criteria	The benchmarks of good performance it is measured against
Result	A report tabled in parliament

The five stages of a performance audit



The mandate comes from legislation, so the agency can't refuse the audit or narrow its scope

Reporting and follow-up at the Commonwealth level. Under section 19 of the Auditor-General Act 1997 the agency receives a proposed report, and any written comments it gives within 28 days must be included in the final report tabled in parliament. Parliament's Joint Committee of Public Accounts and Audit must then examine every Auditor-General report, and it chooses some for a closer inquiry. Each state and territory's legislation sets its own rules.

Cooler Suburbs: objective, criteria and evidence

Selected two years in: large, highly visible, and early reports suggest many trees have died

Audit objective
Is the department administering Cooler Suburbs effectively to increase shade in the suburbs most at risk from heat?

Criterion 1: designed to target	Criterion 2: assessed and paid properly	Criterion 3: monitored and reported
Was the program designed to target the hottest and most vulnerable suburbs, with clear objectives and measures?	Were grants assessed and paid in line with the guidelines?	Does the department monitor and report on tree survival and shade?
Evidence Program guidelines; the department's heat vulnerability mapping; its funding decisions	**Evidence** A sample of grant files; assessment scores; payment records	**Evidence** Council progress reports; survival counts from site visits; aerial canopy data; the department's annual report

Breaking the objective into a few high-level criteria, each with the evidence that will test it, keeps the fieldwork focused and makes the eventual conclusion easy to follow.

Where criteria come from, and the tests they must pass

Established criteria
Legislation; government rules for grants and procurement; the program's own guidelines

Developed by the auditor
From better practice guides, expert advice or the results of similar programs; the auditor explains why they're suitable

Either way, criteria must be:

Relevant	to the audit objective
Complete	enough to cover what matters
Reliable	different auditors would reach similar conclusions
Neutral	not biased
Understandable	to parliament and the public

Agree them with the agency during planning, so the findings are hard to dispute when they come

Fieldwork: the systems behind performance

- **Management systems:** governance and oversight; planning and risk management; selecting and paying grant recipients; contract management; the performance information the agency collects and reports; and how it uses that information to decide. Weaknesses here usually explain poor performance.
- **Techniques:** examining files and documents, interviewing staff and stakeholders, analysing data, running surveys, visiting sites, comparing results with benchmarks, and drawing on experts, such as an arborist for Cooler Suburbs.
- **Corroboration:** evidence is often persuasive rather than conclusive, so a finding should rest on more than one source.

What the Cooler Suburbs team found

Finding	Why it happened	Recommendation
35% of the funding went to suburbs that weren't on the department's own heat vulnerability list	Grants were awarded first come, first served	Target funding using the heat vulnerability list
About 40% of the trees planted in the first year have died, mostly where councils had no watering contract	The guidelines never required watering plans	Require a two-year watering and maintenance plan before a grant is paid
Councils report how many trees they plant, but nobody measures how many survive	The guidelines never required survival reporting, and staff only checked that invoices matched planting numbers	Make councils report survival and canopy growth, not just planting

If the agency disagrees

The auditor must consider the agency's comments carefully and, if they bring new evidence, re-examine the finding. But if the evidence still supports it, the finding stays, and the agency's disagreement is published alongside it for parliament and the public to judge. That independence, protected by legislation, is what gives a performance audit its authority.

Practice questions

MODULE 5 | 5.5.2 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 - An objective and criteria for Kellerton

The City of Kellerton (imagined) spends about $2.1 million a year on a graffiti removal service run by a contractor. The contract requires offensive graffiti to be removed within 24 hours of a report and other graffiti within five working days, on council property and, with the owner's consent, on private property visible from the street. Residents report graffiti through the council's app or call centre, which creates a work order; the contractor marks each order complete with a photo and is paid per square metre removed. Complaints have risen for two years running, and the state's Auditor-General has chosen the service for a performance audit. Write an audit objective and three high-level criteria.

Question 2 - Gathering the evidence

For each of your three criteria, choose the best evidence-gathering methods and explain why.

Your criterion	Best evidence-gathering methods	Why these methods?
1.		
2.		
3.		

Question 3 - The council disagrees

The draft report on Kellerton includes this finding: **'The council does not effectively monitor its contractor. In a sample of 120 reports of offensive graffiti, 37 (31%) were not removed within 24 hours, and the council pays invoices without checking them against completed work orders.'** The council's chief executive replies: **'We disagree. The contractor's monthly reports show 96% of offensive graffiti removed within 24 hours. Your sample included the fortnight after the January storms, when we redirected the crews to storm clean-up. And our coordinator approves every invoice.'** Explain how the auditor should deal with this response.

Worked answers

MODULE 5 | 5.5.2 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1 - Kellerton's graffiti service (sample answer)

Objective: to assess whether the City of Kellerton is managing its graffiti removal service effectively, so that graffiti is removed within the required times at a reasonable cost.

- **Criterion 1 - the service is well designed:** clear service standards, payment terms and performance reporting in the contract, and a contract awarded through a sound process at a competitive price.
- **Criterion 2 - the council monitors the contractor effectively:** reliable data on removal times, invoices checked against completed work, and action taken on poor performance.
- **Criterion 3 - the service achieves its intended results, and the council reports them:** removal times met, repeat graffiti at hotspots falling, and residents' complaints falling.

Question 2 - Gathering the evidence (suggested)

Criterion	Methods	Why
1. Well designed	Examine the contract, the tender evaluation and the service standards; compare rates per square metre with other councils; interview the contract manager	Documents are direct evidence of design; benchmarks test whether the price is fair
2. Monitored effectively	Analyse the council's own work-order data for every report (time reported against time completed); match a sample of invoices to work orders, photos and measured areas; reinspect a sample of sites	The council's system records are independent of the contractor; whole-population analysis beats a small sample; site visits corroborate the photos
3. Achieving results	Analyse trends in reports, repeat sites and complaints; survey residents; compare with targets and other councils; visit hotspots	Outcomes need several sources, because each one alone is weak evidence

Question 3 - Dealing with the council's response (sample answer)

- **Consider it properly.** The council is entitled to comment, and new evidence must be weighed. The test is what the evidence shows, not whether the council agrees.
- **The 96% figure.** The contractor's own reports are less reliable than the council's system records. Ask for the data behind them and reconcile the two; they may measure from a different starting point, such as dispatch rather than the resident's report.
- **The storm fortnight.** Rerun the analysis without those two weeks, or over the whole year's work orders. If the late removals cluster in that fortnight, revise the finding and explain the redirection; if the rate is still well above target, the finding stands, with the context noted.
- **Invoice approval.** Find out what the coordinator actually checks. If approval doesn't involve matching invoices to completed work orders, the finding stands; if it does, review the evidence and correct the report.
- **Report.** Keep the finding as far as the evidence supports it, word it fairly, and publish the council's response alongside it, as audit legislation usually provides. Document how the response was considered.