

What are performance audits?

Performance audits are independent reviews of government funded organizations. They assess whether organizations are undertaking their functions efficiently, effectively and economically. These are often referred to as the three E's.

- **Effectiveness:** This relates to the outcomes or results of a program or activity. A performance audit will compare the planned outcomes with actual outcomes. An example could be where disease rates have fallen as a result of healthcare.
- **Efficiency:** This generally refers to the best way of doing things, but with regard to acceptable quality. It is concerned with the relationship between goods and services produced (outputs) and the resources used to produce them (inputs). That is, getting the most from available resources. An example could be where waiting times for emergency care at hospitals have reduced over time.
- **Economy:** This generally refers to the cheapest way of doing things, but with regard to acceptable quality. It is concerned with minimizing the cost of resources used (eg people, materials, equipment). An example could be where healthcare supplies or services are purchased at the best possible price.

Performance audits may review one or all of the three E's. They can also review a government program, all or part of a government organization, or review an issue that affects the whole public sector. If necessary, performance audits make recommendations for improvements.

Performance audits are important because they seek to improve the accountability and performance of government organizations so that the community receives value for money from government services.

What is the difference between a performance audit and a financial audit?

Financial audits seek to express an independent opinion on the truth and fairness of an organization's financial accounts. They check compliance with relevant accounting standards. Performance audits do not examine an organization's financial accounts. Instead they seek to express an opinion on how economically, efficiently or effectively an organization undertakes its functions. They aim to add value and improve the performance of an organization.

How are performance audits undertaken?

Performance audits have three key phases: planning, fieldwork and reporting.

- **Planning:** During this phase the performance audit team develops the audit objectives, criteria and plans the audit fieldwork. Audit criteria are standards of performance against which an organization or program is assessed. Criteria may be based on best practice, international standards, government targets, procedures or guidelines.
- **Fieldwork:** During this phase the performance audit team will collect information relevant to each audit criterion. This generally involves interviewing people within the organization, undertaking surveys, and reviewing documents and data.
- **Reporting:** At the end of fieldwork we will meet with the organization's management team to discuss the audit's findings. Following this we will prepare a draft performance audit report which we will also discuss with management to check that facts presented in the report are accurate and that any recommendations are practical and appropriate. A final report is then provided to the head of the organization and to the government.

What Governs Performance Audits?

The rules for conducting Performance Audits are contained in GAGAS: Generally Accepted Government Auditing Standard, also known as the Yellow Book. www.gao.gov/yellowbook/overview

7.30 Language.

Under Ed Code section 15286, all audits are to be conducted in accordance with GAGAS. In order to be in compliance with GAGAS, the auditor must include a statement under GAGAS Section 7.30 that says whether they followed the standard or not. Below is the language.

Reporting Auditors' Compliance with GAGAS:

7.30. When auditors comply with all applicable GAGAS requirements, they should use the following language, which represents an unmodified GAGAS compliance statement, in the audit report to indicate that they performed the audit in accordance with GAGAS.[Footnote 169]

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

7.31. When auditors do not comply with all applicable GAGAS requirements, they should include a modified GAGAS compliance statement in the audit report. For performance audits, auditors should use a statement that includes either (1) the language in 7.30, modified to indicate the requirements that were not followed or (2) language that the auditor did not follow GAGAS.[Footnote 170]

Failure to include the unmodified Section 7.30 statement thus means that the audit itself is not in compliance with GAGAS, and an audit that is not in compliance with GAGAS is not in compliance with state law under Ed Code section 15286.