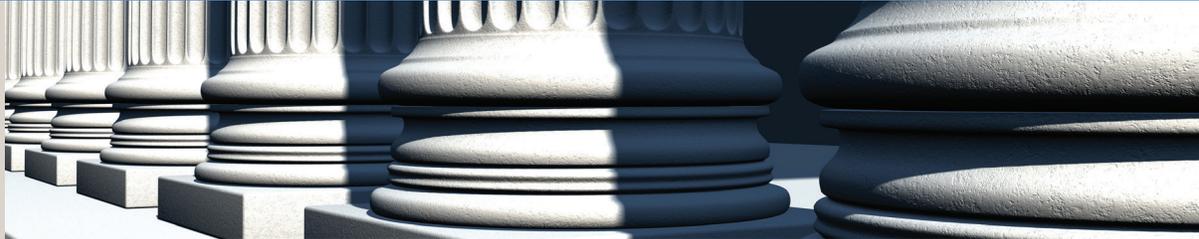




ALGA

Association of Local Government Auditors

Performance Measures for Audit Organizations



ALGA's Mission

ALGA is a professional organization committed to supporting and improving local government auditing through advocacy, collaboration, education, and training, while upholding and promoting the highest standards of professional ethics.

ALGA Member Services



449 Lewis Hargett Circle
Suite 290
Lexington, KY 40503



(859) 276-0686



www.algaonline.org

More Information

This document was produced by ALGA's Advocacy Committee. For more information or to contact committee members, go to algaonline.org > Committees.

Why Are Performance Measures Important?

As auditors, we evaluate the performance of governmental departments and often recommend they establish performance measures to improve management oversight and operations. It also makes sense for auditors to establish and use performance measures to manage and report the results of their work. Audit organizations should be held accountable for their performance. Establishing, monitoring, and reporting performance can enhance credibility by demonstrating the extent to which we are meeting our goals and providing value to the government entities we serve.

What Should Be Considered?

Audit organizations should choose measures from this list or other sources to meet their needs as well as the needs of their oversight body (audit committee, elected officials, senior management), and the public. There is no set number of performance measures audit organizations should use – one is likely not enough to provide meaningful performance information and too many could result in information overload – but organizations should strive for a group of measures that provides the most relevant picture of work and value. Performance measures for audit organizations can cover a broad range of quantitative and qualitative areas. The following are examples of measures commonly used by audit organizations as well as some ALGA collects in its bi-annual benchmarking survey.

SELECTED AUDIT ORGANIZATION PERFORMANCE MEASURES

Quality

- Percent of Staff with Professional Certifications and/or Advanced Degrees
- Percent of Staff Meeting Continuing Professional Education Requirements and/or Average Number of Continuing Professional Education Hours per Audit Staff
- Results of External Peer Review

Outcome

- Estimated Direct Financial Impact
- Estimated Indirect Financial Impact
- Estimated Non-Financial Impact
- Percent of Audit Recommendations Agreed to by Management
- Percent of Audit Recommendations Implemented

Output

- Number/Percent of Planned Audits Issued
- Number of Nonaudit Services Issued/ Provided and/or Percent of Direct Hours Allocated to Nonaudit Services

Efficiency

- Average Staff Hours per Audit

Input

- Ratio of Direct, Indirect, and Benefit Hours to Total Hours

Percent of Staff with Professional Certifications and/or Advanced Degrees

Measure Addresses: Quality

Establishing and maintaining audit quality and value is important to audit organizations. One way to demonstrate audit quality and value is to highlight the professionalism, qualifications, competence, and quality of the audit staff by reporting the percentage of audit staff with audit-related certifications (CIA, CPA, CGAP, CFE, CISA, etc.). Some audit organizations may also track and report on advanced degrees held by audit staff to demonstrate the quality and competence of audit staff. A variation on this measure can also be used to identify the total number of certifications/advanced degrees held by staff.

Data Needed

- Number of audit staff, including directors/CAE.
- Number of audit staff* with professional certifications.
- Number of audit staff* with advanced degrees.

*Note: Count audit staff with multiple certifications as “1”. Count audit staff with multiple advanced degrees as “1”.

Calculate

$$\frac{\text{Number of Audit Staff with Professional Certifications}}{\text{Total Number of Audit Staff}} = \text{Percent of Staff with Professional Certifications}$$

$$\frac{\text{Number of Audit Staff with Advanced Degrees}}{\text{Total Number of Audit Staff}} = \text{Percent of Staff with Advanced Degrees}$$

$$\frac{\text{Number of Audit Staff with Professional Certifications or Advanced Degrees}}{\text{Total Number of Audit Staff}} = \text{Percent of Staff with Professional Certifications or Advanced Degrees}$$

Percent of Staff Meeting Continuing Professional Education Requirements and/or Average Number of Continuing Professional Education Hours per Audit Staff

Measure Addresses: Quality

All audit organizations should comply with a set of generally accepted audit standards, all of which require minimum continuing professional education requirements (CPEs) to maintain competency. Staff in audit organizations that follow Government Auditing Standards are required to obtain 80 CPE hours every two years. In addition, to maintain professional certifications, auditors must comply with the certifying organization’s continuing education requirements. Tracking CPE allows audit organizations to determine whether audit staff are in compliance with audit standards and/or the requirements for their professional certifications (i.e., CIA, CISA, CPA, etc.). Internally tracking CPE courses and hours can help audit organizations ensure staff competency. Reporting CPE hours to external parties such as elected officials allows audit organizations to show training requirements are met and a commitment to maintaining and improving a competent and quality staff.

Data Needed

- Number of CPE hours required for each audit staff member (based on audit standards and professional certifications).
- Number of actual CPE hours earned by each audit staff member.
- Total number of CPE hours.

Calculate

$$\frac{\text{Number of Audit Staff Meeting CPE Requirements}}{\text{Total Number of Audit Staff}} = \text{Percent of Staff Meeting CPE Requirements}$$

$$\frac{\text{Total Number of CPE Hours}}{\text{Total Number of Audit Staff}} = \text{Average CPE Hours per Audit Staff}$$

Results of External Peer Review

Measure Addresses: [Quality](#)

Audit organizations that adhere to professional auditing standards are required to establish and maintain audit quality. Government Auditing Standards mandate that auditor organizations undergo a peer review by external audit professionals every three years and make the peer review report publicly available. The International Standards for the Professional Practice of Internal Auditing require an external assessment every five years. A peer review provides an independent opinion on an audit organization’s quality control system and compliance with the standards. It helps ensure independence, objectivity, and competence. Having a peer review allows audit organizations to answer the question “Who audits the auditors?” and demonstrate to elected officials, management and the public that the audit organization produces quality work in accordance with the standards and they can rely on this work. Audit organizations can report the dates of the previous and most recent peer reviews, the results (Pass, Pass with Deficiencies, or Fail), and whether the report is publicly available (upon request, website, etc.).

Data Needed

- Previous and most recent peer review reports.

Report

- Peer review date and results; Pass, Pass with Deficiencies, or Fail.

Estimated Direct Financial Impact

Measure Addresses: [Outcome](#)

Identifying a direct financial impact related to audit findings and recommendations is a common and long-standing performance measure used to demonstrate audit value to elected officials, management, and the public. This measure uses the actual or estimated financial impact of audit recommendations; including reduced or avoided costs, recoveries, increased revenues, improved efficiency and productivity. Direct financial impact is calculated by identifying one-time or recurring financial impacts over two to five years. For example, a recurring financial impact could be implementation of a fee increase that would not have occurred if not for an audit recommendation.

Explanatory Information

The assumptions and methods used to estimate direct financial impact should be disclosed with each estimate.

Data Needed

- *One-time* actual or estimated financial impact identified by auditors and/or management related to reduced or avoided costs, recoveries, increased revenues, or improved efficiency and productivity.
- *Recurring* actual or estimated financial impact identified by auditors and/or management related to reduced or avoided costs, recoveries, increased revenues, or improved efficiency and productivity over two to five years.

Calculate

Estimated Direct Financial Impact x 1 = Estimated One-time Direct Financial Impact

Estimated Direct Financial Impact x (2 to 5 years) = Estimated Recurring Direct Financial Impact

Estimated Indirect Financial Impact

Measure Addresses: Outcome

Not all audit recommendations, such as those related to internal controls, lead to direct financial impact, so demonstrating their value can be difficult for audit organizations. One way to estimate the value of audit recommendations that are intended to better protect, secure, or ensure the proper handling/use of revenues, expenditures, or assets is to identify the amount of revenues, expenditures, or assets of the process, activity, or program the recommendations are intended to protect. For example: internal control recommendations are made to improve how cash is being handled or processed for \$1 million in revenues. Implementation of the audit recommendations would improve the security over \$1 million in revenue or make \$1 million in revenue more secure. The assumptions and methods used to estimate indirect financial impact should be disclosed with each estimate.

Explanatory Information

Be careful to clearly note this is not savings or new revenues.

Data Needed

- *One-time* estimated value of revenues, expenditures, or assets affected by recommended internal control improvements.
- *Recurring* estimated value of revenues, expenditures, or assets affected by recommended internal control improvements over two to five years.

Calculate

Estimated Indirect Financial Impact x 1 = Estimated One-time Indirect Financial Impact

Estimated Indirect Financial Impact x (2 to 5 years) = Estimated Recurring Indirect Financial Impact

Estimated Non-Financial Impact

Measure Addresses: Outcome

Audit recommendations often help support or improve the entity's operations or services and their benefits cannot always be measured in dollar terms. These benefits can be referred to as having a non-financial impact. For example, when implementation of audit recommendations result in a program being able to provide more services for the same amount of funding or improve the ethical climate within the entity.

Explanatory Information

The assumptions and methods used to estimate non-financial impact should be disclosed with each estimate.

Data Needed

- Estimated improvements (service, equity, efficiency, etc.).
- Actual improvements (service, equity, efficiency, etc.) reported by management.

Report

- Narrative summary, anecdotal, or qualitative story to describe the potential or actual impact.

Percent of Audit Recommendations Agreed to by Management

Measure Addresses: Outcome

The primary benefits of the work of audit organizations include government accountability, reduced costs, increased revenues, and improved services. Auditing alone does not directly produce these benefits; they only come from the implementation of audit recommendations. Recommendations are more effective with management's support. One way to measure the effectiveness of recommendations is to track the percentage of recommendations agreed to by management compared to a target or goal for this measure. However, to ensure the auditor's continued independence, that goal typically should not be 100 percent as there are likely to be instances in which management and the audit organization disagree on audit findings, conclusions, and the resulting recommendations.

Data Needed

- Number of recommendations.
- Number of recommendations agreed to by management.
- Target/goal: X% of recommendations agreed to by management.

Calculate

$$\frac{\text{Number of Recommendations Agreed to by Management}}{\text{Number of Recommendations}} = \text{Percent of Audit Recommendations Agreed to by Management}$$

Percent of Audit Recommendations Implemented

Measure Addresses: Outcome

The primary benefits of the work of audit organizations include government accountability, reduced costs, increased revenues, and improved services. Auditing alone does not directly produce these benefits; they only come from the implementation of audit recommendations, which is the responsibility of management. Management's agreement to implement recommendations does not guarantee actual implementation. Therefore, tracking the actual implementation rate is another method to measure the effectiveness of our audit work. Audit organizations typically state a goal of X% implemented within a specified number of years (i.e. 2, 3, or 4). Many audit shops also track and report on the implementation status of pending or open audit recommendations (e.g., partially implemented, not implemented).

Data Needed

- Number of recommendations.
- Number of recommendations implemented based on management's assertions/reports or audit follow-up.
- Target/goal: X% implemented within X years.

Calculate

$$\frac{\text{Number of Recommendations Implemented}}{\text{Number of Recommendations}} = \text{Percent of Audit Recommendations Implemented}$$

Number/Percent of Planned Audits Issued

Measure Addresses: Output

The production of audit reports represents audit organizations' primary activity. Using this measure, audit organizations can compare the number of reports issued during the year to a target/goal for the number of audits planned for the year. Because audit duration depends on many factors, audit organizations should explain significant variances. Tracking the measure over time can provide insight into:

- Sufficiency of audit staffing relative to established requirements for audit services (as represented by the annual audit plan);
- Adequacy of annual planning processes (including estimates of required resources per project, or sufficiency of time allocated to emergent projects);
- Relationship between audit staff competencies versus desired audit work (for example, long learning-curve times that delay completion of information technology (IT) audits might indicate need for added IT audit skills);
- Sufficiency of the auditor's access to records, staff, or other information.

Explanatory Information

Calculations of this measure may need to be adjusted when, for example, a single (large or complex) audit project is published in multiple reports or when audits are added to the plan during the year. Like all measures, it is best considered as part of a balanced set of performance measures.

Data Needed

- Number of audits issued.
- Target/goal for number of audits issued.
- Number of audits in annual plan.
- Number of audits from annual plan issued.
- Target/goal for % of audits from plan issued.

Calculate

Number of Audits Issued compared to Goal for Number of Audits Issued

$$\frac{\text{Number of Planned Audits Issued}}{\text{Number of Planned Audits*}} = \text{Percent of Planned Audits Issued}$$

*Number of planned audits should be adjusted when a single audit is subdivided and multiple reports have been and/or will be produced.

Explanatory Information

- Significant staffing changes during the period.
- Diversion of resources to emergent issues beyond those allocated in the plan.
- Audits deferred or extended due to limitations on staff competency.

Number of Nonaudit Services Issued/Provided and/or Percent of Direct Hours Allocated to Nonaudit Services

Measure Addresses: Output

Audit organizations may perform nonaudit services such as special projects, investigations, or preliminary survey work on allegations of fraud, waste, or misuse of public funds. Although not an audit, nonaudit services represent another activity that can be a factor in measuring performance. Audit organizations may or may not have specific goals/targets for the number of nonaudit services to complete during the year. Audit organizations may also track the number/percent of direct hours (not administrative, or benefit hours) allocated to nonaudit services.

Data Needed

- Number of nonaudit services issued/provided.
- Target/goal for the # of nonaudit services issued/provided.
- Nonaudit services hours and total direct hours.

Calculate

Number of Nonaudit Services Issued compared to Goal for Number of Nonaudit Services Issued

$$\frac{\text{Nonaudit Services Hours}}{\text{Total Direct Hours}} = \text{Percent of Direct Hours Allocated to NonAudit Services}$$

Average Staff Hours Per Audit

Measure Addresses: Efficiency

For audit organizations, the primary resource used to produce audit reports is staff time. Audit organizations can measure their overall productivity and the effectiveness of how they accomplish their work by measuring the resources used to produce that work. This measure determines the average number of hours used to produce each audit report. Audit organizations may wish to set an annual target/goal or track this number over time. However, because the hours spent conducting an audit vary based on the complexity of different audits as well as staff competencies and audit methodologies, audit organizations may wish to set targets/goals based on ranges of hours to account for this variability.

Explanatory Information

Audit organizations may include explanatory information to discuss any significant year-to-year differences.

Data Needed

- Number of audit reports.
- Total hours for audit reports.
- Target/goal for the average hours per audit.

Calculate

$$\frac{\text{Total Hours for Audit Reports}}{\text{Number of Audit Reports}} = \text{Average Staff Hours Per Audit}$$

Ratio of Direct, Indirect, and Benefit Hours to Total Hours

Measure Addresses: Input

Staff time is the primary resource used by audit organizations to produce audit reports. Another measure of the audit organization's productivity/efficiency as well as that of individual staff members looks at how time is used to produce audits and other work products versus time used for meetings, training, administrative tasks, or leave. This measure identifies the ratio of direct hours (time spent producing audits, nonaudit services, and other work products), indirect hours (meetings, training, administrative tasks, etc.), and benefit hours (vacation, sick leave, etc.) to total hours. Audit organizations may wish to set an annual target/goal for the organization or staff members.

Data Needed

- Direct Hours (audits, nonaudit services, projects)
- Indirect Hours (meetings, training, travel, administrative activities, etc.)
- Benefit Hours (vacation, sick leave, etc.)
- Target/goal for X% of total hours represented by each category.

Calculate

$$\frac{\text{Direct Hours}}{\text{Total Hours}} = \text{Ratio of Direct Hours to Total Hours}$$

$$\frac{\text{Indirect Hours}}{\text{Total Hours}} = \text{Ratio of Indirect Hours to Total Hours}$$

$$\frac{\text{Benefit Hours}}{\text{Total Hours}} = \text{Ratio of Benefit Hours to Total Hours}$$