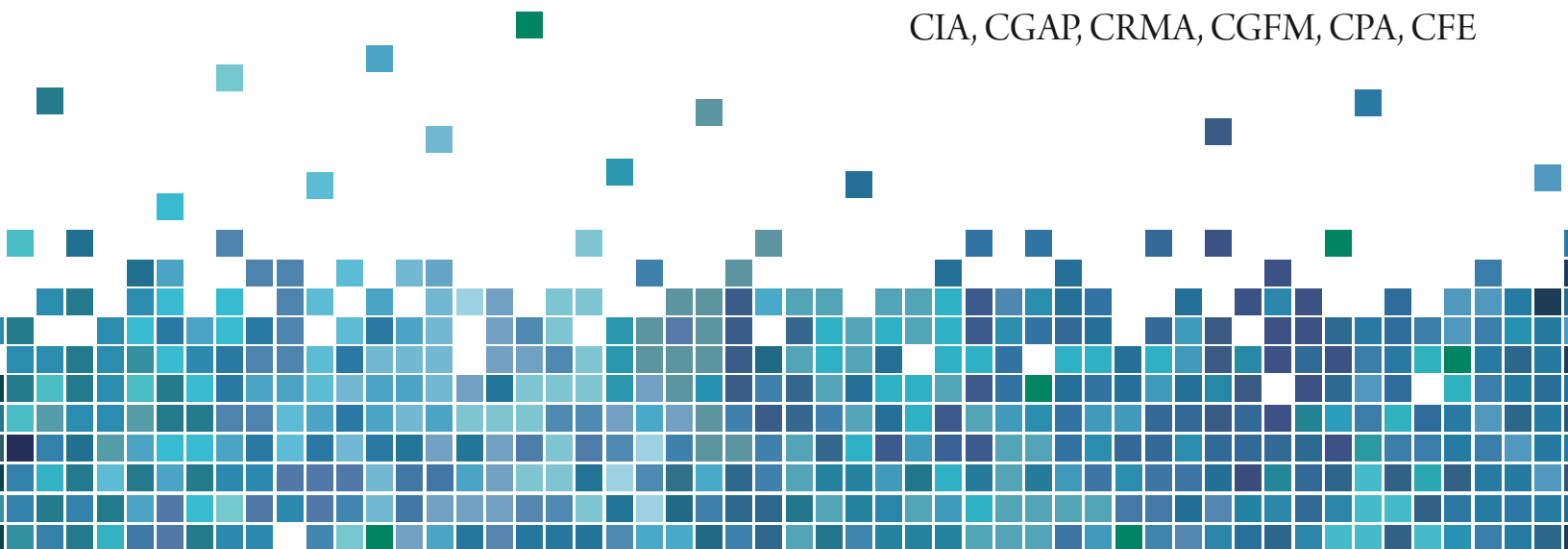


Emerging Strategies for Performance Auditing

Insights from City Auditors in
Major Cities in the U.S. and Canada

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EXECUTIVE SUMMARY



In an era of increasing public expectations for improved government services—particularly when budgets are constrained—*performance auditing* is a useful tool to enhance decision-making at the local government level. Performance auditing can lead to more efficient, effective, and economical program delivery; stronger controls; and improved compliance with laws and policies.

Many audit functions within local governments in the United States and Canada have embraced performance audits with the support of council and staff. Others, however, are still conducting few or no performance audits. The objectives of this study were to determine the percentage of time allocated to performance audits by internal auditors in major cities in the United States and Canada, identify factors that discourage performance auditing, and identify best practices for conducting performance audits.

Researchers sent surveys to auditors of all the major cities in the United States and Canada with populations greater than 150,000, along with several smaller cities to ensure all states were surveyed. Surveys were completed by 116 audit functions. The researchers also conducted follow-up interviews with more than 60 audit leaders from these cities to learn more about the barriers and the best practices to mitigate them.

The average percentage of time U.S. respondents spent on performance auditing was 58%, compared to 48% for Canadian respondents. At the same time, it should be noted that there was a wide range of differences between respondents. At least one-fifth of respondents in both the United States and Canada spent less than 10% of their time on performance auditing. On the other end of the spectrum, almost one in three U.S. respondents spent 90% of their time on performance auditing, compared to 6% of Canadian respondents who spent more than 90% of their time on performance auditing.

The most significant barriers to performance auditing are difficulty obtaining education and training, insufficient funding, and lack of sufficient authority. These barriers are more prevalent for smaller cities, for audit functions with fewer employees, and in areas where performance auditing is not mandated by legislation or the audit charter. The reported impact of the barriers is higher in Canada than in the United States, and highest in Quebec.

This report will help public sector audit leaders, audit committees, and government leaders to understand:

- The barriers to performance auditing that are causing the most impact in the United States and Canada
- Twelve best practices for mitigating the barriers to performance auditing
- Suggested funding levels for audit functions
- Unique challenges experienced by public sector internal auditors in Canada
- Ways that public sector audit leaders and external stakeholders can collaborate to address systemic barriers

REPORT SPONSORS

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ABOUT THE LEAD RESEARCHERS



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RESEARCH SUPPORT TEAM



The two lead researchers for this report and the individuals who assisted and guided them collectively have more than 350 years of performance auditing experience at all levels of government. Their experience includes establishing and maintaining performance audit functions while dealing with many and varied real-world barriers. This rich diversity of experience facilitated creative ideas as the research was completed and the report was prepared.

The lead researchers would like to acknowledge two principal contributors who completed significant components of the research in this study:

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The lead researchers would like to thank the following audit leaders who acted as advisers to the research team:

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Jeff Griffiths, CPA, CA, CFE, FCA (UK), is the current auditor general for Toronto. Griffiths was the city auditor for Toronto as well as acting metropolitan auditor and director of audits for Metropolitan Toronto prior to the amalgamation of Toronto. He is a fellow of the Institute of Chartered Accountants of England and Wales and past president of the Association of Local Government Auditors.

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Michael McLaughlin, CPA, FCMA, is the former deputy auditor general of Canada and the former vice president and chief financial officer for the Canadian Air Transport Security Authority. McLaughlin is a past president/executive director and chair of the CCAF-FCVI, a Canadian auditing research and educational foundation, and is currently providing training to performance auditors as a CCAF Associate. McLaughlin has 30 years of experience and is an independent consultant providing advice and training in performance auditing.



INTRODUCTION

Performance auditing can improve the efficiency, economy, and effectiveness of service delivery; make sure the law is being followed; and, most important, make governments more accountable to the public. However, these benefits are contingent upon how much time and resources an audit activity spends on performance auditing.

Performance audits have been conducted within federal and state or provincial governments in the United States and Canada for years. However, in local governments, performance auditing is still relatively new, conducted infrequently, or not conducted at all.

This research project surveyed and interviewed city auditors throughout the United States and Canada to determine how much time they spend on performance auditing and which barriers cause the most impact on the time they spend on performance audits. In addition, the most successful performance auditors in the survey were interviewed to identify recommendations for overcoming the challenges to performance auditing. Although the project focused on city auditors, the findings and best practices can be applied to many levels of government auditing.

RESEARCH OBJECTIVES

The following research questions were established for this study:

1. How much time is being allocated to performance auditing in U.S. and Canadian cities?
2. What are the major barriers to performance auditing within local governments?
3. How prevalent are these barriers?
4. What can be done to mitigate these barriers?
5. What are the best practices in performance auditing?

DEFINITION OF PERFORMANCE AUDITING

For this study, performance auditing is defined as “the examination of a nonprofit or governmental entity or a portion of the entity such as an organizational unit, program, activity, function, or management control system to assess performance.” The objectives of these audits typically address more than one of the following:

- The extent to which resources have been managed with due regard to economy and efficiency
- The extent to which resources have been managed with due regard to effectiveness
- The extent of compliance with laws, regulations, or policies

- The adequacy of internal controls or safeguards over public assets

Performance auditing includes “value-for-money” auditing.

In cities in the United States and Canada, performance auditing is generally the responsibility of city auditors, directors of internal audit, auditors general, deputy controllers for audit, or officials with similar titles. In some jurisdictions, such as Quebec, auditors general are also responsible for the annual financial audit. Aside from their impact on the resources available for performance auditing, these other functions, such as financial attest audits, have been excluded from the scope of this study.

HOW THE SURVEY WAS CONDUCTED

The survey was sent to city auditors in all cities in the United States and Canada that met the following population criteria:

- Population of at least 150,000 in the United States (164 cities)
- Population of at least 150,000 in English Canada (27 cities)
- Population of at least 100,000 in Quebec (10 cities)

Nine cities in the United States and one in English Canada (all of Canada with the exception of Quebec) with smaller populations were included in the survey in order to have representation from each state or province.

It is important to note that cities in Quebec with populations of 100,000 are required by provincial legislation to establish an auditor general function to conduct performance audits. These functions were surveyed separately from the rest of Canada because of differences in their language and regulatory and control environment.

SURVEY RESPONSE RATES

After the cities with no audit functions were excluded, the response rates were 59% for the United States, 100% for Quebec, and 92% for English Canada (see exhibit 1.1). All cities that responded to the survey are listed in appendix A.

EXHIBIT 1.1. SURVEY RESPONSE STATISTICS

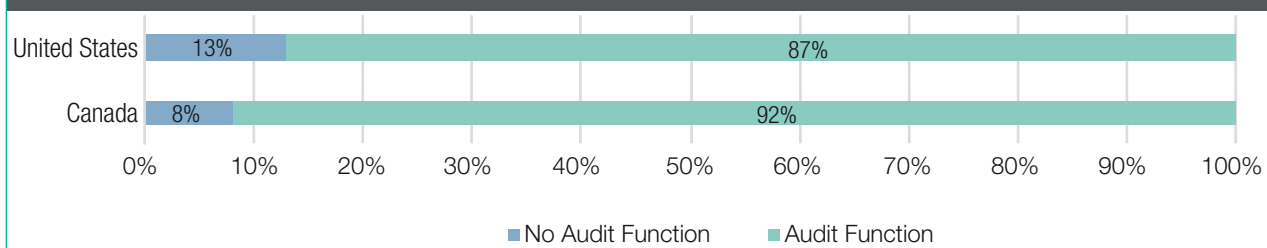
Jurisdiction	Total Cities Invited to Respond	Surveys Completed	Cities with No Audit Function	Response Rate from Cities with Audit Functions
United States	164	84	22	59%
English Canada	27	22	3	92%
Quebec	10	10	0	100%
Totals	201	116	25	N/A

Note: In Toronto, both the internal audit and auditor general functions were surveyed.

ABSENCE OF CITY AUDITORS IN MAJOR U.S. AND CANADIAN CITIES

A key discovery during the survey process was the absence of an internal audit function in a significant number of cities that met the population criteria for this study. In the United States, 22 (13.4%) of the 164 cities surveyed had no audit function. Three of those 22 cities had populations of 250,000 or more. In Canada, three (8.3%) of the 36 cities surveyed had no audit function (see exhibit 1.2). One of those three cities had a population greater than 250,000. For a list of the cities without audit functions (as of 2013), see exhibit 1.3.

EXHIBIT 1.2. PERCENTAGE OF MAJOR CITIES IN THE U.S. AND CANADA WITHOUT AUDIT FUNCTIONS



Note: Cities were checked for audit functions in 2013.

EXHIBIT 1.3. LIST OF MAJOR CITIES IN THE U.S. AND CANADA WITHOUT AUDIT FUNCTIONS

U.S. Cities	Population	Canadian Cities	Population
Peoria, AZ	163,000	Markham, ON	302,000
Gilbert, AZ	222,000	Richmond Hill, ON	193,000
Chandler, AZ	250,000	Regina, SK	186,000
Bakersfield, CA	324,000		
Chula Vista, CA	224,000		
Corona, CA	151,000		
Fremont, CA	206,000		
Garden Grove, CA	166,000		
Huntington Beach, CA	193,000		
Oceanside, CA	173,000		
Pomona, CA	152,000		
Rancho Cucamonga, CA	172,000		
San Bernardino, CA	198,000		
Santa Clarita, CA	169,000		
Santa Rosa, CA	157,000		
Port St. Lucie, FL	154,000		
Des Moines, IA	201,000		
Lincoln, NE	254,000		
Eugene, OR	153,000		
Salem, OR	155,000		
Salt Lake City, UT	183,000		
Tacoma, WA	200,000		

Note: Cities were checked for audit functions in 2013.

This research study did not specifically examine why these cities did not have formal or continuous audit functions, but several reasons were mentioned:

- Budgetary constraints
- Intermittent use of contractors for internal auditing
- Intermittent assignment of audit work to external audit function
- Absence of a mandate to have an audit function



IDENTIFYING AND MEASURING THE BARRIERS TO PERFORMANCE AUDITING

Barriers to performance auditing were identified based on The Institute of Internal Auditors' (IIA's) Practice Guide, *The Role of Auditing in Public Sector Governance*; a literature review; and the experience of the research study authors. The research team took into account recent relevant professional publications issued by The IIA, the Association of Local Government Auditors (ALGA), the Government Accountability Office (GAO), the Canadian Comprehensive Auditing Foundation (CCAF), the Chartered Professional Accountants of Canada (CPA Canada), and other professional organizations.

Scores for the barriers to performance auditing were calculated using the following process:

- Respondents were presented with a list of 15 potential barriers to performance auditing. They were asked to agree or disagree with whether these barriers affected their organization.
- Responses were converted to a numerical score by the research team (fully agree - 1; partially agree - .5; partially disagree - .25; totally disagree - 0).

INTERVIEWING THE HIGHEST PERFORMERS AND THOSE WITH THE MOST CHALLENGES

To understand the impact that barriers are having on city auditors, the research team interviewed the audit leaders in the cities that were the most successful at performance auditing as well as those who were experiencing the most challenges to performance auditing.

Cities most challenged by barriers were defined as having an impact score of 7.5 or higher, out of a maximum possible score of 15. About 30% of respondents were in this category (36 out of 116 survey respondents). Twenty-four were in the United States and 12 were in Canada. (The impact score for each respondent was created by adding together the scores for each of the 15 barriers. The highest possible score for each barrier was 1.)

The research team conducted telephone interviews with all of these city auditors to learn more about the nature and cause of the barriers and potential methods to mitigate them.

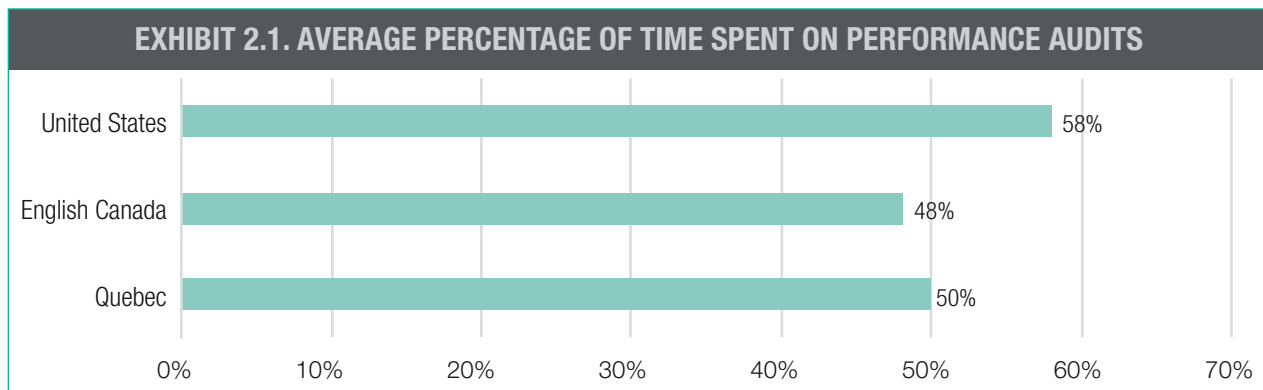
At the same time, the researchers identified city audit functions that are successfully conducting performance auditing. Successful performance auditing was defined as spending more than 40% of time conducting performance auditing, plus meeting several other best practice criteria. Thirty-six cities (26 in the United States and 10 in Canada) were in this category. The researchers conducted interviews with all of the audit leaders from this group to understand how they addressed the barriers to performance auditing.

The researchers discovered that a few cities with high barrier scores were still able to spend significant time conducting performance audits. For example, at least half of the most successful performance auditing functions were also experiencing funding challenges from budgetary pressures.

PERCENTAGE OF TIME SPENT ON PERFORMANCE AUDITING



Survey results show that the time spent on performance audits varies widely between cities within Canada and within the United States (see exhibit 2.1). Overall, auditors in U.S. cities spend more time on performance auditing than their Canadian counterparts. The average time spent by respondents in the United States was 58%, compared to 48% in English Canada and 50% in Quebec. More time is being spent in Quebec than in the rest of Canada, possibly because all cities in Quebec are required by provincial legislation to conduct performance audits.



There was a wide range of differences between respondents, so it is important to look at the details as shown in exhibit 2.2. For example, a notable percentage of audit functions in both Canada and the United States reported spending only 10% of their time on performance auditing (25% of Canadian respondents and 20% of U.S. respondents).

A much greater proportion of U.S. respondents also reported spending a very high percentage of their time on performance auditing. (Thirty-two percent of U.S. respondents spend 90% of their time on performance auditing, compared to 6% of Canadian respondents.) One explanation for this difference is that 30% of the Canadian respondents were required by provincial legislation to conduct the annual financial audit in addition to performance audits.



**EXHIBIT 2.2. TIME SPENT ON PERFORMANCE AUDITING IN
MAJOR CITIES IN CANADA AND THE U.S.**

Time Spent on Performance Auditing	Canada (32 respondents)		United States (84 respondents)	
	Count of Respondents	Percentage of Respondents	Count of Respondents	Percentage of Respondents
10%	8	25%	17	20%
20%	2	6%	0	0%
30%	1	3%	9	11%
40%	2	6%	0	0%
50%	1	3%	9	11%
60%	11	35%	1	1%
70%	5	16%	21	25%
80%	0	0%	0	0%
90%	2	6%	27	32%
100%	0	0%	0	0%
TOTALS	32	100%	84	100%



TWELVE BEST PRACTICES FOR PERFORMANCE AUDITING

One of the most important objectives of this project was to identify ways that public sector auditors are actively mitigating the barriers that commonly interfere with performance auditing. This chapter presents:

- Twelve best practices for performance auditing
- A listing of the top-performing city audit functions in the United States and Canada
- Insights for implementing best practices based on interviews with the top-performing city audit functions
- Which practices are widely implemented and which ones are usually achieved only by top performers

TWELVE BEST PRACTICES FOR PERFORMANCE AUDITING

To develop a list of 12 best practices for performance auditing, the research team reviewed recent auditing publications and relied heavily on interviews with top-performing city auditors. Thirty-six interviews were conducted with survey participants who spent a minimum of 40% of their time on performance auditing. (The 40% threshold was based on the research team consensus that this level of activity was necessary to support public sector governance and ensure that sufficient regard for value-for-money exists within city operations.)

The research team acknowledges that the best practices identified herein do not necessarily comprise a complete list and recognizes that opinions may vary on the relative importance of any particular practice, due to variations in the environment, governance structure, and other factors. The best practices for performance auditing also assume that a number of fundamental elements for the audit function are already in place, including:

EXHIBIT 3.1. TWELVE BEST PRACTICES FOR PERFORMANCE AUDITING

1	Establish a clear mandate for performance auditing within the audit charter.
2	Establish a formal audit committee with terms of reference or a charter.*
3	Build understanding & support for the audit function & performance audit function.
4	Support the establishment of mature and robust governance processes.
5	Make performance audit reports readily available to the public.
6	Establish risk-based, multi-year audit plans.
7	Select audit objectives that address all relevant & significant aspects of performance.
8	Scope audits broadly enough to support accountability for results.
9	Follow accepted auditing standards.
10	Actively build competencies and capability in performance auditing.
11	Support involvement of the audit function in professional associations.
12	Demonstrate leadership in performance auditing.

*Some argue that this is a fundamental element that relates to organizational independence.

- An audit charter
- Unrestricted access to information and staff
- Sufficient funding
- Objective staff
- Competent leadership

That being said, the research team believes that the best practices identified within this chapter will enable audit functions to reduce the impact of systemic barriers to performance auditing and become top-performing providers of performance audits. See exhibit 3.1.

TOP-PERFORMING CITY AUDIT FUNCTIONS FROM SURVEY RESPONDENTS

In addition to identifying best practices, the research team also wanted to acknowledge cities from the research project that stood out for implementing the most best practices. As noted earlier, 36 audit functions reported that they spent 40% or more of their time on performance auditing (26 in the U.S. and 10 in Canada). Twenty-three of these were selected as either best practice or high-performing audit functions, based on how many of the 12 best practices they were following at the end of 2013 (see exhibits 3.2 and 3.3). This was determined through the researchers’ interviews with each of the 36 auditors. See below for the criteria used and the audit functions that were identified as meeting them.

Best Practice Criteria

- At least 40% of internal audit time was spent on performance auditing.
- At least 10 of the 12 best practices were followed.
- Higher standards were met for some of the best practices, particularly “building relevant competencies,” “making reports available to the public,” “following accepted standards,” and “having a clear mandate for performance auditing.”

EXHIBIT 3.2. BEST PRACTICE AUDIT FUNCTIONS FOR MAJOR CITIES IN THE U.S. AND CANADA

Chesapeake, VA	Honolulu, HI	Richmond, VA	Edmonton, AB
Virginia Beach, VA	Austin, TX	Tallahassee, FL	Toronto AG, ON
Portland, OR	Denver, CO	San Antonio, TX	

High-Performing Criteria

- At least 40% of internal audit time was spent on performance auditing.
- Eight or nine of the 12 best practices were followed.

EXHIBIT 3.3. HIGH-PERFORMING AUDIT FUNCTIONS FOR MAJOR CITIES IN THE U.S. AND CANADA

Nashville, TN	Hartford, CT	San Jose, CA	Quebec City AG, PQ
Las Vegas, NV	San Diego, CA	Arlington, TX	Montreal AG, PQ
*New York, NY	Chattanooga, TN	Winnipeg, MB	*Ottawa AG, ON

*New York, NY, and Ottawa AG, ON, were both ranked as “best practice” functions at the end of 2012.

The researchers recognize that there may be other best practice and high-performing audit functions in the United States and Canada that did not participate in our survey. For example, for the most part, only large cities with a population of more than 150,000 were included in this project, which means that most smaller cities were not under consideration. Finally, it should be noted that the ratings are based on the characteristics of the internal audit functions at the end of 2013. Cities such as Oshawa, ON, that met the “high-performing” criteria in 2012 failed to do so at the end of 2013.

More information about top-performing audit functions is provided in the discussion of the 12 best practices that follows. In particular, the researchers discovered that some best practices had been implemented by a high percentage of survey participants, while others were only achieved by a few audit functions. The following discussion of best practices may provide you with insights that you can apply within your own organization.

Best Practice #1: Establish a clear mandate for performance auditing within the audit charter.

Establishing a clear mandate for performance auditing within the audit charter is recommended to ensure the responsibility and authority is clear to both internal and external stakeholders. Some are able to do so by virtue of having their responsibilities defined within the city charter.

Almost all (31) of the 36 performance audit leaders had a clear mandate for conducting performance audits. The mission statement of the city auditor’s office in Honolulu, Hawaii, includes a clear mandate for performance auditing (see appendix D for the text of the mission statement and the relevant city bylaws).

Best Practice #2: Establish a formal audit committee with terms of reference or a charter.

High-performing audit functions report functionally to the city council, a subcommittee of the council, an audit committee, or directly to the citizenry. Reporting functionally to these bodies provides the audit function with a degree of independence from staff. In the United States, 71.4% of the survey respondents reported to one of these bodies. Percentages were much higher in Canada, with 86.3% in English Canada and 90% in Quebec. A significant number of audit functions in Canada reported functionally to a formal audit committee, compared to the United States (see exhibit 3.4).

EXHIBIT 3.4. FUNCTIONAL REPORTING RELATIONSHIPS

	United States	English Canada	Quebec
Council and Mayor	35.6%	13.6%	50%
Audit Committee	28.6%	68.2%	40%
Another Subcommittee	3.6%	4.5%	0%
Citizenry	3.6%	0%	0%
Subtotal	71.4%	86.3%	90%
City Manager	14.3%	4.5%	10%
Chief Financial Officer or Treasurer	14.3%	9.2%	0%
Subtotal for Other	28.6%	13.7%	10%

Best practice audit functions report either functionally or administratively to an audit committee or directly to the citizenry with a charter or terms of reference. Of the 36 audit functions interviewed, 23 met this hurdle.

The IIA is an advocate of having internal audit units report to audit committees, and has publicized the following best practices for audit committees within *Supplemental Guidance: The Role of Auditing in Public Sector Governance*, released January 2012 (page 24).

1. Operate under a formal mandate, preferably legislation, with sufficient authority to complete its mandate.
2. Include independent members who collectively possess sufficient knowledge of audit, finance, risk, and control.
3. Be chaired by a member who is not the individual to whom a chief audit executive (CAE) reports administratively.
4. Assess the effectiveness of the organization's governance, risk management, and control frameworks and legislative and regulatory compliance.
5. Provide oversight to the organization's internal and external audit activities, including ensuring adequate coverage and resources, approving the internal audit charter and audit plans, reviewing the audit activity's performance, and approving the appointment or termination of internal and external auditors.
6. Oversee the organization's financial reporting and accounting standards.
7. Provide a direct link and regular reporting to the organization's governing board, council, or other authority.



A good example of an audit committee charter is Chattanooga's audit committee bylaws. They are perceived as highly independent because the committee members all belong to professional organizations such as The IIA, the Tennessee Society of CPAs, and the Association of Certified Fraud Examiners (ACFE). Members must sign a statement each year that they have no conflicts of interest. The bylaws are considered highly effective because they specify how the committee operates, including roles, responsibilities, and term limits; requirements for quarterly meetings and special meetings; review of the audit plan; responsibilities for contracting external audits; fraud waste and abuse prevention program; and more. The complete text of these bylaws is available on the city's website at www.chattanooga.gov.

Final point: Having an audit committee is important, but that committee must have the right characteristics to be an effective element of mature governance processes.

Best Practice #3: Build understanding and support for the audit function and the performance audit function.

High-performing audit functions take steps to ensure that members of the city council, senior staff, and citizens understand and support their role. Communications strategies include actively training and educating audit committee members and new members of the council to ensure they understand internal audit's role in assessing the effectiveness of internal controls, risk management, and governance processes.

Best practice audit functions build support among key stakeholders by aligning audit plans with significant risks, strategic initiatives, and priorities of key stakeholders, and educating audit clients during the audit process. Internal audit functions build support with their city councils by responding to requests for audits that are supported by the majority of the council. Best practice audit functions build support by communicating regularly with the city manager and audit committee about the status of audit projects and recommendations.

Best practice audit functions provide information to the press and the public about the mandate of the audit function, annual audit plans, and the results of audits. They also market the value they add to their organizations with annual status reports that identify improvements to internal controls, risk management, and governance processes. Some also identify cost savings generated from the implementation of audit recommendations. Almost all of the 36 performance audit leaders interviewed make significant efforts to build understanding and support for the audit function. Despite their efforts, however, fewer than half of those interviewed fully agreed that they enjoyed the support and understanding of all key stakeholders. Periodic changes to city council membership were identified as one of the challenges to meeting this criterion.

Best Practice #4: Support the establishment of mature and robust governance processes.

The 36 performance audit leaders were asked to rank the maturity level of governance processes within their organizations choosing from Level 1 (absent), Level 2 (informal and ad hoc), Level 3 (documented but basic), and Level 4 (systematic and rigorous). The majority of those interviewed ranked governance processes within their organizations at Level 3 (documented but basic). Governance is defined by The IIA as the combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives. Internal auditors are considered "integral to the organization's governance framework." See IIA Practice

Advisory (PA) 2110-1. Most of the best practice audit functions conducted informal or formal assessments of governance processes and recommended improvements to existing practices.

Best Practice #5: Make performance audit reports readily available to the public.

Most survey respondents reported that they “always” or “usually” make performance audit reports available to the public. However, in English Canada, there was also a sizeable percentage (23%) who indicated that performance audit reports are “seldom” or “sometimes” made available to the public (see exhibit 3.5).

Best practice audit functions always make these reports available to the public, unless there is a valid public safety, security, or privacy reason to withhold the detailed findings. Of the 36 audit functions interviewed, 33 met this hurdle.

EXHIBIT 3.5. AVAILABILITY OF PERFORMANCE AUDIT REPORTS TO THE PUBLIC			
Availability	United States	English Canada	Quebec
Always	71%	50%	80%
Usually	12%	14%	10%
Seldom	5%	14%	0%
Sometimes	2%	9%	0%
Never	2%	0%	0%
Not applicable	8%	13%	10%

Best Practice #6: Establish risk-based, multi-year audit plans.

All of the high-performing audit functions in the United States and Canada use risk-based audit plans to identify audit priorities. Some incorporate rotation audits and strategic priorities within these plans as well. A few, such as Denver, Colorado, and Austin, Texas, have adopted audit horizon planning strategies to identify, prioritize, and manage audits deemed to be critical to city operations. Horizon planning involves using a risk-based methodology to identify and prioritize a select number of audits for inclusion in the annual audit plan as well as listing potential audits for the ensuing two years.

Almost all of the best practice audit functions prepare risk-based plans that cover two or more years and address matters of significance to the public, council, and senior staff. Using a multiyear plan allows an audit function to demonstrate it has the capacity to address all areas within significant risks in a reasonable period of time. If insufficient resources are available to cover these risks, the audit committee should be advised of the city’s exposure to these risks.

Best Practice #7: Select audit objectives that address all relevant and significant aspects of performance.

Top-performing audit functions usually include the following assessments in performance audits:



- The extent to which resources have been managed with due regard to economy and efficiency
- The extent to which resources have been managed with due regard to effectiveness
- The extent of compliance with laws, regulations, or policies
- The adequacy of internal controls or safeguards over public assets

Almost all (31) of the 36 performance audit leaders interviewed followed this best practice.

Best Practice #8: Scope audits broadly enough to support accountability for results.

High-performing audit functions conduct a range of performance audits to address audit objectives within specific programs, activities, processes, and systems. These audits focus on whether specific objectives have been met, internal controls are operating effectively, value-for-money has been achieved, and compliance with laws, regulations, and policies has occurred.

Best practice audit functions extend the scope of their audits to departments or branches or to sections of departments and branches to support accountability for results at the responsibility center level. While these types of audits require additional resources than more narrowly scoped audits, they are essential to reinforce accountability for results within local government. The interviews with 36 audit leaders identified 21 audit functions that follow this best practice.

Best Practice #9: Follow accepted auditing standards.

The Generally Accepted Government Auditing Standards (GAGAS), also known as the Yellow Book, provide a framework for conducting high-quality audits with competence, integrity, objectivity, and independence. The Yellow Book is followed by most of the high-performing functions within cities in the United States. Some audit functions in the United States, such as Tallahassee, Florida; New York, New York; and Austin, Texas; follow both the Yellow Book and the Red Book, The IIA's International Professional Practices Framework (IPPF).

In Canada, best practice functions follow both the Red Book and either the Yellow Book or CPA Canada's Value-for-Money Audit Standards. Follow-up interviews indicated that two audit functions in Quebec and two in English Canada met this hurdle. Audit functions outside North America typically follow the Performance Auditing Standards of the International Organisation of Supreme Audit Institutions (INTOSAI) when conducting performance audits.

Best practice audit functions can demonstrate adherence to accepted auditing standards by periodically undergoing external quality assurance reviews or self-assessments with external validation.

Best Practice #10: Actively build competencies and capability in performance auditing.

High-performing audit functions actively build competencies and capabilities in performance auditing by gathering best practice literature and providing in-house training. Best practice audit functions go one step further and actively seek out training opportunities offered by external professional associations such as The IIA, the Association of Local Government Auditors (ALGA), Municipal Internal Auditors Association (MIAA), Canadian Comprehensive Auditing Foundation (CCAF-FCVI), and Government Audit Training Institute (GATI).

Interviews with the 36 audit functions indicated that all of them met the criteria for high-performing audit functions. Due to budget restrictions, however, not all of them were able to meet the best practice. To address these budget restrictions, coordination with peers and external stakeholders will be required.



Best Practice #11: Support involvement of the audit function in professional associations.

High-performing audit functions in the United States participate in professional associations such as their local chapters of The IIA, ALGA, and ISACA, previously known as the Information Systems Audit and Control Association. In Canada, they participate in their local chapters of The IIA, ISACA, MIAA, and CCAF-FCVI. These professional associations are a source of best practice and training information.

Best practice audit functions participate in more than one of these associations to leverage the learning and best practices of their peers. These associations are a source of both affordable and effective training. Interviews with 36 audit leaders indicated that almost all of them participate in more than one professional association to obtain relevant and cost-effective training.

Best Practice #12: Demonstrate leadership in performance auditing.

One other factor contributed appreciably to the success of the best practice and high-performing audit functions that were identified in this study. Despite the barriers faced in their organizations, high-performing audit functions demonstrated leadership in performance auditing that was recognized by their peers.

CONCLUSION

The 12 best practices for performance auditing can be applied by many auditors in the public sector to make their activities more effective. In addition, public sector auditors can benefit from the insights provided by top-performing city auditors who were interviewed for this project.

Now that the best practices have been established, the report will look at some of the barriers or impediments to performance auditing. It should be noted that some of the high-performing audit functions also faced barriers but developed strategies to mitigate them.

FIFTEEN BARRIERS TO PERFORMANCE AUDITING

One of the most important parts of the research project was to identify the conditions that make it difficult for city auditors to conduct performance auditing. Based on a literature review and their combined experience, the researchers identified 15 barriers.

Each of the barriers was described in the survey and the respondents were asked to indicate to what extent they agreed or disagreed that the item was an obstacle to conducting performance audits in their organizations. (See appendix B for the exact wording of the barriers.) The researchers converted the responses to a numerical score as shown in exhibit 4.1.

EXHIBIT 4.1. RESPONSE OPTIONS FOR THE 15 BARRIERS AND THE SCORES ASSIGNED

Response Options	Assigned Barrier Scores
Fully agree	1
Partially agree	.5
Partially disagree	.25
Totally disagree	0

The numerical scores were used to create two important measures: (1) a barrier score for each barrier and (2) a barrier impact score for each respondent.

Barrier Scores

To create a *barrier score* for each barrier, the researchers averaged the scores that all respondents gave for each barrier. The barrier scores ranged from 0 to 1, with 0 meaning no impact and 1 meaning high impact reported from each respondent.

Therefore, if all respondents fully agreed that the barrier had an impact, then the barrier score would be at the maximum (1). If all respondents completely disagreed, the barrier score would be at the minimum (0). Scores at .4 or higher indicate a consensus that the barrier has an appreciable impact. Scores below .4 indicate that respondents generally did not experience much of an impact from the barrier.

Barrier Impact Scores

To create a *barrier impact score* for each respondent, the researchers added together each respondent's 15 barrier scores. The barrier impact scores for each respondent ranged from 0 to 15, with 0 meaning no impact and 15 meaning high impact from each of the barriers.

This chapter provides two important charts that summarize the findings about the barrier scores.

- Exhibit 4.2 shows the barriers listed from highest impact to lowest impact (based on the average scores from the three jurisdictions).
- Exhibit 4.3 lists the barriers ranked in order from highest to lowest for each of the three jurisdictions.

As you review these exhibits, please note that the rankings reflect weighted scores using the weights set out in exhibit 4.1. The rankings of individual barriers differ significantly from one jurisdiction but are generally higher in English Canada than in the United States, and highest in Quebec.

DISCUSSION OF BARRIERS

Barriers that had an impact of 0.4 in at least one of the three jurisdictions were considered to have significant widespread impact and were included in the interview research. The remainder of the report discusses these barriers in order from highest average impact to lowest average impact. With one exception, the only barriers that did not meet this criterion were staff competence, access, and independence. Responsibility for performance auditing not set out in the audit charter was examined because a number of internal audit leaders in the United States that were surveyed ranked this barrier as significant.



EXHIBIT 4.2. BARRIER SCORES LISTED FROM HIGHEST TO LOWEST IMPACT

Barrier Topic	Barrier	United States	English Canada	Quebec	Average
Formal Education	Universities do not offer adequate performance audit education.	0.51	0.58	0.63	0.57
Funding	Funding is insufficient compared to audit responsibilities.	0.53	0.49	0.63	0.55
Training Affordability	Affordable training for performance auditing is not available.	0.44	0.48	0.65	0.52
City Bylaws	City bylaws do not require performance audit.	0.40	0.56	0.55	0.50
Governance Maturity	Local governance processes are not mature.	0.33	0.52	0.55	0.47
Training Availability	Effective training for performance auditing is not available.	0.35	0.35	0.65	0.45
Performance Reporting Maturity	Local performance reporting processes are not mature.	0.36	0.50	0.48	0.45
State/Provincial Legislation	State or provincial legislation does not mandate performance audits.	0.45	0.60	0.25	0.43
Understanding of Internal Auditing	City officials, media, and/or citizens do not understand or support internal auditing.	0.36	0.38	0.53	0.42
Guidance for Performance Auditing	Textbooks, journals, etc., do not offer sufficient guidance on performance auditing.	0.28	0.27	0.50	0.35
Standards for Performance Auditing	Professional audit standards do not offer sufficient framework for performance auditing.	0.21	0.36	0.40	0.32
Staff Competence	Internal audit staff is not sufficiently competent in performance auditing.	0.19	0.25	0.30	0.25
Internal Audit Charter	Responsibility for performance auditing is not set out in an internal audit charter.	0.33	0.15	0.25	0.24
Access to Information	Access to people and information is insufficient for performance auditing.	0.21	0.23	0.25	0.23
Independence	Independence from audit clients is insufficient.	0.21	0.18	0.15	0.18
	Average per Jurisdiction	0.34	0.39	0.45	0.40

Note: The average was calculated by averaging the scores from the three jurisdictions: United States, English Canada, Quebec.



EXHIBIT 4.3. BARRIER AREAS RANKED FROM HIGHEST TO LOWEST IMPACT PER JURISDICTION

	United States		English Canada		Quebec	
1	Funding	0.53	State/Provincial Legislation	0.60	Training Affordability	0.65
2	Formal Education	0.51	Formal Education	0.58	Training Availability	0.65
3	State/Provincial Legislation	0.45	City Bylaws	0.56	Formal Education	0.63
4	Training Affordability	0.44	Governance Maturity	0.52	Funding	0.63
5	City Bylaws	0.40	Performance Reporting Maturity	0.50	City Bylaws	0.55
6	Performance Reporting Maturity	0.36	Funding	0.49	Governance Maturity	0.55
7	Understanding of Internal Auditing	0.36	Training Affordability	0.48	Understanding of Internal Auditing	0.53
8	Training Availability	0.35	Understanding of Internal Auditing	0.38	Guidance for Performance Auditing	0.50
9	Governance Maturity	0.33	Standards for Performance Auditing	0.36	Performance Reporting Maturity	0.48
10	Internal Audit Charter	0.33	Training Availability	0.35	Standards for Performance Auditing	0.40
11	Guidance for Performance Auditing	0.28	Guidance for Performance Auditing	0.27	Staff Competence	0.30
12	Standards for Performance Auditing	0.21	Staff Competence	0.25	State/Provincial Legislation	0.25
13	Access to Information	0.21	Access to Information	0.23	Access to Information	0.25
14	Independence	0.21	Independence	0.18	Internal Audit Charter	0.25
15	Staff Competence	0.19	Internal Audit Charter	0.15	Independence	0.15

Note: These barrier rankings are based on the barrier scores shown in exhibit 4.2.



THE EFFECT OF CITY SIZE AND STAFF SIZE

The impact of the barriers is significantly affected by city size and staff size. For the most part, cities with larger populations and/or larger audit staffs reported lower impacts from the barriers to performance auditing and spent more time on performance audits. However, a number of smaller cities in both Canada and the United States managed to overcome the barriers to performance auditing and spent as much time on performance auditing as the larger cities.

This chapter looks at the effect of city size and staff size on the percentage of time spent on performance audits. Key findings include:

- The impact of barriers on audit functions with smaller authorized staffing levels is consistent with the ranking of the insufficient funding barrier as having one of the highest impacts on performance auditing.
- Larger audit functions spend a larger percentage of time on performance audits than smaller ones do.
- Larger cities tend to have larger audit functions and conduct a higher percentage of performance auditing than smaller ones do. However, some medium-size cities have quite large audit functions.

POPULATION SIZE

Cities with smaller populations generally reported more impact from barriers than those with larger populations (see exhibit 5.1). The tendency of cities with smaller populations to face more significant barriers is particularly true in Quebec for cities with populations less than 250,000, primarily due to insufficient funding, immature governance processes, and lack of understanding and support for the audit function.

EXHIBIT 5.1. CITY POPULATION COMPARED TO BARRIER IMPACT SCORES			
Size of City	United States	English Canada	Quebec
Less than 250,000	5.61	5.64	8.2
250,001 to 500,000	5.9	7.5	6.42
500,001 to 1 million	3.73	5.11	3
Greater than 1 million	3.75	4.13	4.25

Note: Respondents gave each barrier a score from 0 to 1 based on the degree to which they perceived the barrier impacted performance auditing in their cities. The barrier scores for each city were added together to create an impact score for the city that ranged from 0 to 15, with 0 meaning no impact and 15 meaning high impact from each of the barriers.

SIZE OF AUDIT FUNCTION

The average perceived impact of barriers is generally higher within audit functions with fewer staff as measured by full-time equivalents (FTEs). Audit functions with more than 15 FTEs face far fewer barriers than those with five or fewer FTEs (see exhibit 5.2). In English Canada, “two or fewer” received a lower score than “two to five,” but this may be due to the lack of clear delineation between the categories.

EXHIBIT 5.2. INTERNAL AUDIT STAFF SIZE COMPARED TO BARRIER IMPACT SCORES			
Size of Internal Audit Activity	United States	English Canada	Quebec
2 or fewer FTEs	8.04	5.85	8.8
2 to 5 FTEs	5.36	7.13	5.41
5 to 10 FTEs	3.83	5.18	N/A
10 to 15 FTEs	4.36	5.75	N/A
More than 15 FTEs	3.41	4.25	3

Note: Respondents gave each barrier a score from 0 to 1 based on the degree to which they perceived the barrier impacted performance auditing in their cities. The barrier scores for each city were added together to create an impact score for the city that ranged from 0 to 15, with 0 meaning no impact and 15 meaning high impact from each of the barriers.

TIME SPENT ON PERFORMANCE AUDITS

Respondents with lower barrier scores spent a higher percentage of time on performance auditing (see exhibit 5.3).

EXHIBIT 5.3. TIME SPENT ON PERFORMANCE AUDITS COMPARED TO BARRIER IMPACT SCORES					
Aggregate Impact of Barriers	Less than 20%	20% to 40%	40% to 60%	60% to 80%	More than 80%
United States	7.17	6.18	5.99	3.88	4.48
English Canada	6.47	7.75	5.91	4.66	4
Quebec	7.75	9.38	4.49	6.78	0

Note: Respondents gave each barrier a score from 0 to 1 based on the degree to which they perceived the barrier impacted performance auditing in their cities. The barrier scores for each city were added together to create an impact score for the city that ranged from 0 to 15, with 0 meaning no impact and 15 meaning high impact from each of the barriers.

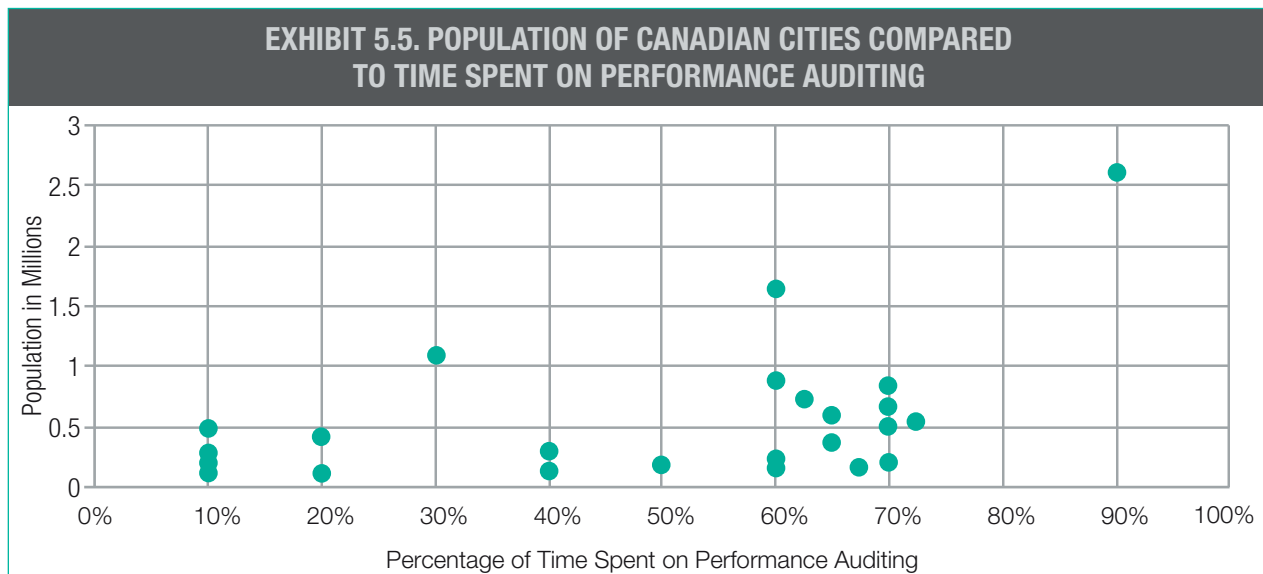
TIME SPENT ON PERFORMANCE AUDITS COMPARED WITH THE SIZE OF THE AUDIT FUNCTION

For the most part, the larger the number of audit staff, the greater the percentage of time spent on performance auditing (see exhibit 5.4).

EXHIBIT 5.4. INTERNAL AUDIT STAFF SIZE COMPARED TO TIME SPENT ON PERFORMANCE AUDITING			
Size of Internal Audit Activity	United States	English Canada	Quebec
2 or fewer FTEs	32%	44%	38%
2 to 5 FTEs	59%	10%	63%
5 to 10 FTEs	65%	61%	70%
10 to 15 FTEs	79%	50%	N/A
More than 15 FTEs	65%	70%	50%

TIME SPENT ON PERFORMANCE AUDITS COMPARED WITH SIZE OF THE CITY

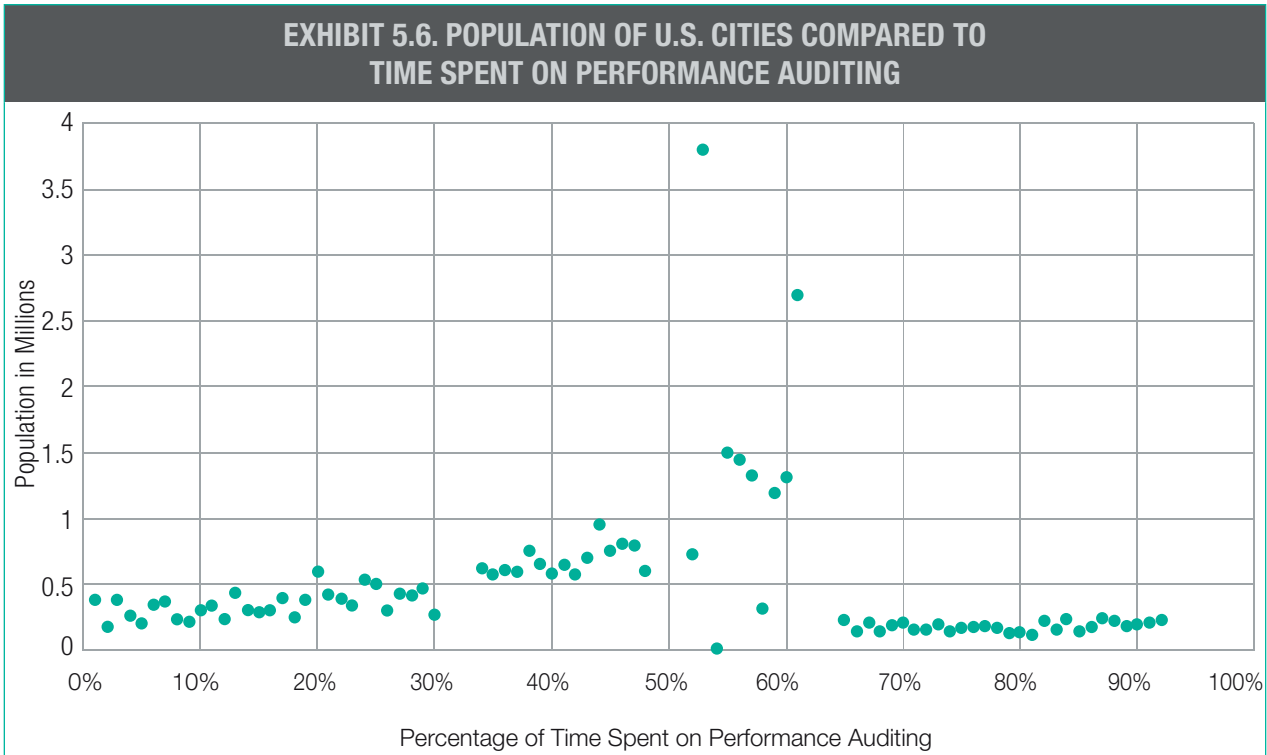
In Canada, the percentage of time spent on performance auditing is generally higher for larger cities, with auditors in the largest city—more than 2.5 million—spending 90% of their time on performance audits (see exhibit 5.5). The correlation is not, however, absolute.



Note: Each dot on the chart represents a city that completed the survey.



Exhibit 5.6 indicates that more than half of the audit functions within cities in the United States with populations below 500,000 spend more than 50% of their time conducting performance audits. This finding suggests that auditors within small cities in Canada should look to their counterparts in the United States to learn how they have mitigated the barriers to performance auditing.



Note: Each dot on the chart represents a city that completed the survey.

CONCLUSION

Because cities with smaller populations tend to be more affected by barriers, it is incumbent on the audit functions and professional associations to advocate the value that performance auditing can provide even within small cities. While variations exist among the three jurisdictions, taking steps to diminish the impact of the barriers should allow audit functions to dedicate more time to performance audits.

LACK OF FORMAL EDUCATION FOR PERFORMANCE AUDITING

This chapter provides information about:

- Availability of formal education programs about internal auditing for the public sector
- Differences between the United States and Canada in the importance placed on higher education

UNITED STATES

In the United States, one of the most frequent concerns expressed by respondents was that formal education (e.g., university and college curricula) does not give adequate attention to internal auditing (particularly in the government) and performance auditing. The curricula tend to emphasize auditing in the private sector and financial statement auditing.

Some respondents suggested approaches that can be taken to improve formal education programs. Ten suggested that city auditors work with The IIA and ALGA to continually advocate for more courses on government internal audit, including performance audits. One specific suggestion was to try to increase the number of academics who are active in The IIA.

The responsibility for revising formal education programs goes beyond the scope of this project. The IIA, as well as others in the audit profession in governments, should consider what role they can and should play in reorienting university and college curricula to better serve audit functions in government at all levels. In 2013, The IIA’s Internal Auditing Academic Advancement Fund (IAAAF) awarded \$144,677 to 12 universities (see exhibit 6.1).

EXHIBIT 6.1. UNIVERSITIES RECEIVING GRANTS FROM IAAAF

Bentley University	University of Houston
DePaul University	University of Nevada – Las Vegas
Kennesaw State University	University of New Orleans
Louisiana State University	University of Pretoria (South Africa)
Pittsburgh State University	University of South Africa
St. Cloud State University	University of Texas at Dallas

Note: These were the funding levels in 2013.

While grants help direct the attention of universities to the value of internal audit education programs, providing \$12,000 on average to a dozen educational institutions is only a small step toward generating the robust curriculum development and scholarship support that is necessary to produce an adequate supply of knowledgeable performance auditors. Additional emphasis on developing more academic courses and strengthening existing certification programs related to internal auditing (including performance auditing) in government will be needed to overcome this barrier.

CANADA

In English Canada, education was viewed as a significant barrier within audit functions. Notwithstanding, most of these organizations do not rely on colleges and universities to provide entry-level staff. Instead, they require entry-level staff to have accounting or auditing certifications and three to five years of work experience. To address the education gap, most thought it would be preferable to provide additional training courses through local chapters of The IIA or to bolster the content within the Certified Government Auditing Professional (CGAP) program to place greater emphasis on performance auditing.

In Quebec, lack of relevant education at the university level was identified as a significant barrier to effective performance auditing by all six of the respondents with high barrier scores that were interviewed. To address this gap, respondents suggested more training offerings in risk assessment and performance auditing processes from IIA Canada and the CCAF-FCVI. The CCAF-FCVI is a leading Canadian research and educational foundation that provides a neutral forum dedicated to promoting effective performance auditing and government oversight.

OBSERVATION

The IIA and IIA Canada could address this barrier directly by providing targeted grants to one or more universities in both Canada and the United States that already have robust accounting and public administration programs. Alternatively, The IIA and IIA Canada could revise the CGAP program to bolster the emphasis on performance auditing. They could also work together with ALGA, MIAA, and the CCAF-FCVI to develop additional courses in performance auditing.

INSUFFICIENT FUNDING

This chapter provides information about:

- Available guidance on funding levels
- Suggested funding formulas for the United States, English Canada, and Quebec
- Factors that contribute to insufficient funding
- Methods that interviewees have used to increase funding

UNITED STATES

In the United States, authoritative bodies have not established a uniform criterion for an appropriate, or minimally acceptable, amount of an annual budget for an internal audit function for a city. For the 24 U.S. cities, the most recent annual budget of the audit function was compared to the most recent annual budget of the programs subject to audit (usually the amount of the general fund). Leaders within these cities reported the following budget levels compared to the budgets of the programs subject to audit (see exhibit 7.1).

EXHIBIT 7.1. INTERNAL AUDIT BUDGET COMPARED TO BUDGET OF PROGRAMS AUDITED

Internal Audit Budget	Less than .1%	.11% to .49%	.5%
U.S. Cities Interviewed	11	12	1

It is common knowledge that, in recent years, governments at all levels in the United States have experienced significant budget stress. Thus, it is not surprising that the audit functions in local governments have faced budgetary constraints. In fact, interviews with 24 audit functions that follow best practices indicated that at least half of them were experiencing funding challenges from budgetary pressure in recent years.

The open question is, despite overall budget constraints, what approaches might lead to increased budgets for audit functions? Respondents stressed the need to increase awareness of the value of auditing. (This would also address the barrier of internal auditing not being sufficiently understood or supported.) One helpful tool for describing the value of internal audit to public sector stakeholders is a brochure titled “Funding the Audit Function,” which is available as a PDF download from ALGA.

Respondents also suggested it is significant for audit budgets to be separately identified and justified rather than subordinated in broader budgets, such as under the finance and budget function. Others recommended that protections for the audit budget be established.

While generally accepted criteria for establishing audit budgets do not exist, some jurisdictions set out specific budgetary amounts for audit. At least two U.S. cities have a mandate that includes specific guidance on audit budgets:

- The Home Rule Charter of New Orleans, Louisiana, requires that “the OIG (Office of Inspector General), in conjunction with the Ethics Review Board, shall receive an annual appropriation from the Council in an amount not less than .75% (three-quarters of one percent) of the General Fund operating budget” (section 9-401, paragraph 3).
- The City Charter of Chattanooga, Tennessee, states that “budget reductions shall only be made when proportional to reductions in the City’s budget for ordinary expenses” (section 3.111, paragraph C, effective 1-27-2012).

Although the approaches followed in New Orleans and Chattanooga may not be feasible in all environments, providing funding guidelines warrants consideration.

To understand funding concerns in the United States, the research team analyzed the actual funding levels for audit functions within 50 of the cities that participated in the survey. Based on this information, the team compiled a table of suggested funding formulas based on city size and general funds (see exhibit 7.2). Caution must be exercised when applying this guideline, however. The funding levels suggested are not sufficient to cover state-level requirements for fraud and waste hotlines, capital project audits, or local requirements for audits within enterprise entities such as airports. Funding levels need to be commensurate with the breadth and scope of the mandate and tailored to the risk appetites of the city council or other officials, the audit committee, and senior city staff.

EXHIBIT 7.2. MINIMUM FUNDING LEVELS SUGGESTED FOR CITIES IN THE UNITED STATES

General Fund	Funding Formula Suggested by the Authors
Up to \$500 million	0.15%
\$501 million to \$1 billion	0.14%
\$1.01 billion to \$1.5 billion	0.13%
\$1.51 billion to \$2 billion	0.11%
\$2.01 billion to \$3 billion	0.09%
\$3.01 billion to \$5 billion	0.08%
\$5.01 billion to \$7 billion	0.07%
\$7.01 billion to \$10 billion	0.06%
\$10.01 billion to \$15 billion	0.05%
\$15.01 billion to \$20 billion	0.04%
\$20.01 billion to \$30 billion	0.03%
\$30.01 billion to \$50 billion	0.02%
\$50.01 billion and up	0.01%

ENGLISH CANADA

To understand funding concerns in English Canada, funding levels were reviewed within 18 cities (six with significant barriers, six with better practices, and six others that responded to the original survey). According to interviews with the audit leaders in these cities, insufficient funding was identified as the fifth overall barrier to effective performance auditing in English Canada and was closely tied to the lack of affordable training, which was identified as the sixth overall barrier in this jurisdiction. It was also noted that 15 of the 22 survey respondents in English Canada identified funding concerns. Two of the respondents with no funding concerns were providing contractual services for internal audits for a fixed annual fee. One of these was not providing any performance audits to the city. The services of the other were not tied to a risk assessment that might have pointed to a need for performance audits to address lack of value-for-money within city operations.

Discussions with the audit leaders in English Canada indicated that some audit functions were funded at much higher levels than others and that significant funding gaps existed within several cities. As a result, the research team prepared guidelines to suggest minimum funding levels that are based on average funding levels across English Canada (see exhibit 7.3).

Care must be taken when applying the guidelines because the suggested funding levels are minimum levels. They are insufficient to satisfy unique local requirements for additional assurance services such as

fraud and waste hotlines, capital project audits, or audits within related agencies, boards, commissions, municipally controlled corporations, and grant recipients.

Funding levels for audit functions need to be commensurate with the breadth of the mandate and tailored to the risk appetites of the city council or other officials, the audit committee, and senior city staff. For cities with an auditor general, minimum funding levels should be prescribed in legislation as they are in the Cities and Towns Act in Quebec in order to protect the independence of the function and to ensure that legislated responsibilities can be fulfilled.

EXHIBIT 7.3. MINIMUM FUNDING LEVELS SUGGESTED FOR CITIES IN ENGLISH CANADA	
Operating Budget	Funding Formula Suggested by the Authors
Up to \$250 million	0.14%
\$251 to \$500 million	0.13%
\$501 million to \$1 billion	0.12%
\$1.01 to \$2 billion	0.08%
\$2.01 to \$4 billion	0.07%
\$4.01 billion and up	0.06%

QUEBEC

In Quebec, funding issues were identified as a very significant barrier to effective performance auditing by five of the six respondents interviewed. Section 107.1 of the Cities and Towns Act in the Province of Quebec requires all municipalities with populations greater than 100,000 to establish an auditor general office to conduct internal and external audits. Funding levels for these functions are set at various percentages of operating budgets.

Respondents indicated that funding levels should be set at some minimum level such as \$400,000 to allow smaller offices to dedicate more time to internal audits (including performance audits) (see exhibit 7.4). Funding levels need to be commensurate with the breadth of the mandates and tailored to the risk appetites of members of the city council or other officials and the audit committee.

EXHIBIT 7.4. MINIMUM FUNDING LEVELS SUGGESTED FOR CITIES IN QUEBEC		
Operating Budget	Actual Funding Formula (from the Cities and Towns Act)	Funding Formula Suggested by the Authors
\$101 million to \$200 million	0.16% of operating budget	Minimum of \$400,000
\$201 million to \$400 million	0.15% of operating budget	Minimum of \$400,000 or 0.15% of operating budget
\$401 million and above	From 0.14% to 0.11% of operating budget	No change



LACK OF AFFORDABLE AND/OR AVAILABLE TRAINING

The key points in this chapter are:

- An overview of the organizations city auditors use for training
- The challenge of training costs compared to public sector budgets
- Training topics that are most needed
- Lack of effective training courses in French

ORGANIZATIONS PROVIDING TRAINING FOR PERFORMANCE AUDITING

Based on survey responses, audit leaders from the United States and Canada rely on a variety of organizations to obtain training for performance auditing (see exhibit 8.1).

EXHIBIT 8.1. USE OF TRAINING ORGANIZATIONS BY SURVEY RESPONDENTS IN THE PAST FIVE YEARS						
Training Organizations	United States		English Canada		Quebec	
	Partially	Extensively	Partially	Extensively	Partially	Extensively
The IIA	57.0%	3.8%	40.9%	4.5%	50%	20%
ALGA	50.6%	21.5%	27.3%	4.5%	10%	0%
MIAA	7.6%	0%	27.3%	18.2%	0%	0%
CCAF-FCVI	1.3%	0%	4.5%	0%	30%	10%
Others	24.1%	0%	13.6%	0%	40%	0%

Note: The IIA is The Institute of Internal Auditors. ALGA is Association of Local Government Auditors. MIAA is Municipal Internal Auditors Association. CCAF-FCVI is the Canadian Comprehensive Auditing Foundation.

UNITED STATES

Within the United States, lack of affordable training was seen as one of the largest barriers to effective performance auditing. Respondents indicated that available training costs too much and yet does not fully meet needs. Comments from interviewees included:

- Budgeted resources for training are limited.
- Limits on travel funds make it difficult to attend out-of-town events.

- Training from certain vendors is too expensive for local governments.
- Courses with live instructors tend to be expensive, so other approaches are required.

These factors lead respondents to select vendors whose prices are within their limited resources for training, and they avoid higher-priced vendors. Some respondents said they are leaning toward more web-based courses and interactive webinars from a variety of vendors, and will likely do so in the future. If training by a live instructor is desired, the respondents said they try to use training and seminars sponsored by local chapters of The IIA and other professional organizations because travel budgets are limited. Many auditors obtain training from ALGA, which is a not-for-profit organization that supports local government auditing through advocacy, collaboration, education, and training.

Respondents offered a range of reasons why they considered available training courses not to be fully effective. For example, on a broad level, many vendors provide training that focuses primarily on the private sector and are not sufficiently oriented to the government environment. Respondents cited specific training needs that are not sufficiently addressed, including:

- Basic, intermediate, and advanced-level skills
- Risk management and internal control assessments
- IT knowledge and use in audits
- Fraud awareness and detection techniques
- Preparation for certifications, such as CGAP

Based on these responses, it appears that training vendors have an opportunity to provide training to local government if the vendors design courses that focus on significant and specific needs and are able to provide courses at prices that staff within cities can afford.

ENGLISH CANADA

In English Canada, lack of affordable training was viewed as a significant barrier to effective performance auditing. Some respondents were receptive to having more web-based training, but many would still prefer to have local classroom training. Comments included:

- Budget restrictions are real and limit participation.
- There is a lack of cost-effective training due to an insufficient number of qualified trainers.
- It is tough to find training courses in performance auditing unless traveling to a conference or bringing an instructor in—both of which are costly.

The effectiveness of training was a smaller issue, with many respondents pointing out that affordability was a much larger concern. Respondents indicated that training should be targeted to basic, intermediate, or advanced audiences due to the different maturity levels of the function across Canada. Interviewees in English Canada said enhancement of the CGAP program would be less helpful than

providing more effective training programs within the local IIA chapters and Municipal Internal Auditors' Association (MIAA). MIAA is a not-for-profit organization that provides training and skill development for municipal internal auditors.

QUEBEC

In Quebec, lack of affordable training is a very significant barrier to effective performance auditing. All six of the auditors general that were interviewed identified this as a significant concern and suggested developing the following materials:

- Courses for the municipal sector developed by CPA Canada (formerly Canadian Institute of Chartered Accountants)
- Courses on how to conduct a performance audit, e.g., development of audit programs and selection of appropriate criteria
- Courses on basic, intermediate, and advanced levels of performance auditing, because it is relatively new in Quebec, where municipalities were amalgamated in 2002

In Quebec, lack of effective training tied with lack of affordable training as the second most significant barrier. Lack of effective training courses in French was identified as very problematic by all six of the auditors general that were interviewed. Coordination and collaboration between IIA Canada, local chapters of The IIA, CCAF-FCVI, and CPA Canada will be required to address this barrier.

LACK OF LEGISLATION OR MANDATE FOR PERFORMANCE AUDITING



This chapter discusses the three barriers related to legislation, or mandates, for performance auditing. The following areas are discussed:

- State or provincial legislation
- City bylaws
- The mandate, constitution, or charter of the city's internal audit function

Key points in this chapter include:

- In the United States, interviewees somewhat favored city legislation or mandates compared to state legislation.
- In English Canada, most interviewees indicated provincial or city legislation would be more helpful than a requirement in an internal audit constitution or charter.
- In Quebec, there is already provincial legislation that mandates value-for-money for auditing, but different interpretations of the Cities and Towns Act are affecting how performance auditing is implemented.

UNITED STATES

At the state level. In 18 of the 24 cities with highest barrier scores, there was no state legislation requiring cities to have a performance audit function. Five cities had state laws that included a *general* requirement for internal audits by local governments but not a specific requirement for performance audits. Only one respondent reported that state legislation required performance auditing.

Of the 18 respondents without a state requirement, seven said a state requirement would be necessary (or at least helpful) to assuring performance audits are done. On the other hand, seven did not see legislation as necessary, and four were either neutral or uncertain about the need for a state requirement.

The seven respondents who did not see a need for state legislation said they had sufficient authority to conduct performance audits without it. One respondent said that, in his state, local governments might object to a state requirement, seeing it as too controlling. A second respondent questioned whether state legislation was a good idea. Another view was that state legislation seemed unnecessary due to the existence of a firmly established audit function with experienced auditors. Some noted that having a requirement for performance auditing within the city charter or city ordinances would be desirable.

At the local level. Responsibilities and authority for internal auditing may be included in city charters, city ordinances, or perhaps other legal documents related to the local government's functions and activities. However, 17 of the 24 respondents interviewed operated under charters, ordinances, or other legal documents that did not explicitly require performance audits, whereas only two operated under



documents that included that specific requirement. The remaining five operated under legal documents with language that, according to respondents, could be interpreted to include performance audits.

Of the 17 that operated without a specific requirement, 12 respondents indicated a requirement should be included in the bylaws or other legal documents. The other five respondents did not see a need for a specific requirement in order to have performance audits. In summary, most respondents tended to favor, or at least not oppose, a legal requirement for performance auditing at the local level within the city charter or city ordinances.

In the audit mandate. A mandate for internal audit may be in a stand-alone document, such as an audit charter, or may be incorporated into a city charter or ordinance. Of the 24 audit functions included in our follow-up calls, 18 did not have a formal mandate—in either a separate audit charter or another legal document—that included a specific requirement for performance audits. Discussions indicated that respondents tended to favor, or at least not oppose, having a specific requirement for performance auditing within an audit mandate.

In conclusion, a requirement for performance auditing in at least one of the three levels—via state legislation, local charter or bylaw, or audit mandate—would advance performance auditing in U.S. cities. Internal audit functions could benefit from working with The IIA and ALGA to identify best practices in state and local legislation and audit mandates.

CANADA

At the provincial level. Lack of provincial legislation was ranked as the most significant barrier to effective performance auditing by more than half the respondents in English Canada. Most respondents indicated that legislation, such as that in place in the province of Quebec, would be beneficial for smaller cities where governance processes are immature, responsibilities for performance or value-for-money auditing have not been clarified, or funding levels for the audit function are insufficient.

In Quebec, provincial legislation is already in place requiring value-for-money auditing in all cities with populations greater than 100,000. Notwithstanding, the auditor general's office functions differently depending on the city's interpretation of the Cities and Towns Act. Respondents said the act is clear on the mandate of the auditor general but not on the functioning and the operations of the office. The auditors general are looking to formalize practices in the act.

At the local level. In English Canada, lack of bylaws setting out the authority and responsibility of the audit function to conduct performance audits was identified as a barrier to performance auditing. IIA Canada and the MIIA could work together to identify model legislation at the local level.

In Quebec, lack of bylaws setting out the authority and responsibility for the audit function to conduct performance audits was identified as a barrier by four of the six auditors general that were interviewed. Most felt it would be helpful to have bylaws in place to support the audit function.

In the audit mandate. The absence of performance auditing in a city's mandate, constitution, or charter was not identified as a significant barrier in Canada. It would be beneficial for audit leaders to work with IIA Canada, MIAA, and the CCAF-FCVI to focus on best practices in provincial and local legislation, rather than the audit mandate.

OBSERVATIONS

In the United States, lack of clear responsibility for performance auditing is a significant barrier to effective performance auditing. U.S. respondents preferred to see responsibility for performance audits clarified at the city level within the city charter or city ordinances.

Respondents in English Canada expressed concerns about the lack of legislation at the provincial level and the city level to clarify the responsibility for performance audits. Some believe provincial legislation should be introduced or amended to support audit functions within smaller cities where mandates are unclear.

Respondents in Quebec already have provincial legislation in place that requires auditor generals to conduct value-for-money audits. They were in favor of introducing bylaws at the city level to improve understanding of the audit function with the city council and senior staff.



IMMATURE PERFORMANCE REPORTING PROCESSES

The maturity of performance measurement and reporting processes can affect the internal auditors' ability to conduct performance audits. In addition, there is an ongoing debate about the appropriate role for the internal auditor in the performance measurement and reporting process. This chapter provides information about:

- Key legislation and publications that describe the role of internal audit in the performance measurement and reporting process
- Interviewee comments about the impact of immature performance measurement and reporting processes
- The extra impact on smaller cities and small audit functions, where immature performance measurement and reporting processes were more common than in larger cities

UNITED STATES

Nineteen of 24 survey respondents with the highest barrier scores fully (nine) or partially (10) agreed that “immature” performance measurement and reporting processes constituted a barrier to performance auditing. However, follow-up interviews showed that respondents had a range of interpretations of the word “maturity” and varying levels of knowledge of, and interest in, management’s performance measurement and reporting processes. While many respondents answered the initial survey stating this was a barrier, follow-up interviews suggest immature performance measurement and reporting processes were not directly precluding performance audits from being completed. Respondents acknowledged, however, that more mature processes would allow an improved performance audit function.

In recent decades, interest in performance measurement, reporting, and management in government in the United States has increased significantly. This strong interest has manifested itself in new or revised laws, regulations, policies, and initiatives at all levels of government. At the federal level, for example, major legislation was enacted in 1993 and further expanded and revised in 2010 (Government Performance and Results Modernization Act).

Regarding state and local levels, the Government Accounting Standards Board (GASB) has conducted a great deal of research on how performance can be measured. Although GASB has not established standards, it has developed a model of how states and cities can voluntarily report on performance. Many states, such as Texas, have legislation requiring performance measurement and reporting. Likewise, many cities have enacted ordinances in this regard. Many variations exist in these requirements, and performance management is still often called a “work in progress” in public administration literature.

Normally it is the primary role of management to establish and carry out performance measurement and reporting processes, and that was the finding in this research. So, what is the appropriate role of

performance auditors in performance reporting processes? In 1995, an IIARF publication, *Use and Audit of Performance Measures in the Public Sector*, included the following:

In general, the results of a performance audit are the auditor's conclusions and assertions regarding the entity. In contrast, the results of an audit of performance measures are limited to assessing management's assertions with regard to economy, effectiveness, and efficiency.

A 2004 IIARF publication, *Auditor Roles in Government Performance Measurement*, outlined and discussed additional current and potential auditor roles. In 2014, there does not appear to be a clear consensus on the most appropriate auditor role in performance reporting processes. Although many still limit themselves to assessing management assertions, some auditors do more. At the time of this research, The IIA's American Center for Government Auditing (ACGA) was considering further research on auditor roles in government performance measurement.

The 24 respondents who were asked follow-up questions generally did not have detailed knowledge of the performance reporting processes or a significant role in developing them. They also expressed a clear lack of confidence in the measures. Here are examples of statements from respondents:

- “The reporting processes here are at the bottom of the pool. There is no champion, so it is not enterprise-wide.”
- “The goals are too easily attainable; the bars are too low. Thus, it [performance reporting] is not credible.”
- “Performance reporting processes do exist, but I would call it a surface system, and just not credible.”
- “Limited reviews by the auditors have shown many errors, and the measures are not relevant.”

Performance auditors at the local level of government should, at a minimum, stay abreast of how management is developing and using these processes. Performance auditors are in a position to assist with the development of sound performance measurement and reporting processes, and may want to become advocates for more mature or robust performance measurement and reporting processes within local governments.

CANADA

In English Canada, all six respondents that are facing the greatest challenges at least partially agreed that a lack of mature performance measurement and reporting processes was a barrier to effective performance auditing. Some respondents have systematic and rigorous performance measurement and reporting processes in place and measure actual results against targets at least annually. Others have ad hoc processes or processes that are not well-documented. Most described these systems as documented but basic.

Some audit functions are not conducting performance audits because they believe it is pointless to do so until management develops performance measures and targets and is willing to hold managers

accountable for results. Others are conducting performance audits regardless of the maturity of performance measurement and reporting processes in place within their cities.

In Quebec, five of six of the auditors general that are facing the greatest challenges see the lack of mature performance measurement and reporting processes as a barrier. Immature performance measures are considered to be a larger obstacle to performance auditing within smaller cities and smaller audit functions. Interviews indicated that this barrier is seen to be related to immature governance processes within these cities.

OBSERVATIONS FOR CANADA

It is recommended that IIA Canada, MIAA, and CCAF-FCVI work together to identify best practices for conducting performance audits within cities that have immature performance measurement and reporting practices. Supporting improvements to performance measurement and reporting processes would improve transparency and accountability for results. In prior years, the CCAF-FCVI published a major study on performance reporting and could assist with this initiative.

IMPACT OF REPORTING PROCESSES ON SMALL CITIES AND SMALL AUDIT FUNCTIONS

Immature performance measurement and reporting processes are considered to be a barrier within small cities and by small audit functions. This was true in all three jurisdictions. Interviews with several audit leaders in these cities and small audit functions indicated that immature performance measurement and reporting processes were often tied to immature governance processes. These respondents noted that the culture within their organizations was not conducive to performance audits.

In contrast, audit leaders within larger cities and larger audit functions did not view immature performance measurement and reporting processes as being significant barriers to effective performance auditing. First, performance measurement processes in larger cities were typically more mature than in smaller cities. Second, even if they were not well-established for all programs, functions, or activities, audit functions in large cities had both the capacity and capability (and conviction) to undertake their own measurements of inputs, outputs, and outcomes to identify opportunities to improve the efficiency, effectiveness, and economy of program delivery.

OBSERVATIONS

Performance auditors can and should advocate for improvements to performance measurement and reporting processes if they are immature or less than robust. Improvements in these areas will help to improve transparency and accountability for results, and may lead to a greater understanding and acceptance of performance audits.

IMMATURE GOVERNANCE PROCESSES

A key element of governance is the reporting relationship of the audit functions. Best practice research indicates that internal audit should report functionally to an audit committee and administratively to senior management. This chapter describes:

- Functional reporting lines described by survey respondents
- Challenges with audit committee maturity and effectiveness in English Canada
- Lack of audit committees in Quebec

FUNCTIONAL REPORTING LINES

In the initial survey, at least seven out of 10 respondents indicated that they reported functionally to an entity other than management (i.e., council and mayor, audit committee, another committee, or citizenry) (see exhibit 11.1). More auditors in the United States reported to management, compared to those in English Canada and Quebec.

EXHIBIT 11.1. FUNCTIONAL REPORTING RELATIONSHIPS OF AUDIT FUNCTIONS			
	United States	English Canada	Quebec
Council and Mayor	35.6%	13.6%	50%
Audit Committee	28.6%	68.2%	40%
Another Subcommittee	3.6%	4.5%	0%
Citizenry	3.6%	0%	0%
Subtotal	71.4%	86.3%	90%
City Manager	14.3%	4.5%	10%
Chief Financial Officer or Treasurer	14.3%	9.2%	0%
Subtotal for Other	28.6%	13.7%	10%

UNITED STATES

The initial survey of 84 local governments in the United States identified immature governance processes as a barrier but without much impact, coming in at 10 out of 15. Of the 24 U.S. respondents

facing the greatest challenges, eight fully agreed and eight partially agreed this was a significant barrier. Of the remaining eight, six partially disagreed and two fully disagreed that this barrier existed in their cities.

Because of the importance of functional reporting relationships, additional information about these relationships was obtained during our follow-up questions with auditors who had the highest barrier scores. The results were as follows:

- Nine functions reported to an audit committee.
- Five reported to a city council.
- Five reported to a city manager.
- Five reported to the chief financial officer or treasurer, or another entity.

The composition and operating practices of the audit committees differed. The members of at least four audit committees were all or partially from the city council, but the members of others included city managers and department heads or officials. Research did not include detailed review of committee operating procedures, but some information came to the attention of the research team. The frequency of meetings ranged from quarterly to annually. In one case, the committee's involvement was limited to approving the annual audit plan and selecting the financial statement auditor. Some respondents were critical of the effectiveness of their audit committees. They suggested it would be beneficial to review their audit committee charters against best practice.

CANADA

In English Canada, the cities facing the greatest challenges at least partially agreed that immature governance processes were a significant barrier to performance auditing within their organizations. Follow-up interviews identified concerns, including:

- Governance processes are evolving, but extensive review by council of administrative rather than strategic decisions and key performance measures still occurs.
- The knowledge and experience of members of the council change with each election; therefore, a robust governance orientation program would be beneficial.
- The quality of leadership provided from one mayor to the next varies substantially; therefore, guidelines should be developed to assist the head of council.

In English Canada, almost 52% of the audit functions reported to an audit committee. However, even with an audit committee present, there were still concerns about the adequacy of governance processes within these organizations, as noted:

- Significant challenges remain to make the role of the audit committee systematic and rigorous, in that some of the procedures remain to be developed, and the composition, knowledge, and experience of members will change after the next election.



- The audit committee should not be seen as “just another committee,” because it requires unique skill sets and accountabilities.
- Members of the council and the audit committee often fail to hold management accountable for results. Performance measurement processes are ineffective.

In Quebec, immature governance processes were ranked as the sixth most significant barrier to effective performance auditing. Immature governance processes were of greatest concern within the smaller cities and were identified as one of the most significant barriers within the cities that face the greatest challenges. Sixty percent of the cities do not have an audit committee in place, although some are currently considering establishing one.

OBSERVATIONS

Performance auditors can and should advocate for improvements to governance processes if they are immature or less than robust. Improvements in these areas will help to improve transparency and accountability for results and may lead to a greater understanding and acceptance of performance audits.



LACK OF SUPPORT FOR INTERNAL AUDIT FROM OFFICIALS, MEDIA, AND CITIZENS



This chapter focuses on perceptions of internal audit that are held by city officials, local media, and citizens. The interviewees provided detailed information about:

- Specific challenges that result from a lack of support for internal audit
- Ways to build support for internal audit

UNITED STATES

In the initial survey, 18 of 24 respondents with the highest barrier scores either fully agreed (nine) or partially agreed (nine) that lack of understanding and support from stakeholders was a barrier to performance auditing. Three partially disagreed, two totally disagreed, and one did not respond. Interviewees identified key stakeholders as city councils, city managers, chief financial officers, department heads and personnel, and, to a lesser degree, the media and the general public.

Those who fully agreed that lack of support was a barrier said they have experienced several negative consequences, for example:

- Shortage of audit staff and tight time frames lead to narrowing audit scopes, which, in turn, hurts the quality of audits.
- Internal audit's mission is focused on assisting the financial statement audit and grant auditing process, rather than on performance auditing.
- Stakeholders generally resist the audit function and/or view the auditors as a threat, i.e., as “gotcha” auditors.

Those who partially agreed offered various comments, including:

- The city manager provides verbal support but “does not really grasp” the audit function.
- The city manager and the chief financial officer are “very understanding,” but some department heads resist.
- It's a “continuing challenge” to get better understanding and support.

Among those who *partially disagreed*, one attributed the level of understanding and support to the fact that he had been in internal audit for more than 12 years and thus his role was well established. One cited an annual plan, a website where all reports are posted, and the practice of following the GAO Yellow Book as rationale for being understood and supported. Another simply stated that there were no “significant issues” regarding lack of understanding and support.



Of those who *totally disagreed*, one said the audit function was understood and supported in large part because the current city manager was formerly a city auditor (a somewhat unusual circumstance). The other did not offer a particular rationale for believing his role is sufficiently understood and supported.

Respondents cited several ways to improve understanding and support for the audit function among stakeholders. Several commonly cited approaches were:

- Distribution of annual audit plans, finalized after input from management
- Websites and/or brochures describing the audit function and activities
- Periodic newsletters of internal audit activity
- Public availability of audit reports
- Hotlines for the public
- Press briefings

Although these approaches often bring improvement, it should be noted that some respondents who fully agreed that they have a lack of support were already using a number of these techniques. At the end of the day, some circumstances may simply be beyond the internal auditors' control.

CANADA

In English Canada, lack of support and understanding was identified as a barrier by half the respondents who were experiencing significant barriers to effective performance auditing, irrespective of the size of the city. Respondents indicated that some city councils do not fully understand the value of the audit function to help oversee management's activities. As a result, council members fail to make appropriate inquiries of staff regarding concerns that are raised within audit reports and annual reports that track the status of audit recommendations.

Others noted that members of the city council often need to be educated on the role of internal audit, controls, governance, risk management, and performance measurement and reporting processes. Respondents indicated that the need to educate elected officials is an ongoing challenge because of turnover in elected positions and the varying levels of knowledge and experience of those elected.

In Quebec, lack of support and understanding was identified as a very significant barrier to effective performance auditing within cities facing the most challenges. These cities all agreed—at least partially—that lack of support and understanding was a significant barrier in their organizations. Some indicated that stakeholders do not understand performance auditing because it is still a fairly new process in the smaller cities. Most are addressing the lack of understanding by meeting with senior staff to discuss the process and by reporting results of audits annually to members of the city council. Sharing best practices may be beneficial to build support and understanding for performance auditing within cities in Canada.

LACK OF AUTHORITATIVE GUIDANCE IN TEXTS AND JOURNALS

This chapter provides readers with:

- An overview of most commonly used guidance
- A list of most relevant guidance for performance auditing

UNITED STATES

Lack of authoritative guidance was not viewed as a significant barrier in the United States by most survey respondents, ranking 11 out of 15. Despite this, 17 of the 24 respondents facing the greatest challenges at least partially agreed that this was a barrier to effective performance auditing.

CANADA

In English Canada, the lack of authoritative guidance on performance auditing ranked 11 out of 15 potential barriers. Notwithstanding, half the respondents facing the greatest challenges identified concerns about the lack of authoritative guidance.

In Quebec, the lack of authoritative guidance is seen as the ninth most significant barrier to effective performance auditing. Despite this, all of the cities facing the greatest challenges raised concerns about the lack of authoritative guidance available in French. Many of the auditors general in municipalities within Quebec are chartered professional accountants (CPAs) who are required to follow CPA Canada's Value-for-Money Audit Standards. Respondents pointed out that CPA Canada has not issued any guidelines or publications recently to facilitate implementation of these standards.

As a resource for readers, the research team compiled a list of the most recent relevant professional publications about performance auditing. Readers also should check regularly for new releases from The IIA, the Association of Local Government Auditors (ALGA), the Government Accountability Office (GAO), the Canadian Comprehensive Audit Foundation (CCAF), and CPA Canada (see exhibit 13.1).

EXHIBIT 13.1. INFORMATION SOURCES ABOUT PERFORMANCE AUDITING

The Institute of Internal Auditors (IIA) and The IIA Research Foundation (IARF)

Public Sector Definition and the Role of Auditing in Public Sector Governance, Supplemental Guidance, 2012

Optimizing Public Sector Audit Functions, Supplemental Guidance, 2012

CGAP Exam Study Guide, 4th Edition, 2012

CGAP Exam Study Questions, 2010

Red Book-Yellow Book Comparison of IIA, 2012

Performance Auditing: A Measurement Approach, 2nd Edition, 2009

International Professional Practices Framework (IPPF), 2013. (This publication is often referred to as the “Red Book.”)

U.S. Government Accountability Office (GAO)

Government Auditing Standards, 2011 (in particular, the performance auditing standards). (This publication is often referred to as the “Yellow Book.”)

INTOSAI

ISSAI 3000, Standards and Guidelines for Performance Auditing based on INTOSAI’S Auditing Standards and Practical Experience, 2004

Canadian Comprehensive Auditing Foundation (CCAF-FCVI)

What We can Learn from Effective Public Performance Reporting, 2007

Users and Uses: Towards Producing and Using Better Public Performance Reporting – Perspectives and Solutions, 2006

Public Performance Reporting: A Management Perspective, 2001

Proposed Guidance for Audit Committees in the Public Sector, 2005

Association of Local Government Auditors (ALGA)

Model Legislation Guidelines for Local Government Auditors, 2014

Guide to Establishing a Performance Audit Function

Why Your Organization Should Have a Performance Audit Function

Why Your Organization Should Continue to Support Independent Performance Auditing

The Role of Auditing on Public Sector Governance

Benefits of Audit Committees and Audit Committee Charters for Government Entities

INADEQUATE STANDARDS FOR PERFORMANCE AUDITING

Respondents from Canada and the United States had distinctly different perspectives about the availability of professional standards/guidelines to support performance audits. The key points about this barrier are:

- U.S. respondents did not view lack of standards/guidelines as a significant barrier.
- Respondents in both English Canada and Quebec viewed lack of standards/guidelines as a moderate challenge.

STANDARDS USED FOR PERFORMANCE AUDITING

The Generally Accepted Government Auditing Standards (GAGAS), also known as the Yellow Book, provide a framework for conducting performance audits and financial audits. The Yellow Book is for use by auditors of government entities, entities that receive government awards, and other audit organizations performing Yellow Book audits.

In Canada, CPA Canada's Value-for-Money Audit Standards are used by legislative auditors general within federal and provincial governments as well as some local governments. The standards for performance audits that have been issued by the International Organisation of Supreme Audit Institutions (INTOSAI) are generally not followed in either the United States or Canada.


UNITED STATES

Inadequate standards and guidelines were not viewed as a significant barrier within most of the cities in the United States where the majority of local governments follow GAGAS. Inadequate standards and guidelines were, however, seen to be a barrier within 15 of the 24 audit functions that face the greatest challenges.

CANADA

Two-thirds of the respondents facing the greatest challenges indicated that the lack of adequate standards and guidelines in Canada was a concern. Some said that, to the extent possible, they are following The IIA's International Professional Practices Framework (IPPF). Several said that these standards and guidelines are nearly silent on the subject of performance auditing and that the Yellow Book identifies standards for performance auditors.

One respondent observed that "The IIA's standards are generic, so that they can be applied globally. This necessitates that the auditor conduct extensive research on the business unit being audited and identify performance benchmarks where possible to determine relevant measurement criteria to assess performance. This often requires the auditor to apply significant professional judgment to ensure the criteria is relevant to the city."



In Quebec, views were mixed as to whether this was a significant barrier. Overall, it was identified as the 11th most significant barrier to effective performance auditing. Despite this, all of the cities facing the greatest challenges raised concerns about the lack of adequate standards and guidelines.

The auditors general in Quebec follow section 107.1 to 107.17 of Quebec's Cities and Towns Act, which does not specify what standard or guidelines to use. Most follow the standards of CPA Canada. Respondents said that CPA Canada has not provided sufficient information or guidelines on how to implement its standards.

OBSERVATION

Improving communication and coordination among the professional bodies in the United States and Canada that develop standards and guidelines for performance auditing would offer potential benefits for audit functions and other stakeholders.



SEVEN MOST SIGNIFICANT BARRIERS TO PERFORMANCE AUDITING IN CANADA



Public sector auditors in Canada work within a unique environment where legislated auditors general conduct performance and financial attest audits at both the federal and provincial government level. Significant variations exist between the mandates of audit functions at the local government or city level from one province to the next. Some provinces either require or allow auditors general to be appointed to conduct performance audits, but most do not.

The perceived impact of the barriers on the percentage of time spent on performance auditing is higher in Canadian cities than in the United States—and is highest in Quebec (see exhibit 15.1). The barriers with the most impact in Canada were:

- Lack of mature governance processes (both in Quebec and English Canada)
- Lack of provincial legislation (particularly in English Canada)
- Lack of affordable and effective training (particularly in Quebec)
- Lack of guidance, standards, and guidelines (particularly in Quebec)
- Lack of understanding and support of internal audit (particularly in Quebec)

EXHIBIT 15.1. A COMPARISON OF THE IMPACT OF BARRIERS IN CANADA AND THE UNITED STATES

	Barriers to Performance Auditing	English Canada	Quebec	United States
1	State or provincial legislation does not mandate performance audits.	.60	.25	.45
2	Affordable training for performance auditing is not available.	.48	.65	.44
3	Effective training for performance auditing is not available.	.35	.65	.35
4	City officials, media, and/or citizens do not understand or support internal auditing.	.38	.53	.36
5	Local governance processes are not mature.	.52	.55	.33
6	Textbooks, journals, etc., do not offer sufficient guidance on performance auditing.	.27	.50	.28
7	Professional audit guidelines do not offer sufficient framework for performance auditing.	.36	.40	.21

Note: Each barrier received a score from 0 to 1. A score of 0 would indicate that no respondents from that region reported an impact from the barrier, and a 1 would indicate that all respondents from that region reported maximum impact from the barrier.



1. LACK OF PROVINCIAL LEGISLATION REQUIRING PERFORMANCE AUDITING

In English Canada, respondents indicated that lack of provincial legislation requiring performance audits was the most serious barrier to effective performance auditing, receiving a score of .60 out of 1 (see exhibit 15.1).

In Quebec, lack of legislation represented much less of a barrier with a score of .25 out of 1, probably due to the fact that cities in Quebec with populations of 100,000 are required by provincial legislation to conduct performance audits.

In English Canada, several provinces have recently introduced legislation to enable cities to create optional auditor general functions. Exhibit 15.2 shows a summary of provincial requirements for appointing municipal auditor generals, or city auditors.

EXHIBIT 15.2. PROVINCIAL LEGISLATION FOR MUNICIPAL AUDITORS IN CANADA		
Local Government Required to Appoint Municipal Auditor General	Local Government Empowered to Appoint Municipal Auditor General	No Provision for Municipal Auditor General or City Auditor
Nova Scotia	Winnipeg, Manitoba (specific provisions)	Saskatchewan
Quebec (for cities with populations over 100,000)	Ontario (specific provisions)	Territories of Nunavut, Yukon, and Northwest Territories
Toronto		Newfoundland
British Columbia		New Brunswick
		Prince Edward Island
		Alberta (legislation proposed in 2009 but defeated)

Summary of Legislation in Canadian Provinces

Each province has followed a unique path to its current legislative position. Below is a summary of the most recent activity in each province.

Alberta: The province of Alberta proposed legislation in 2009 to allow cities to create an auditor general function, but the legislation was defeated. Calgary and Edmonton have had city auditors in place for years, even though they are not required by provincial legislation.

British Columbia: The province of British Columbia passed legislation in 2012 to create an auditor general for local government and an independent audit council. The first auditor general, who reports to the audit council, was appointed in January 2013.

Manitoba: The province of Manitoba created legislation in 2009 to require Winnipeg to establish an internal audit function. The City of Winnipeg Charter Act sets out the duties, powers, and qualifications of the city auditor.

Nova Scotia: In 2008, the province of Nova Scotia passed Bill 138 to allow the minister of Service Nova Scotia and Municipal Relations to appoint a municipal auditor general. Legislation has not been proclaimed, however, as the province and Union of Nova Scotia Cities have been unable to agree on how to fund the municipal auditor general's office. In 2008, the Nova Scotia Legislature amended the Halifax

Regional Municipality (HRM) Municipal Charter to add the requirement for Halifax Regional Council to appoint an auditor general. In September 2009, HRM appointed its first auditor general.

Ontario: Cities can appoint an auditor general whose role is to assist the council with holding itself and city administrators accountable for the adequacy of safeguards over city assets and to ensure value-for-money within city operations. This legislation is optional, however, and cities can decide to have no internal audit function or auditor general function.

To date, six cities in Ontario (Windsor, Toronto, Sudbury, Ottawa, Oshawa, and Markham) have opted to introduce auditor general functions with mixed results. Windsor and Oshawa eliminated their functions after disputes occurred over their authority and independence. Steps also have been taken by councils in Sudbury and Ottawa and other cities to reduce the independence of their auditors general. At the time of this research, the auditor general position in Markham has been vacant since 2010.

Quebec: Local governments are required to appoint a municipal auditor general in cities with populations of more than 100,000. Performance auditing became a requirement following amalgamation of the municipalities in 2002.

Others: New Brunswick, Newfoundland and Labrador, Prince Edward Island, and Saskatchewan, plus the territories of Northwest Territories, Nunavut, and Yukon, have either not introduced or passed legislation requiring cities to establish audit functions of any type.

Observations: Given the mixed experience with the introduction of legislation to allow auditor general functions to be established, the researchers suggest that IIA Canada collaborate with the Municipal Internal Auditors' Association (MIAA) and the Association of Local Government Auditors (ALGA) to identify model legislation to encourage greater accountability and transparency within municipal governments. That legislation should include mechanisms to ensure auditor independence and funding formulas that provide sufficient resources to enable audit functions to fulfill their mandates and meet professional audit standards.

2. AFFORDABLE TRAINING COURSES NOT AVAILABLE

Lack of affordable training was identified as the third largest barrier to performance auditing in English Canada. Respondents indicated that few affordable courses in performance auditing are available for staff. Cost-effective training at the intermediate and advanced levels are particularly difficult to find in Canada as significant tailoring is required to adapt courses to the local government environments. While effective annual training is available in the United States from ALGA, training is cost-prohibitive for most staff in English Canada because most auditors face significant budget pressures.

In Quebec, lack of affordable training is one of the most significant barriers to effective performance auditing. Many audit staff are fluent only in French and, due to the lack of courses available in French, they must incur travel costs to receive relevant training in performance auditing. Budgetary restrictions limit the amount of training that can be undertaken. The introduction of webinars may alleviate these pressures, but many staff still prefer to attend in-person classroom training.

Observation: More coordination between the local IIA chapters in Canada, IIA Canada, MIAA, and the Canadian Comprehensive Auditing Foundation (CCAF-FCVI) will be required to improve the availability of affordable courses.

3. EFFECTIVE TRAINING COURSES NOT AVAILABLE

In Quebec, a lack of effective training is one of the largest barriers to performance auditing. Respondents reported that the lack of effective training is mostly a language issue as it is difficult to obtain relevant training in French. According to respondents, training in all levels (basic, intermediate, and advanced) is needed in Quebec where performance auditing is still a relatively new function (starting with the city amalgamation in 2002). Many staff have a financial audit background with little experience in performance auditing.

In English Canada, lack of effective training is not considered to be a significant barrier because participants can access courses from The IIA, CCAF-FCVI, and MIAA. Respondents also noted that effective training was also available through ALGA, which offers an annual conference.

Observation: Coordination between the local IIA chapters, IIA Canada, and CCAF-FCVI is required to address the need for performance auditing courses in French.

4. INTERNAL AUDIT NOT SUFFICIENTLY UNDERSTOOD OR SUPPORTED

Lack of support and understanding from city councils, city staff, the media, and the public was identified as a significant barrier to performance auditing within most of the small and medium-sized cities in Quebec. Respondents indicated that the performance auditing function is still relatively new within these cities, and time will be required to improve the understanding of the various stakeholders.

Respondents in English Canada had mixed views on this barrier. Those in medium-sized cities identified it as a more important barrier than those in larger cities. Orientation sessions with members of council were seen to be critical to ensure the role of internal audit and the auditor general—and the differences between the two roles—were understood.

Observation: IIA–Canada, ALGA, MIAA, and the CCAF-FCVI can assist with initiatives to improve governance processes within local governments, which will improve the understanding and support for internal audit.

5. LACK OF MATURE GOVERNANCE PROCESSES

The IIA defines governance as “the combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.” The maturity of governance processes varies significantly from one city to the next. Maturity levels within smaller cities were generally lower than those within larger cities.

In both English Canada and Quebec, immature governance processes were identified as a barrier to effective performance auditing. Respondents within many of the small and medium-sized cities indicated that members of council do not fully understand the roles of the auditors general or the council’s responsibilities for governance. In Quebec, this problem is aggravated by the fact that most of these cities have not established audit committees.

Interviews with best practice audit functions indicated that having clear terms of reference for both the audit function and an audit committee will facilitate the success of the audit function and effective governance practices. These leaders suggested that internal audit could provide council members with training on governance processes, such as the role of performance auditing in public sector governance and the roles of an audit committee in the public sector.

Observation: IIA Canada, ALGA, MIAA, and the CCAF-FCVI could assist with the provision of governance training. These organizations have an interest in making improvements to governance processes and have access to best practices within the public sector.

6. AUTHORITATIVE GUIDANCE NOT AVAILABLE

Lack of authoritative guidance in French is a significant barrier to effective performance auditing in Quebec. Many of the auditors general in Quebec are chartered professional accountants (CPAs) who are required to follow CPA Canada's Value-for-Money Audit Standards. Respondents pointed out that CPA Canada has not issued any recent guidelines or publications to facilitate implementation of these standards.

Lack of authoritative guidance on performance auditing is not a significant barrier in English Canada where participants noted the availability of guidance, including a textbook on performance auditing from The IIA (*Performance Auditing, A Measurement Approach*, 2nd Edition).

Observation: Collaboration between IIA Canada and The IIA would help to ensure authoritative guidelines on performance auditing are available in French.

7. STANDARDS AND GUIDELINES NOT ADEQUATE

Discussions with survey respondents in Quebec revealed that CPA Canada's Value-for-Money Audit Standards are used extensively by half the auditors general and to some extent by the others. Respondents reported that no authoritative guidelines on performance auditing have been issued by other professional accounting and auditing bodies in Canada or by The IIA. The best-practice text endorsed by The IIA, *Performance Auditing, A Measurement Approach*, 2nd Edition, is not available in French.

Observation: Collaboration between IIA Canada, CPA Canada, and the CCAF-FCVI is required to develop authoritative guidelines in both official languages to improve performance auditing practices in Quebec and the rest of Canada.

CONCLUSION

The barriers to performance auditing within cities in Canada can be mitigated through the combined efforts of audit leaders in these cities, IIA Canada, local chapters of The IIA, CPA Canada, CCAF-FCVI, MIAA, and ALGA. The researchers suggest that:

- IIA Canada, MIAA, and ALGA collaborate to address the need for common legislation.
- IIA Canada, local chapters of The IIA, MIAA, and the CCAF-FCVI coordinate to ensure effective, affordable training is available in Canada in both English and French.
- IIA Canada, ALGA, MIAA, and the CCAF-FCVI work together to develop governance training for senior staff and councilors within local governments to improve the understanding and support for internal audit.
- CPA Canada, IIA Canada, and the CCAF-FCVI collaborate to address the lack of recent guidelines and authoritative guidance on value-for-money auditing and performance auditing in both English and French.

COLLABORATION NEEDED AMONG PROFESSIONAL ORGANIZATIONS



This chapter presents:

- A listing of professional organizations that provide guidance for performance auditors
- A review of public sector collaboration between IIA North America and IIA Canada
- Five areas that need collaboration among a wide range of professional organizations:
 1. Audit standards and guidelines
 2. Professional designations and certifications
 3. Training and conferences
 4. Inter-governmental coordination
 5. Funding for audit functions

City audit functions would benefit from better communication and collaboration with external stakeholders that provide standards, guidance, training, and other assistance. In addition, better communication and collaboration with these stakeholders would mitigate the barriers identified within this study and improve audit effectiveness.

PROFESSIONAL ORGANIZATIONS THAT PROVIDE STANDARDS, GUIDANCE, AND TRAINING

Among the many stakeholders that are key sources of guidance and assistance for performance auditors in Canada and the U.S. are:

- The IIA (United States and Canada)
- Chartered Professional Accountants Canada (CPA Canada)
- U.S. Government Accountability Office (GAO)
- International Organisation of Supreme Audit Institutions (INTOSAI)
- U.S. Council of Inspectors General on Integrity and Efficiency (CIGIE)
- U.S. National Association of State Auditors, Comptrollers, and Treasurers (NASACT)



- National Intergovernmental Audit Forum (U.S. federal, state, and local)
- International Center for Performance Auditing
- Association of Local Government Auditors (ALGA)
- CCAF-FCVI (formerly the Canadian Comprehensive Auditing Foundation)
- Municipal Internal Auditor's Association (MIAA)
- Each of the three levels of government in the United States and Canada

PUBLIC SECTOR COLLABORATION BETWEEN IIA NORTH AMERICA AND IIA CANADA

Representatives of both IIA North America and IIA Canada advised the research team that the strategic plans they were operating under in 2014 support improved collaboration as a key part of their strong interest in an advocacy role for the internal audit profession, including in the government sector. For example, the strategic plan for IIA North America's goals included:

- Enhance the image of the audit profession by being recognized by U.S. regulators and legislators as a credible, objective voice for the profession.
- Expand emphasis on advocacy for strategic groups in North America.
- Become the preferred source for public sector auditors.

Examples of indicators of progress under the strategic plan included:

- Create a government audit center (established in 2013).
- Elevate quality and cost-effectiveness of government audit training (this research project substantiated these needs).
- Enhance the CGAP program.

In its 2013 Strategic Plan, IIA Canada committed to the following strategic goal: It will be the institute of choice for Canadians for learning and development in internal audit and governance, risk, and control (GRC). It also made a commitment to build a national professional development program that enables professional certification, continuous improvement, and professional excellence among its members.

To deliver on this goal, a National Education Strategy has been developed. Working in collaboration with the Canadian chapters, IIA Canada is developing educational and informational programs that will ensure learning opportunities for all members.

IIA Canada plans to accomplish this through developing and bringing to market quality Canadian content, while addressing the bilingual needs of its members. It also plans to establish and train a core group of Canadian facilitators who will offer relevant courses to members, thereby establishing IIA Canada as the authoritative entity and principal educator in internal audit and GRC in Canada.



COLLABORATION AREA #1: AUDIT STANDARDS AND GUIDELINES

One of the challenges about performance auditing is that local governments in the United States and Canada are subject to differing sets of audit standards. Variations exist in the overall focus, frameworks, and the standards themselves, as well as the degree of recognition, communication, and coordination among the bodies issuing the standards. City auditors in the United States have a more robust set of standards to use compared to Canada, but both countries would benefit from additional guidelines and best practice materials.

United States

Audit functions within cities in the United States generally follow either the Government Accountability Office (GAO)'s Generally Accepted Government Audit Standards (GAGAS or Yellow Book), The IIA's International Professional Practices Framework (IPPF or Red Book), or both. The GAO and The IIA recognize each other's standards and have communicated and coordinated regarding their two sets of standards, and certain other standards as well.

For example, The IIA has issued a publication that compares the Yellow Book and the Red Book. That publication notes that both the GAO and The IIA are recognized nationally and internationally as leaders in promoting high-quality audit work. The purpose of the comparison is to identify key similar principles and key differences between the standards in GAGAS and The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)* and to encourage adoption of the higher standard where differences and choices exist. Twelve key differences are identified as well as suggestions on how to deal with the differences. (Source: IIA Supplemental Guidance, *IIA Standards, GAGAS: A Comparison, 2nd Edition*, 2012)

In GAGAS, the GAO recognizes that auditors carrying out performance audits may use or be required to use other professional standards, such as:

- *International Standards for the Professional Practice of Internal Auditing (Standards)*, The Institute of Internal Auditors
- *Guiding Principles for Evaluators*, American Evaluation Association
- *The Program Evaluation Standards*, Joint Committee for Education Evaluation
- *IT Standards, Guidelines, and Tools and Techniques for Audit and Assurance and Control Professionals*, ISACA

Although not in the list above, the International Standards of the Supreme Audit Institutions (ISSAI), issued by INTOSAI, is also of interest to GAO. The ISSAI includes standards and guidance specifically related to performance audits. GAO collaborates with INTOSAI in setting the standards in the ISSAI, and works with INTOSAI in other ways. An IIA publication comparing its *Standards* with those of INTOSAI is currently in progress.

The IIA and GAO work together in a variety of ways. For example, as stated in The IIA publication (2012) comparing the Yellow Book and Red Book: "Over the years, the Comptroller General's Advisory Council (on Government Auditing Standards) has included government auditors who are also members of The IIA and serve on IIA committees that influence the development of internal audit standards."

The IIA has also collaborated with other standard-setting bodies. For example, many local chapters of The IIA and ISACA have worked together on conferences and other events. In August 2013, The IIA

and ISACA collaborated to present a national Governance, Risk, and Control Conference with more than 500 participants. A similar conference is being planned for 2014.

Canada

In English Canada, many audit functions within cities follow The IIA's IPPF. Because there is minimal discussion of performance auditing within the IPPF, audit functions also follow other standards such as the Generally Accepted Government Auditing Standards (GAGAS) of the U.S. Government Accountability Office (GAO) and the Value-for-Money (VFM) Audit Standards issued by CPA Canada.

In Quebec, most municipal auditors general follow the VFM Audit Standards. These standards are also followed by legislative provincial and federal auditors general and by audit functions within departments, ministries, agencies, boards, and commissions that are subject to audit by these legislative auditors general.

As a result of the widespread use of the VFM Audit Standards by legislative auditors in Canada, internal auditors should be aware of them. Provincial and federal auditor general functions have developed additional application guidelines to assist with their implementation. Collaboration and coordination is required to identify and promulgate best practice guidelines for performance auditing within the cities and regional governments in Canada to support these standards.

Observations

Although communication and coordination between the standard-setting bodies have improved over the last five years, more work needs to be done. For example, city auditors need to consider the various standards available to be sure they are:

- Following the appropriate standards in performance audits
- Using the *latest* version of the audit standards
- Making good decisions if using more than one set of standards

The standard-setting bodies, including The IIA, GAO, and CPA Canada, also need to consider whether added guidance may be needed to ensure that:

- The standards can be implemented consistently
- Best practices are identified and promulgated
- Variations in standards are taken into account
- Adequate explanations are provided where variations exist

COLLABORATION AREA #2: PROFESSIONAL DESIGNATIONS AND CERTIFICATIONS

As with many other occupations, professional designations and certifications for auditors have become increasingly important in recent years. Appropriate designations and certifications not only enhance auditing practices but also contribute to the credibility of auditors. Therefore, auditors in local governments who decide to pursue one or more designations or certifications need to explore which of the potential designations and certifications is most appropriate or beneficial. The IIA's Certified Internal Auditor (CIA) is widely recognized and respected worldwide and many auditors in the government have



achieved that certification. Other designations and certifications (e.g., CGAP, CISA, CPA, CA, CMA, and CGA) have been attained by auditors and add to their credibility.

Of all the auditing certifications, The IIA’s CIA is considered the most important. Respondents who considered it to be required totaled 85% in the United States, 81% in English Canada, and 50% in Quebec. In contrast, the Certified Government Auditing Professional (CGAP) is considered to be required by much lower percentages—39% in the United States, 29% in English Canada, and 0% in Quebec. Except for Quebec, the number of respondents favoring certifications or designations other than the CIA or CGAP was smaller (see exhibit 16.1).

Of all the accounting designations, the CPA (Certified Public Accountant) is seen to be the most important in the United States and Quebec. The Chartered Professional Accountant (CPA) is viewed as the most important in English Canada. Both the CGA and CMA designations were also seen to be important in both jurisdictions in Canada.

EXHIBIT 16.1. CREDENTIALS CONSIDERED NECESSARY TO BE AN EFFECTIVE PERFORMANCE AUDITOR			
Designation/Certification	United States	English Canada	Quebec
Certified Internal Auditor (CIA)	85%	81%	50%
Certified Government Auditing Professional (CGAP)	39%	29%	0%
Certified Information Systems Auditor (CISA)	20%	38%	20%
Chartered Professional Accountant (CPA)	8%	71%	80%
Certified Management Accountant (CMA)	6%	62%	60%
Certified General Accountant (CGA)	3%	57%	60%
Certified Public Accountant (CPA)	47%	33%	100%

Note: The survey question asked: “Please identify which of the credentials below you think are required for an effective performance auditor.” Percentages indicate those who selected the credential as a requirement. More than one credential could be chosen.

The IIA’s CGAP is a specialty certification for government auditors. The IIA notes that “The CGAP certification program is designed for auditors working in the public sector at all levels—federal/national, state/provincial, local, quasi-governmental, or crown authority.” The CGAP exam has four domains: (1) standards, governance, risk, and control frameworks; (2) government auditing practice; (3) government auditing skills and techniques; and (4) government auditing environment.

The IIA and many other professional organizations that advocate effective performance auditing in the public sector appear to have a shared interest in promoting the CGAP. In this research, respondents offered a range of views—not susceptible to a single pattern of concerns—about the CGAP. However, many respondents in this project stated one common concern—namely, that the CGAP program is not very well known and could use some robust marketing.



COLLABORATION AREA #3: TRAINING AND CONFERENCES

Respondents identified various sources of training. The Association of Local Government Auditors (ALGA) is the prime source of training in the United States, Municipal Internal Auditors’ Association (MIAA) is the prime source in English Canada, and The IIA is the prime source in Quebec (see exhibit 16.2).

EXHIBIT 16.2. USE OF TRAINING SOURCES IN THE PAST FIVE YEARS						
Training Organizations	United States		English Canada		Quebec	
	Partially	Extensively	Partially	Extensively	Partially	Extensively
IIA	58%	4%	41%	5%	50%	20%
ALGA	49%	21%	27%	5%	10%	0%
MIAA	7%	0%	27%	18%	0%	0%
CCAF-FCVI	0%	0%	5%	0%	30%	10%
Others	4%	0%	14%	0%	40%	0%

As noted in earlier chapters, many respondents expressed concerns that the training courses and conferences available were not very effective, too expensive, or both. Resolving both of these concerns will be particularly onerous.

In the United States, one relatively new advocate for focused training of government auditors is The IIA’s ACGA, which was exploring new training initiatives such as webinars at the time of this project. IIA Canada’s Public Sector Educational Initiative is also examining opportunities to improve training offerings, including performance auditing for auditors in the broader public sector.

Improved coordination between the various training organizations is also required to ensure training offerings are more cost-effective. One example of cost-effective regional training is The Conference That Counts, sponsored by New York chapters of the Association of Government Accountants (AGA), The IIA, and ISACA. Another example of effective regional training is the semi-annual training provided by the Virginia Association of Local Government Auditors.

There is no panacea to fully address the various training concerns with a single unified solution. However, more frequent and focused dialogue among the key stakeholders will help to address the gaps in the overall training needs of performance auditors in cities. Possible avenues of dialogue that may be useful include improved coordination of events, networking, use of social media and e-newsletters, preparation of articles, and greater use of webinars.

COLLABORATION AREA #4: INTER-GOVERNMENTAL COORDINATION

Performance audits are used in all three levels of government: federal (national), state or provincial, and local or municipal. The impact and effectiveness of these audits could be enhanced if there was better awareness of the audits that are being planned at all different levels.



United States

In the United States, the National Intergovernmental Audit Forum (NIAF) is an association of audit executives from federal, state, and local governments. It exists to improve coordination, communication, and cooperation among its members, private sector firms, and other accountability organizations to address common challenges, enhance government performance and transparency, and increase public trust. Membership includes the comptroller general (head of GAO), federal inspectors general, and heads of state and local audit functions. The NIAF and 10 regional audit forums meet periodically to seek solutions to issues of common interest.

At the time of this study, in coordination with the NIAF, the GAO had enlisted the National Association of State Auditors (NASACT) and the Association of Local Government Auditors (ALGA) to examine how federal, state, and local resources might be better coordinated and performance outcomes enhanced in a selected policy area. This group was to conduct coordinated audits on the use of rental assistance as a way to provide low-income families with affordable housing and to show how federal, state, and local programs—often delivered through various mechanisms, including grants, tax preferences, loans, guarantees, and vouchers—are coordinated at the service delivery level.

If approved by the U.S. Senate, the GAO's proposal for the creation of a Center for Audit Excellence will also advance coordination between auditors who work within national, state, and local governments. The overall purpose of the proposed center is to provide training and technical assistance to auditing organizations at the local, state, and international level, reflecting GAO's expertise and the demand that already exists for these services. The GAO's objective is that the center would be fee-based and self-supporting.

Canada

In Canada, the CCAF-FCVI is a leading research and educational foundation that provides a neutral forum dedicated to promoting effective performance audit and government oversight. The CCAF-FCVI works with public sector auditors and oversight committees helping them to work together with other public officials for accountable government. Among other things, its strategic goals include:

- Developing and maintaining a center of expertise to support the strengthening of performance audit capacity
- Supporting public accounts committees and other instruments of oversight in scrutinizing the management of public funds

In 2013, the CCAF-FCVI published the *Practice Guide to Auditing Efficiency* designed to provide guidance to public sector auditors on planning and conducting audits of efficiency. It also has begun to work with the municipal audit community to further engage them in research and other initiatives.

COLLABORATION AREA #5: FUNDING LEVELS FOR AUDIT FUNCTIONS

Insufficient funding was identified as a significant barrier to effective performance auditing within all three of the jurisdictions. Improved communication and coordination among The IIA, IIA Canada, ALGA, MIAA, CPA Canada, and the CCAF-FCVI is required to recommend minimum funding levels within major cities in the United States and Canada.

More than 13% of the cities in the United States and more than 8% of the cities in Canada with

populations over 150,000 have no audit functions.

- Of the 22 cities in the United States with no audit function, three had populations of 250,000 or more.
- Of the three cities in Canada with no audit function, one had a population greater than 250,000.

This research study did not specifically examine why these cities did not have formal or continuous audit functions, but budget constraints were cited within a number of cities that had recently eliminated their internal audit functions. Communication and collaboration is required to identify the specific reasons for the absence of audit functions within the others.

SUMMARY

Auditors at the city level can benefit from expanding communication and collaboration with stakeholders that provide standards, guidance, and other advice to auditors. Increased communication and collaboration will help mitigate the barriers discussed in this report. The IIA and IIA Canada have expressed significant support for expanding communication and collaboration with other stakeholders that serve the needs of auditors at the local government level and elsewhere.

The research team believes audit leaders within cities should focus on standards and guidelines, professional designations and certifications, training, inter-governmental relationships, and funding shortfalls.

1. The audit standards followed by local governments for performance audits in Canada and the United States are of high quality, are based on extensive research and study, and should be recognized as such. Improved communication and collaboration is required to ensure sufficient guidelines are available to implement these standards effectively and to promulgate best practices.
2. Conducting a review of the CGAP program was beyond the scope of this project. However, The IIA's American Center for Governmental Auditing (ACGA), newly established in 2013, is planning an extensive review of the CGAP program for governmental auditors. As part of that review, the ACGA may wish to reach out to the various stakeholders in the United States (e.g., GAO, CIGIE, NASACT, and ALGA) and Canada (e.g., CCAF-FCVI and MIAA) to seek ways to enhance and better market the CGAP program.
3. Those who offer training and conferences should constantly seek to tailor their offerings to their customers' needs. The IIA and IIA Canada can help meet training needs by:
 - Expanding training offered by The IIA and IIA Canada
 - Coordinating the timing of training initiatives to minimize competition
 - Combining training initiatives with other training organizations
 - Reaching out to other training organizations to provide guidance and courses to meet specific needs

4. Different levels of government in the United States and Canada can benefit from having the three levels of government coordinate their limited audit resources. Initiatives are under way to achieve this in both countries.
5. Coordination and collaboration are also required to address the funding shortfalls that were identified by more than half the audit leaders who participated in this study and to examine why so many cities in the United States and Canada have no audit functions.



SUMMARY AND CONCLUSIONS

This research project surveyed and interviewed city auditors in the United States and Canada to discover how much time they spend on performance auditing, and which barriers cause the most impact on how much time they spend on performance audits.

The survey was sent to all cities in the United States and Canada who met the following population criteria:

- Population of at least 150,000 in the United States
- Population of at least 150,000 in English Canada
- Population of at least 100,000 in Quebec

Nine cities in the United States and one city in English Canada with smaller populations were included in the survey in order to have representation from each state or province.

After the cities with no audit functions were excluded, the following response rates were obtained:

- 59% for the United States (84 cities)
- 100% for Quebec (10 cities)
- 92% for the rest of Canada (22 cities)

In addition to obtaining information through the survey, the researchers interviewed the most successful respondents to identify their recommendations for overcoming the challenges to performance auditing.

This final chapter of the report summarizes the conclusions and implications of the project as a whole. Taking into consideration the survey results, interview findings, and literature review, the researchers reached the following conclusions:

1. Barriers with greatest impact should receive high priority for action.
2. Best practices can mitigate the impact of barriers.
3. Small cities and small audit staffs experience more barriers to performance auditing and need additional support.
4. Canadian cities experience more impact from barriers than U.S. cities, and require unique mitigations.
5. Communication and collaboration among external stakeholders is needed.

CONCLUSION #1: BARRIERS WITH GREATEST IMPACT SHOULD RECEIVE HIGH PRIORITY FOR ACTION.

Of the 15 barriers to performance auditing identified in this project, four areas stand out as having the broadest effect and the most serious implications. Therefore, the researchers propose that audit leaders, city officials, legislators, and stakeholders should give the highest priority to addressing the following challenges:

1. Adequate education is not available for governmental performance auditing.

New hires are often unprepared for their careers in government and require a significant amount of time to develop into effective auditors.

2. Audit functions are not sufficiently funded.

Insufficient funding is at least partially responsible for:

- The absence of audit functions within a large number of cities
- Few performance audits being conducted in many cities
- Performance audits with narrow objectives and/or scope

3. Affordable and effective training courses are not available.

Training challenges can either be caused by lack of *affordable* options or lack of *available* options. These two separate barriers are closely related. If personnel conducting performance audits do not receive appropriate training, their knowledge and skills will be insufficient for them to conduct these audits effectively and to add value to their cities. In addition, auditors with relevant professional certifications such as the CIA and CGAP may lose them due to lack of required continuing education.

4. Performance audit responsibility is not formally established by legislation or charter.

Responsibility for performance auditing can be established at three different levels: (1) state/province, (2) city, or (3) audit function. If responsibility is not formally established at one or more levels, performance audits may not be given sufficient priority. Opinions differ as to whether state or provincial legislation is required; many believe legislation at the city level is needed.

Five other barrier areas also warrant attention but not as urgently as the preceding list, because their impact scores were not as high (see exhibit 4.2). These additional barriers were local governance maturity, performance reporting maturity, understanding of internal audit by stakeholders, guidance for performance auditing, and framework for performance auditing.

The barriers with the least impact according to survey respondents were staff competence, access to information, and independence.

Findings and recommendations about high-impact barrier areas are summarized as follows.

1. Inadequate Formal Education

Inadequate formal education for audit staff presented significant challenges in all three jurisdictions, ranking second in the United States and English Canada and third in Quebec. The impact is that governmental auditors often start their careers with very limited knowledge of the government environment and performance auditing. To fill in this gap, audit functions use a variety of approaches, such as requiring applicants to have both work experience in government and professional auditing and accounting designations and providing on-the-job training supplemented by formal training if available

and affordable. Directly subsidizing the education sector was not seen to be as cost effective as providing relevant training courses and certifications to auditors in government. Notwithstanding, respondents acknowledged that providing grants to universities in the United States and Canada might be required to bolster curriculum development in performance auditing.

2. Lack of Sufficient Funding

Lack of sufficient funding was a high-ranking barrier in all three jurisdictions—first in the United States, second in Quebec, and sixth in English Canada. For the United States and English Canada, generally accepted criteria for establishing funding levels for audit functions do not exist, but the research team developed and applied criteria. For Quebec, the team used criteria established by law in conjunction with interview responses. Using these criteria, the team concluded that funding within many audit functions was significantly lower than minimum levels suggested for all three jurisdictions, predictably leading to less effective performance audit functions.

Respondents' concerns about insufficient funding are further heightened by the absence of audit functions within 22 cities in the United States and three cities in Canada, which is at least partially attributable to budget decisions as well as lack of understanding and support of the audit function. The research team recommends that The IIA and IIA Canada closely examine the reasons for this finding.

3. Lack of Affordable and/or Effective Training

A lack of affordable and/or effective training presented significant challenges in all three jurisdictions, but the impact varied somewhat:

- Lack of affordable training was ranked fourth in the United States and sixth in English Canada.
- Lack of effective training was ranked eighth in the United States and tenth in English Canada.
- Lack of affordable training and lack of effective training tied for first in Quebec.

The lack of affordable training has caused audit functions to seek less costly approaches—local training events, webinars, and online courses. Regarding ineffectiveness, if courses are not designed to meet real needs, staff are forced to attend training sessions that do not fully meet the needs for the governmental environment and/or skill requirements of performance auditors.

In follow-up interviews, 36 respondents from audit functions facing the most significant challenges offered comments on the impacts, such as:

- Due to inadequate funding, six audit functions in the United States were unable to provide training or meet other demands.
- Due to unaffordable or ineffective training or both, staff in many audit functions lacked both general skills for governmental auditing and specific skills such as in mapping program inputs, outputs, and outcomes.

4. *Formal Requirement for Performance Auditing*

A formal requirement for performance auditing by cities can be established at one or more of three levels—state or provincial, city, and audit mandate. Within the 12 barriers cited above, jurisdictions ranked the impact as follows:

- State/provincial: first and third in English Canada and the United States, respectively, but very low in Quebec where provincial legislation is in place
- City: third, fifth, and fourth in English Canada, the United States, and Quebec, respectively
- Audit mandate: 10th in the United States and 12th in the two Canadian jurisdictions

Based on these results and follow-up discussions, the research team concluded that the requirement for the performance audit function should be established in legislation either at the state/provincial or the city level.

Respondents in the United States had a preference for establishing legislation at the city level, preferably within the city charter, or within other city ordinances. Respondents in Canada were more receptive to legislation at the provincial level, possibly because legislation is already in place in Quebec, British Columbia, and Ontario either requiring or permitting the creation of auditor general functions. Some observed that bylaws would still be helpful at the city level to clarify the mandate and authority of the audit function, including the auditor general function within Quebec.

CONCLUSION #2: BEST PRACTICES CAN MITIGATE THE IMPACT OF BARRIERS.

To determine the best practices that are in use in the public sector, the researchers conducted interviews with 36 city audit functions that spent 40% or more of their time on performance auditing. The interviews demonstrated that barriers to performance auditing can be lowered by use of best practices. As a result, the research team developed a list of 12 best practices based on the interviews as well as professional standards and guidelines (see exhibit 17.1).

EXHIBIT 17.1. TWELVE BEST PRACTICES FOR PERFORMANCE AUDITING

1	Establish a mandate for performance auditing within the audit charter.
2	Establish a formal audit committee with terms of reference and a charter.*
3	Build understanding and support for the performance audit function.
4	Support the establishment of mature and robust governance processes.
5	Make performance audit reports readily available to the public.
6	Establish risk-based, multi-year audit plans.
7	Select audit objectives that address all relevant and significant aspects of performance.
8	Scope audits broadly enough to support accountability for results.
9	Follow accepted auditing standards.
10	Actively build competencies and capability in performance auditing.
11	Support involvement of the audit function in professional associations.
12	Demonstrate leadership in performance auditing.

*Some argue that this is a fundamental element that relates to organizational independence.

CONCLUSION #3: SMALL CITIES AND SMALL AUDIT STAFFS EXPERIENCE MORE BARRIERS TO PERFORMANCE AUDITING.

Cities with smaller populations, smaller audit staffs, and with audit functions that perform few or no performance audits are more affected by barriers than others. What action could or should be taken by audit leaders to address these factors? Interviews with survey participants identified a need to:

- Engage with external stakeholders, including The IIA, ALGA MIAA, and CCAF-FCVI, to study and publicize the benefits of performance auditing and to seek support from councils and audit committees for establishing or expanding audit functions.
- Advocate with external stakeholders for audit budgets that are based on realistic needs and an adequate number of staff at appropriate levels to support the performance audit function.
- Compare the percentage of time the audit function spends on performance audits with high-performing and best practice audit functions, and adopt best practices that have been demonstrated elsewhere to mitigate the barriers to performance audits.

The specific steps to be taken will vary depending on many factors, such as the city size, programs managed, legislative and regulatory framework, responsibilities of others, and level of interest from officials, citizens, business community, and media.

CONCLUSION #4: CANADIAN CITIES EXPERIENCE MORE IMPACT FROM BARRIERS THAN CITIES IN THE UNITED STATES AND REQUIRE UNIQUE MITIGATIONS.

More significant barriers to effective performance auditing are faced in Canada than in the United States. Modified approaches are required to mitigate the barriers in Canada. Significant barriers in English Canada are a lack of provincial legislation requiring performance auditing and a lack of mature/robust governance processes.

1. IIA Canada is encouraged to collaborate with the Municipal Internal Auditors' Association (MIAA) to identify model legislation that encourages greater accountability and transparency within municipal governments. That legislation should include mechanisms to ensure auditor independence and funding formulas that provide sufficient resources to enable audit functions to fulfill their mandates and meet professional audit standards.
2. IIA Canada and MIAA are encouraged to assist with the development of model bylaws at the city level to clarify the mandate and authority of audit functions where provincial legislation is not in place.
3. Training in good governance processes should be provided to all members of city councils and specifically to audit committee members. IIA Canada and the CCAF-FCVI could assist with this process.

In Quebec, significant barriers are a lack of mature or robust governance processes, a lack of support and understanding from stakeholders, a lack of affordable and effective training, and a lack of adequate standards, guidelines, and authoritative guidance.

1. Training in good governance processes as well as the role of performance auditing in public sector governance should be provided to all auditors general and members of city councils. Training in the roles of an audit committee in public sector governance would also be beneficial.
2. Orientation sessions on the legislated roles of the auditors general should be provided to new city council members.
3. Auditors general should coordinate with local IIA chapters, IIA Canada, CCAF-FCVI, and CPA Canada to address the need for performance auditing courses in French for audit staff within the cities in Quebec.
4. Auditors general should coordinate with IIA Canada, CPA Canada, and CCAF-FCVI to develop guidelines and authoritative guidelines in both English and French to support the professional standards in place in Canada.

CONCLUSION #5: COMMUNICATION AND COLLABORATION AMONG EXTERNAL STAKEHOLDERS IS NEEDED.

Various external stakeholders, such as entities that promulgate standards and best practices in performance auditing and governance, can influence how auditors within cities conduct performance audits. For example, stakeholders influence:

- Audit standards and guidelines
- Professional designations and certifications
- Training and conferences
- Inter-governmental considerations
- Funding levels

The research team concluded that improving communication and collaboration among the audit functions and these external stakeholders can help mitigate the barriers identified in this report and support changes that lead to more effective and efficient performance auditing practices within cities in the United States and Canada. The IIA, IIA Canada, and CCAF-FCVI have confirmed their interest in encouraging communication and collaboration in both the United States and Canada.



Appendix A

U.S. AND CANADIAN CITIES THAT PARTICIPATED IN THE SURVEY



Anchorage	AK	Kansas City	MO	Richmond	VA
Montgomery	AL	St. Louis	MO	Virginia Beach	VA
Tempe	AZ	Springfield	MO	Chesapeake	VA
Glendale	AZ	Charlotte	NC	Vancouver	VA
Mesa	AZ	Raleigh	NC	Seattle	WA
Phoenix	AZ	Albuquerque	NM	Milwaukee County	WI
Anaheim	CA	Henderson	NV	Calgary	AB
Irvine	CA	Las Vegas	NV	Edmonton	AB
San Diego	CA	Buffalo	NY	Burnaby	BC
San Francisco	CA	New York	NY	Richmond	BC
San Jose	CA	Rochester	NY	Surrey	BC
Los Angeles	CA	Cincinnati	OH	Vancouver	BC
Riverside	CA	Cleveland	OH	Winnipeg	MB
Denver	CO	Dayton	OH	Moncton	NB
Colorado Springs	CO	Oklahoma City	OK	Brampton	ON
Hartford	CT	Tulsa	OK	Burlington	ON
Tampa	FL	Portland	OR	Greater Sudbury	ON
Miami	FL	Pittsburgh	PA	Hamilton	ON
Cape Coral	FL	Philadelphia	PA	Kitchener	ON
Tallahassee	FL	Sioux Falls	SD	London	ON
Orlando	FL	Knoxville	TN	Mississauga	ON
St. Petersburg	FL	Clarksville	TN	Oakville	ON
Atlanta	GA	Memphis	TN	Oshawa	ON
Columbus	GA	Chattanooga	TN	Ottawa	ON
Honolulu	HI	Nashville	TN	Toronto	ON
Chicago	IL	Arlington	TX	Vaughan	ON
Aurora	IL	Austin	TX	Gatineau	QC
Fort Wayne	IN	Brownsville	TX	Laval	QC
Overland Park	KS	Garland	TX	Levis	QC
Wichita	KS	Laredo	TX	Longueuil	QC
Louisville	KY	Dallas	TX	Montreal	QC
New Orleans	LA	Grand Prairie	TX	Quebec City	QC
Baton Rouge	LA	Irving	TX	Saguenay	QC
Shreveport	LA	Corpus Christi	TX	Sherbrooke	QC
Boston	MA	El Paso	TX	Terrebonne	QC
Springfield	MA	San Antonio	TX	Trois-Rivières	QC
Grand Rapids	MI	Alexandria	VA	Saskatoon	SK
Detroit	MI	Hampton	VA		
Minneapolis	MN	Norfolk	VA		



CITY AUDITOR SURVEY INSTRUMENT

INTRODUCTION TO PERFORMANCE AUDITING SURVEY FOR LOCAL GOVERNMENTS

This survey is being conducted to determine the extent to which performance audits are being completed within major Cities and Towns and to identify best practices and significant dependencies. As previous studies have identified barriers to successful performance auditing, this survey is also intended to measure the prevalence of certain barriers to performance auditing within Cities and Towns. Since different auditing standards and guidelines may be used, the terms used within this survey are defined below.

Performance auditing, which includes value-for-money auditing, is the examination of a governmental or nonprofit entity or a portion of the entity such as an organizational unit, program, activity, function, or management control system to assess performance. The objectives of these audits typically address one or more of the following:

- (a) The extent to which resources have been managed with due regard to economy and efficiency;
- (b) The extent to which resources have been managed with due regard to effectiveness;
- (c) The extent of compliance with laws, regulations, or policies; and
- (d) The adequacy of internal controls or safeguards over public assets.

Economy refers to the acquisition of the appropriate quality and quantity of financial, human, and physical resources at the appropriate times and at the lowest cost.

Efficiency refers to the use of financial, human, and physical resources such that output is maximized for any given set of resource inputs, or input is minimized for any given quantity and quality of output provided.

Effectiveness refers to the achievement of the objectives or other intended effects of the entity, portion of the entity, program, activity, function, management control system, or organizational unit. The 12 attributes of effectiveness include: responsiveness, relevance, appropriateness, management direction, acceptance, costs and productivity, financial results, protection of assets, monitoring & reporting, working environment, achievement of results, and secondary impacts.

Confidentiality

A summary of the survey responses will be published and shared with all survey participants. The individual responses of survey participants will not be shared or published.

General Information About the Internal Audit Function

1. Please complete the following:

Name: _____

City/Town: _____

State/Province: _____

Country: _____

Phone Number: _____

2. What is the job title for your current position?

- City Auditor
- Auditor General
- Director of Internal Audit
- Chief Auditor
- Other

3. What was the population of your City or Town in 2012?

- Less than 250,000
- 250,001 to 500,000
- 500,001 to 1 Million
- Greater than 1 Million


4. What was the budget in 2012 for the Internal Audit function within your City (excluding any other IA functions managed independently within organizations such as the airport)?

- Less than \$500,000
- \$500,001 to \$1 Million
- \$1 Million to \$2 Million
- Greater than \$2 Million

5. How many staff did Internal Audit employ in 2012?

- Up to 2 Full-Time Equivalents (FTEs)
- 2 to 5 FTEs
- 5 to 10 FTEs
- 10 to 15 FTEs
- More than 15 FTEs



- 
6. Where does the Internal Audit function report administratively in your organization?
 - Council
 - Audit Committee
 - Another Subcommittee
 - City Manager
 - Chief Financial Officer or Treasurer
 - Mayor
 7. Where does the Internal Audit function report functionally in your organization?
 - Council
 - Audit Committee
 - Another Subcommittee
 - City Manager
 - Chief Financial Officer or Treasurer
 - Mayor
 8. What percentage of Internal Audit staff time was spent conducting Performance Audits in 2012?
 - Less than 20%
 - 20 to 40%
 - 40 to 60%
 - 60 to 80%
 - More than 80%
 9. What percentage of Internal Audit staff time was spent conducting Performance Audits in 2011?
 - Less than 20%
 - 20 to 40%
 - 40 to 60%
 - 60 to 80%
 - More than 80%



10. Performance audit reports are available to the public:

- Always
- Usually
- Sometimes
- Seldom
- Never
- Not Applicable

Scope of Performance Audits

11. What was the average breadth of scope of the performance audits that were completed in 2012?

- Department
- Section of a Department
- Specific Program or Activity
- Specific Process
- Specific System
- Not Applicable

12. What was the average breadth of scope of the performance audits that were completed in 2011?

- Department
- Section of a Department
- Specific Program or Activity
- Specific Process
- Specific System
- Not Applicable

Note: The response options for questions 13 through 18 were:

- Always
- Usually
- Sometimes
- Seldom
- Never
- Not Applicable



13. Performance audits completed in the last 2 years assessed the extent to which resources have been managed with due regard to efficiency.
14. Performance audits completed in the last 2 years assessed the extent to which resources have been managed with due regard to economy.
15. Performance audits completed in the last 2 years assessed the extent to which resources have been managed with due regard to effectiveness.
16. Performance audits completed in the last 2 years assessed the extent of compliance with laws, regulations, or policies.
17. Performance audits completed in the last 2 years assessed the adequacy of internal controls over public assets.
18. Performance audits completed in the last 2 years contained other objectives.

Performance Audit Standards & Guidelines

Note: The response options for questions 19 through 30 were:

- Extensively
 - To some extent
 - Seldom
 - Not at all
 - Not Applicable
19. To what extent does your Internal Audit function use the standards/guidelines within the International Professional Practices Framework of The Institute of Internal Auditors to support performance auditing?
 20. To what extent does your Internal Audit function use the Generally Accepted Government Auditing Standards of the U.S. Government Accountability Office to support performance auditing?
 21. To what extent does your Internal Audit function use the Value-for-Money Auditing in the Public Sector standards by the Canadian Institute of Chartered Accountants to support performance auditing?
 22. To what extent does your Internal Audit function use the Guidelines from the Canadian Comprehensive Auditing Foundation (CCAF-FCVI) to support performance auditing?
 23. To what extent does your Internal Audit function use the Performance Auditing standards of INTOSAI to support performance auditing?

Training, Experience, Credentials & Education of IA Staff

24. To what extent were training programs from The IIA used in the last 5 years to support performance auditing?



25. To what extent were training programs from the Association of Local Government Auditors used in the last 5 years to support performance auditing?
26. To what extent were training programs from the Municipal Internal Auditors Association used in the last 5 years to support performance auditing?
27. To what extent were training programs from the Government Audit Training Institute used in the last 5 years to support performance auditing?
28. To what extent were training programs from the Canadian Comprehensive Auditing Foundation (CCAF-FCVI) used in the last 5 years to support performance auditing?
29. To what extent were training programs from Management Concepts used in the last 5 years to support performance auditing?
30. To what extent were training programs from Excellence In Government Accountability and Performance Practices used in the last 5 years to support performance auditing?
31. Please identify the minimum number of years of auditing experience you believe are required for an effective performance auditor:
 - 3 to 5
 - 5 to 10
 - More than 10
32. Please identify which of the credentials below you think are required for an effective performance auditor:
 - CIA - Certified Internal Auditor
 - CGAP - Certified Government Auditing Professional
 - CPA - Certified Public Accountant
 - CA - Chartered Accountant
 - CMA - Certified Management Accountant
 - CGA - Certified General Accountant
 - CISA - Certified Information Systems Auditor
33. Please identify the education required for an effective performance auditor:
 - College diploma such as a 2-year associate's degree
 - Bachelor's degree
 - Master's degree
 - Other




Barriers to Effective Performance Auditing Within Your Local Government

If any of the following items are presently obstacles to conducting performance audits within YOUR organization, please indicate that you agree with the statement—either fully or partially.

Note: The response options for each item were:

- Fully agree
 - Partially agree
 - Partially disagree
 - Totally disagree
34. The City's/Town's IA function's responsibility for conducting performance audits is NOT set out in legislation passed by the State or Provincial Government.
 35. The City's/Town's IA function's responsibility for conducting performance audits is NOT set out in the bylaws or other legal document of your organization.
 36. The City's/Town's IA function does NOT have sufficient independence from those it is required to audit to allow it to plan its audit activities and both conduct and be perceived to conduct its work without interference.
 37. Performance auditing is NOT identified as one of the duties or responsibilities in the mandate, constitution, or charter of the City's/Town's IA function.
 38. Performance audits in the City's/Town's IA function CANNOT be conducted with complete and unrestricted access to employees, property, and records as appropriate.
 39. The City's/Town's IA function does NOT have sufficient funding relative to the size of its audit responsibilities.
 40. The legitimacy of the City's/Town's IA function and its mission is NOT sufficiently understood and supported by a broad range of elected and appointed public sector officials, as well as by the media and involved citizens.
 41. Authoritative guidance on performance auditing is NOT readily available within textbooks, professional journals, research reports, and studies.
 42. Effective training courses in performance auditing are NOT available for all levels of the IA staff in your City/Town.
 43. Affordable training courses in performance auditing are NOT available for all levels of the IA staff in your City/Town.
 44. Adequate education programs are NOT provided by colleges and universities to prepare individual auditors for careers in your City's/Town's IA function as performance auditors.
 45. Professional audit standards/guidelines do NOT provide an adequate framework to support performance audits.


- 
46. The collective competence level of the staff in your City's/Town's IA function is NOT sufficient to support effective performance audits.
 47. Performance reporting processes within the local/municipal government entity are NOT mature.
 48. Governance processes within the local/municipal government entity are NOT mature.
 49. Please identify any other barriers to effective performance auditing.
Note: Respondents could type in responses as desired.
 50. If the above barriers could be eliminated or reduced, which of the following changes would you make?
 - Broaden the mandate of the IA function to include performance audits.
 - Increase the frequency of performance audits being conducted.
 - Broaden the objectives of performance audits being conducted.
 - Broaden the scope of performance audits being conducted.

Note: Questions 49 and 50 were only included in the survey in the United States.



Appendix C

PERCENTAGE OF RESPONDENTS EXPERIENCING IMPACT FROM PERFORMANCE AUDITING BARRIERS




	United States	English Canada	Quebec	Average
Higher Education	67%	68%	80%	72%
Funding	62%	68%	70%	67%
Training Affordability	54%	59%	70%	61%
Governance Maturity	42%	64%	70%	58%
City Bylaws	45%	59%	70%	58%
Guidance for Performance Auditing	37%	41%	90%	56%
Performance Reporting Maturity	46%	68%	50%	55%
Training Availability	44%	46%	70%	53%
Understanding of Internal Audit	46%	41%	70%	52%
Standards for Performance Auditing	28%	41%	60%	43%
State/Provincial Legislation	48%	59%	20%	42%
Staff Competence	23%	27%	30%	27%
Internal Audit Charter	37%	14%	30%	27%
Independence	22%	14%	20%	19%
Access to Information	23%	23%	0%	15%
Average per Jurisdiction	41%	46%	53%	N/A

Note: These are the percentages of respondents who “fully agreed” or “partially agreed” that the barrier impacted them. The differences between “fully agreed” and “partially agreed” are not weighted in this exhibit, so the rankings are different than the rankings in exhibits 5.2 and 5.3, which use weighted barrier scores. The average per barrier is of the three jurisdiction scores.



Appendix D

EXAMPLE OF CITY AUDIT MISSION STATEMENT AND CITY BYLAWS



Note: This is an excerpt from the city audit charter for Honolulu, Hawaii, United States. It is a good example of how to articulate the mission statement, authority, independence, and professional standards for a city audit function.

Mission Statement

The Office of the City Auditor's mission is to promote honest, efficient, effective, and fully accountable city government. To fulfill this mission, the office conducts audits and examinations of city departments, programs, services, and activities. The purpose of these audits is to provide the City Council and city management with independent and objective information regarding the economy, efficiency, and effectiveness of those activities. Our audits are performed in accordance with Generally Accepted Government Auditing Standards (GAGAS).

Authority

In the November 2002 General Election, the voters demanded accountability in city government when they overwhelmingly approved an amendment to the city charter creating an independent City Auditor. This was precipitated by the council's desire to strengthen the auditing function in city government and ensure that the agencies and programs of the city are held to the highest standard of accountability to the public. The charter affords the auditor the independence to initiate work under the auditor's authority and to consider requests for work from the council.

Independence

To ensure the objectivity of the Office of the City Auditor, the charter requires that the City Auditor be independent of the mayor and the city council. The charter further enhances the auditor's independence through a six-year appointment by council, with removal from office for cause by a two-thirds vote of the council. While the council can recommend audit topics, the City Auditor determines the work program for the office. The Office of the City Auditor administratively reports to the City Council of Honolulu.

Professional Standards

As required by the city charter, we adhere to very rigorous and demanding professional auditing requirements described in Government Auditing Standards, or more commonly referred to as GAGAS or the Yellow Book. These standards include requirements for planning our work, ensuring that our staff is properly trained and supervised, determining our rationale for the objectives, scope, and methodology, selecting the criteria we use to evaluate the audit subject, and ensuring that our evidence is sufficient, relevant, and competent.

THE CHARTER OF HONOLULU

Note: This is an excerpt from the city charter of Honolulu, Hawaii, United States. It is a good example of how to establish the powers of the city auditor in the city bylaws (available at Honolulu.gov).

CHAPTER 5: CITY AUDITOR

Section 3-501. Office Established; City Auditor —

1. There is established within the legislative branch an office of the city auditor, to be headed by a city auditor who shall be appointed by the city council and shall serve for a period of six years, and thereafter, until a successor is appointed. The council shall fix the salary of the city auditor. The council, by a two-thirds vote of its membership, may remove the auditor from office at any time for cause.

2. The city auditor shall possess adequate professional proficiency for the office, demonstrated by relevant certification, such as certification as a certified internal auditor or certified public accountant, or have an advanced degree in a relevant field with at least five years' experience in the field of government auditing, evaluation, or analysis. A certified internal auditor or certified public accountant shall be preferred. The city auditor shall have a bachelor's degree in accounting, business administration, or public administration or related field. If financial statement audits are conducted, the city auditor shall be a certified public accountant.

3. Except for exercising the right to vote, neither the auditor nor any member of the office of the city auditor shall support, advocate, or aid in the election or defeat of any candidate for city public office.

4. The city auditor may appoint the necessary staff for which appropriations have been made by the council. Subject to the provisions of this charter and applicable rules and regulations adopted thereunder, the auditor shall have the same powers with respect to the personnel of the office of the city auditor as executive branch department heads have over their personnel. Staff shall be appointed by the auditor in a manner consistent with the merit principles set forth in Section 6-1102* of this charter, but shall not otherwise be subject to the provisions of Chapter 11 of Article VI of this charter, pursuant to Section 6-1104** of this charter. (*Reso. 02-39, CDI, FDI*)

*Revision note: Citation error, Section 11-302 replaced with Section 6-1102.

**Revision note: Citation error, Section 11-304 replaced with Section 6-1104.

Section 3-502. Powers, Duties, and Functions —

1. It shall be the duty of the city auditor to conduct or cause to be conducted:

(a) The annual financial audit of the city, as required by Section 3-114;

(b) Performance audits of the funds, programs, and operations of any agency or operation of the city as requested by the council by resolution, as authorized by Section 3-114;

(c) Performance and financial audits of the funds, programs, and operations of any agency or operation of the city, as determined by the auditor to be warranted. Before the commencement of each fiscal year, a plan of the audits proposed to be conducted by the auditor during the fiscal year shall be transmitted to the council for review and comment, but not approval. The plan also shall be transmitted to the mayor and filed with the city clerk as public record; and

(d) Follow-up audits and monitoring of compliance with audit recommendations by audited entities.

The city auditor shall conduct or cause to be conducted all audits in accordance with government auditing standards.

2. Audit findings and recommendations shall be set forth in written reports of the city auditor, a copy of which shall be transmitted to the mayor and to the council and filed with the city clerk as public record.

3. For the purposes of carrying out any audit, the auditor shall have full, free, and unrestricted access to any city officer or employee and shall be authorized to examine and inspect any record of any agency or operation of the city, to administer oaths and subpoena witnesses and compel the production of records pertinent thereto. If any person subpoenaed as a witness or compelled to produce records shall fail or refuse to respond thereto, the proper court, upon request of the auditor, shall have the power to compel obedience to any process of the auditor and to punish, as a contempt of the court, any refusal to comply therewith without good cause. The auditor may retain special counsel, in the manner authorized by the council, to represent the auditor in implementing these powers.

False swearing by any witness shall constitute perjury and shall be referred by the auditor to the prosecuting attorney for prosecution. In any audit which concerns the alleged gross misconduct or alleged criminal conduct on the part of any individual, such individual shall have the right to be represented by counsel and the right to have the auditor compel the attendance of witnesses on behalf of the individual.

4. The city auditor's performance shall be evaluated annually by the council.

The city auditor's audit activities shall be subject to quality review in accordance with applicable government auditing standards by a professional, non-partisan, objective group. The written report of the independent review shall be transmitted to the council and mayor and filed with the city clerk as public record.

5. For the purpose of this section and Section 3-114: "Agency or operation of the city" includes any executive agency, semi-autonomous agency, council office, and other establishment of city government supported, in whole or in part, by city or public funds.

"Council office" includes the council itself, the office of a councilmember and the councilmember's immediate staff, the office of the city clerk, the office of council services, a reapportionment commission, and a charter commission. This definition applies only to those sections. It shall not be construed as excluding the office of the city auditor from the legislative branch.

"Record" includes any account, book, paper, and document, and any financial affair, notwithstanding whether any of the preceding is stored on paper or electronically. (*Reso. 02-39, CD1, FD1*)

Section 3-503*. Audit Committee —

1. The council may establish an audit committee, the members of which shall individually advise the city auditor on the following: formulation of the plan of audits proposed to be conducted by the auditor pursuant to Section 3-502.1(c); conduct of audits; follow up of audits; selection of private contractors to perform audits for the city auditor; evaluation of preliminary audit findings and recommendations and city agency, officer, or employee responses to the preliminary findings and recommendations; and evaluation of the city auditor's performance during each fiscal year. If established, the audit committee shall consist of five members:

(a) One member shall be the chair of the council committee with jurisdiction over the executive budget ordinances; and

(b) The other members shall be appointed by the council. The council shall appoint members who are qualified by experience, expertise, and independence to perform the duties of the audit committee. A member appointed by the council shall not hold any other office or position with the city while on the audit committee. The method of appointment, terms, and specific qualifications of the appointed members shall be established by the council by ordinance or rule. The council also may establish by ordinance or rule provisions for the removal of an appointed member for cause.

The audit committee shall be within the office of the city auditor.

2. Members of the audit committee shall have the power to render advice to the city auditor only on an individual basis. The members may gather and render the advice at meetings closed to the public.

The audit committee shall not have the power to take official actions or make collective decisions based on voting by the members. A quorum shall not be required for the audit committee to meet.

The audit committee is intended to have the duty of advising the city auditor on preliminary audit findings and recommendations and other confidential matters which should not be disclosed prematurely at meetings open to the public. Thus, this subsection is intended to permit the audit committee to gather in closed meetings without violating the state law on open meetings for public agencies.

If, however, a court of competent jurisdiction rules that the audit committee is subject to the state law on open meetings, the audit committee shall comply with the state law. Or, the audit committee may suspend its operation until appropriate amendment is made to the state law to permit the committee to gather in closed meetings.

3. The chair of the audit committee shall be appointed by the council in the manner provided by ordinance or rule.

A meeting of the audit committee may be called by the chair or auditor.

4. Members appointed by the council shall not be entitled to compensation for serving on the committee. The member from the council shall not be entitled to compensation for serving on the committee that is additional to the compensation received as a councilmember. All members, however, shall be entitled to be reimbursed for travel and other necessary expenses incurred by them in the performance of their official duties.

5. Section 13-103 shall not apply to the members of the audit committee. (*Reso. 02-39, CDI, FD1*)

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