

PERFORMANCE MEASURES FOR INTERNAL AUDIT

The use of performance measures varies greatly among Internal Audit shops. Performance measures can provide benefits to the Internal Audit function and its stakeholders if those measures are well thought out, analyzed correctly, and updated when applicable.

Performance Measures Defined

The term “Performance Measure” has been defined by many sources. In the Guide to Performance Measure Management 2012 edition, the term performance measure is defined as “A quantifiable indicator of entity achievement that includes the specific types: outcome, output, efficiency, and explanatory/input”ⁱ.

The Governmental Accounting Standards Board also provides a definition of the qualitative characteristics that performance information should possess in GASB Concepts Statement No. 2, *Service Efforts and Accomplishments Reporting*ⁱⁱ and amended by GASB Concepts Statement No. 5, *Service Efforts and Accomplishments Reporting*ⁱⁱⁱ. In those concept statements, GASB has stated that performance measures should be relevant, understandable, comparable, reliable, consistent, and timely. These measures are concerned with the results of the services governments deliver, and help provide a basis for assessing the economy, efficiency, and effectiveness of those services.

While definitions of the term “performance measure” may vary somewhat from entity to entity, a common concept appears to emerge. Relevant, comparable, reliable, and timely measures of performance can provide useful information to any entity that is attempting to evaluate its efficiency and effectiveness.

Performance Measures – Internal Audit

While the measurement of a Department’s activities can be a useful tool to the Internal Audit Executive, performance measures are only as good as they are useful. Time spent collecting data on ill-conceived or unused measures results in lost opportunities and less than optimal performance. Time is a commodity that has to be managed closely in an Internal Audit environment. Audit staff are limited by budget milestones and the typical audit executive is busy addressing management concerns as well as overseeing the department’s operations. Measures that add value are those that provide the Internal Audit Department with information about its performance in a variety of categories. These measures can be utilized by the Department to accurately identify areas in need of improvement as well as those areas in which the Department is operating effectively. However, achievement of established performance goals does not necessarily mean that the Department is effective. A Department’s achievement of performance goals related to percentage of completion of the approved audit plan or completion of audits within the budgeted time frame does not necessarily indicate that the audits completed were effective or provided value to the organization. For example, consider performance measures related to school districts. A district may achieve or surpass its stated

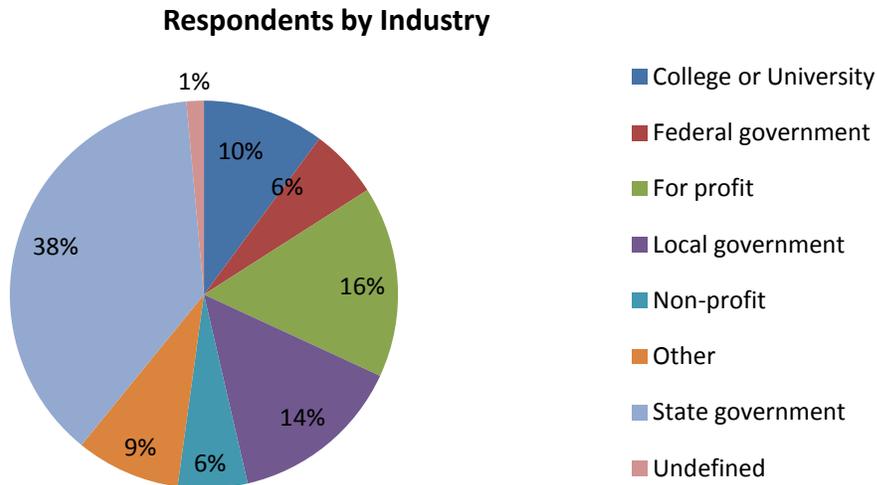
goal of having 90% of all students passing the standardized achievement test, but if the students cannot read or write effectively after graduation, what has that district actually achieved? The same is true of an Internal Audit shop. If the shop’s efforts do not yield additional compliance with regulatory guidelines, or provide added value to the organization through increased efficiencies and effectiveness, achievement of performance measures means little or nothing.

It should also be noted that some performance measures may be in direct competition with one another so that achievement of one could come at the expense of another. For instance, you may meet the goal of issuing an audit report in a timely manner but this may impact the quality of the deliverable. This could also impact the department’s compliance with internal audit standards.

Survey - Performance Measures by Industry

The Institute of Internal Auditors Austin Chapter Research Committee conducted a survey as part of its research project on Best Practices in Implementing Quality Assurance and Improvement Programs^{iv}. The Committee received 76 responses to the survey. Of those 76 responses, 69 provided information related to performance measures.

Respondents to this survey consisted of Internal Audit Departments working in education, government, for-profit, not-for-profit, and other fields.



Respondents were asked to provide information related to any metrics that had been developed to measure the activities of the entity’s Internal Audit Department. Included in the questionnaire were the following performance measure categories:

- Percentage of Audit Plan projects completed
- Percentage of overall time spent on assurance and consulting services
- Results of client satisfaction surveys
- Results of external quality assurance review

- Percentage of audit staff with professional certifications
- Percentage of audit staff meeting continuing professional education requirements
- Responsiveness to Board and Audit Committee requests
- Leadership in providing information on governance, risk, and controls
- Annual performance appraisal of the Chief Audit Executive
- Planned for the future
- Other metrics utilized

Four Categories for Classifying Data

Using the data provided by the survey respondents, each of the measures included in the survey were identified as a measurement of one of the following categories:

Performance – Completion of the audit plan as well as ongoing quality and performance improvement activities. Included in this category were:

- Percentage of Audit Plan projects completed;
- Results of external quality assurance review;
- Annual performance appraisal of the Chief Audit Executive;
- Number of recommendations implemented; and
- Planned for the future.

Cost/Efficiency – Adherence to budgeted hours and effective utilization of resources (audit versus non-audit activities). Included in this category were:

- Percentage of overall time spent on assurance and consulting services; and
- Audit report released within required timeline.

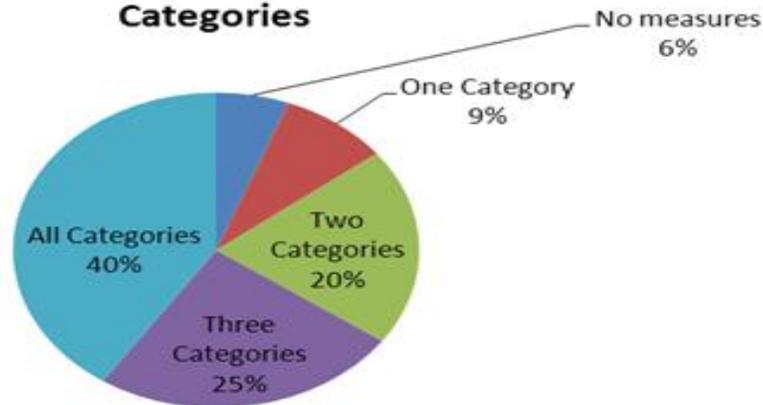
Customer Satisfaction – Delivery of value-added audit and consulting activities. Included in this category were:

- Results of client satisfaction surveys;
- Responsiveness to Board and Audit Committee requests; and
- Leadership in providing information on governance, risk, and controls.

Employee Development – Training, certification, and growth of the Internal Audit staff. Included in this category were:

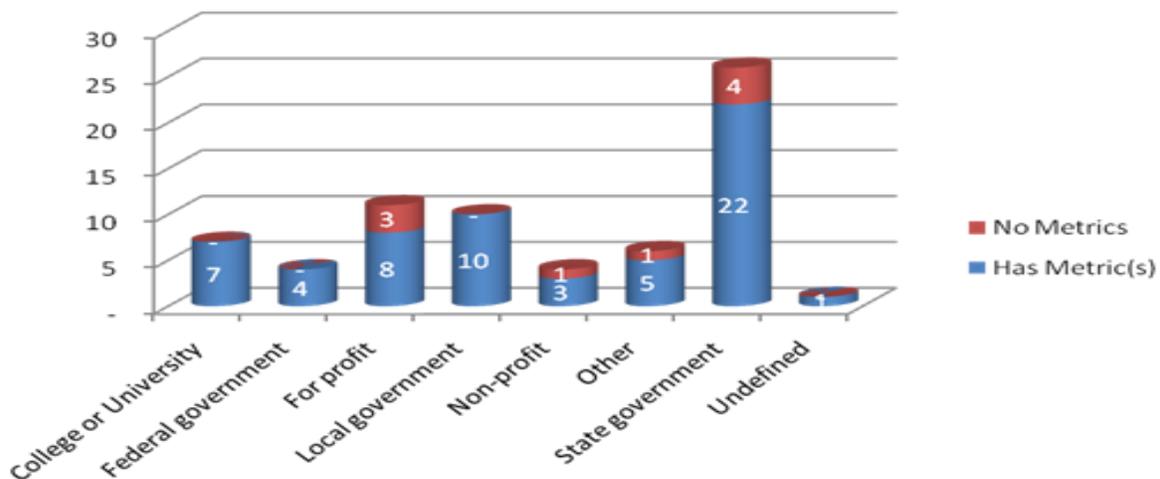
- Percentage of audit staff with professional certifications; and
- Percentage of audit staff meeting continuing professional education requirements.

Respondents With Metrics in Multiple Categories



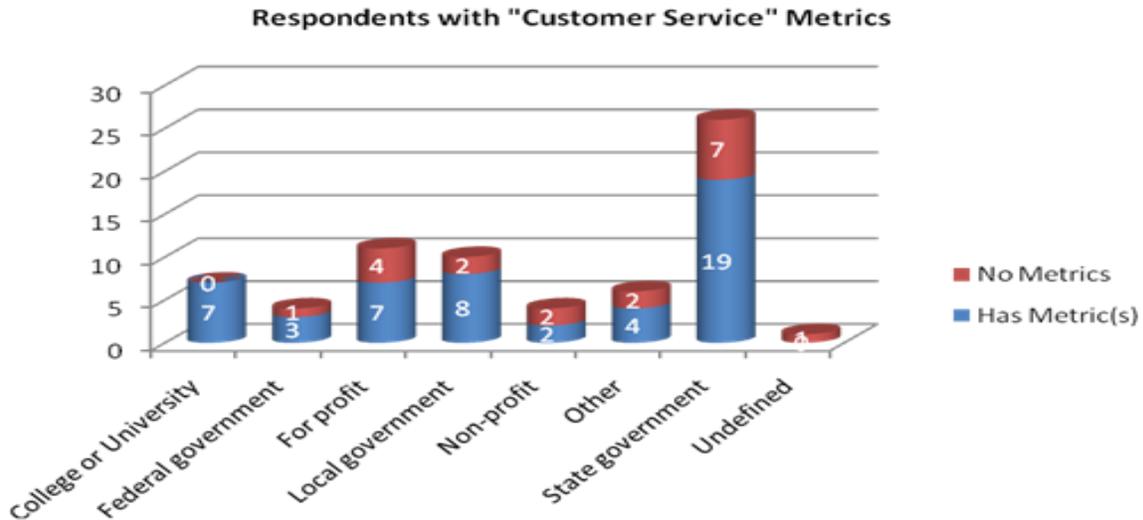
Measuring performance in multiple categories can provide a balanced picture for the Chief Audit Executive and other stakeholders. It is noteworthy that sixty-five percent of the respondents included measures in three or more of the categories. However, only forty percent (40%) of all respondents to the IIA Survey had performance measures in all four categories. Twenty-five percent of all respondents reported having performance metrics in three of the four categories; twenty percent reported having metrics in two categories; nine percent reported having metrics in one of the four categories; and six percent of all respondents reported that they had no performance metrics in place.

Respondents with "Performance" Metrics

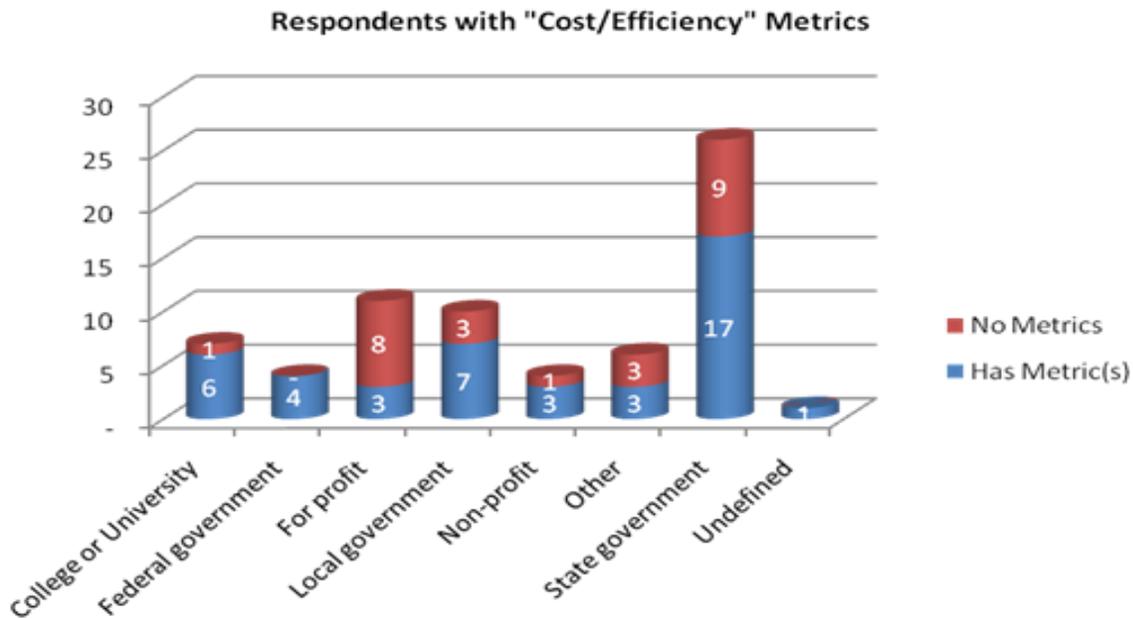


In reviewing the data provided, those performance measures identified in the category Performance were utilized with the most frequency by the respondents. Eighty-seven percent (87%) of all respondents indicated that some type of measure was being utilized to track the quantity and quality of work generated in the Internal Audit department. All of the college/university, federal government, and local government respondents indicated that at least one metric included in the Performance category was utilized. This was followed by state

government respondents who indicated that metrics in the Performance category were measured by eighty-five percent of those Internal Audit Groups.

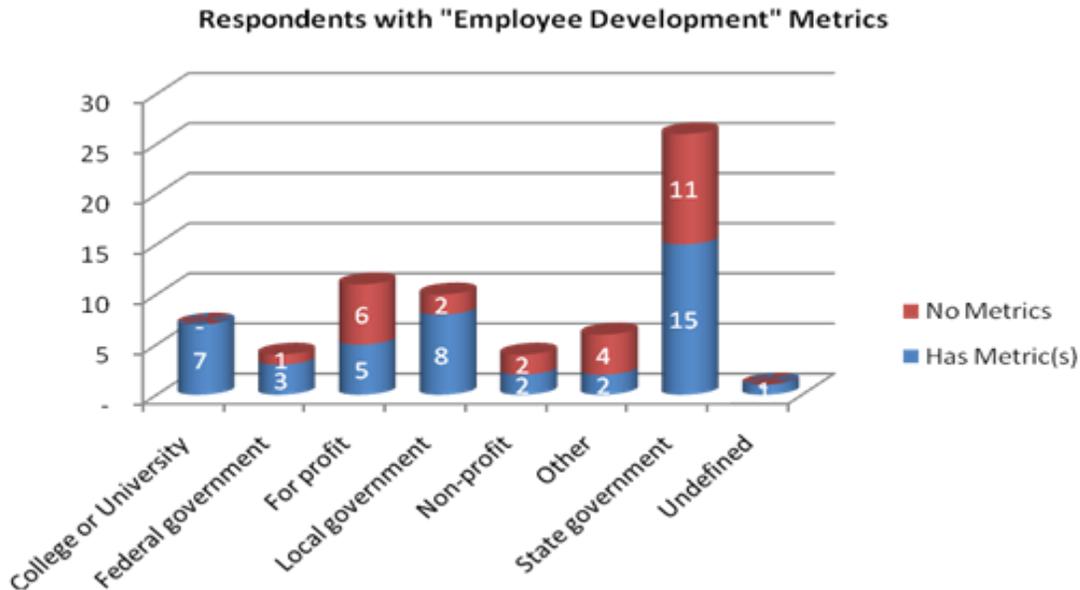


Seventy-two percent (72%) of the respondents indicated that their departments currently tracked metrics that met the Customer Satisfaction category. Customer satisfaction was measured at all of the colleges and universities responding. This was followed by local governments where the data indicated that eighty percent of the respondents measured customer satisfaction. Only sixty-four percent of for-profit respondents measured Internal Audit customer satisfaction.



Measures in the Cost/Efficiency Category were tracked by sixty-four percent (64%) of the survey respondents. All federal government respondents and eighty-six percent of the colleges and universities responding to the survey indicated that their Internal Audit departments had

established performance measures used to evaluate the timeliness of audit report releases and/or the percentage of time spent on audit-related and administrative functions.



Performance measures in the Employee Development category were least utilized by respondents to the survey. Sixty-two percent (62%) of respondents indicated that this type of measure was established by their Internal Audit department. While all of the colleges and universities responding indicated that Employee Development performance measures were in place, only fifty-eight percent of all State government respondents indicated that this was tracked and measured.

Summary of Survey Results

From the data gathered, it is apparent that metrics in the Performance and Customer Satisfaction categories are seen as most valuable to the survey respondents. However, the establishment of performance measures in the Cost/Efficiency and Employee Development categories can impact Performance and Customer Satisfaction metrics. For example, by tracking and measuring the cost and efficient use of available resources, the Chief Audit Executive has the opportunity to identify areas for improving the audit process. This directly impacts measures in the Performance category. In addition, measures categorized as Employee Development track the training and development of the Internal Audit staff. This may result in a motivated staff positively impacting all the other performance measure categories.

Performance Measures Best Practices

- Measure Performance**
 To know where to go, you have to know where you are. Measuring performance allows the Chief Audit Executive and other stakeholders to determine how the audit shop is

functioning and determine whether objectives are being met. Measuring performance can be considered a form of internal assessment. Internal assessments are a requirement of the International Standards for the Professional Practice of Internal Auditing Standard 1311^v.

- **Develop and Measure Performance Across All Categories**

Due to the way in which measures in one area may affect the attainment of goals in another category, it is important that metrics be developed in all four categories: performance, cost/efficiency, customer satisfaction, employee development. This provides the stakeholders with a balanced view of Internal Audit Activities and can provide insight when established goals are not attained.

- **Measure What Matters**

Determine what your stakeholders care about. Consider whether your performance measures are in alignment with internal audit's strategic plan. Consider whether the measures will provide useful information or suggest what course of direction to take to improve the activities of the audit shop.

- **Monitor Progress**

Monitoring the measures will allow you to see where your shop is compared to where you want to go and alert you to take corrective action when necessary. Consider benchmarking your results with comparable audit shops.

- **Engage the Workforce**

Increase participation in planning and engage the workforce in performance and improvement. This provides audit staff with the valuable information related to the department's goals and objectives and can assist with attainment of goals through a sense of "buy-in".

- **Maintain Flexibility**

Recognize that performance management is a living process. Developed metrics may require adjustment if those metrics are not providing the department or its stakeholders with a clear picture of Internal Audit activity and effectiveness.

- **Assess the Measures Regularly**

As stakeholder strategies and goals change, it may be necessary to adjust existing performance measures or develop new measures in order to ensure that the measures continue to provide useful information.

- **Report the Measures**

Reporting the measures can enhance accountability and promote transparency. It is an opportunity to communicate your audit shop's success (or challenges) in meeting its objectives.

- **Keep It Simple**
Focus on a critical few measures instead having many measures of less significant information.

Conclusion

Well-developed, pertinent performance metrics can provide one more tool to be utilized by the Chief Audit Executive to ensure Internal Audit is functioning with the efficiency and effectiveness necessary to provide the greatest impact to an organization. A cross-section of metrics in each of the four categories, Performance, Cost/Efficiency, Customer Satisfaction, and Employee Development, can provide a clear picture of the Department's effectiveness and productivity. It may also assist in identifying opportunities to improve or identify areas that directly impact the Department's productivity and effectiveness.

Bibliography:

- i Keel, John, et al. A Guide to Performance Measure Management. Austin. Texas State Auditor's Office, 2012.
- ii United States. Governmental Accounting Standards Board. Concept Statement Number 2. Norwalk. 1994.
- iii United States. Governmental Accounting Standards Board. Concept Statement Number 5. Norwalk. 2008.
- iv Austin Chapter Research Committee. Best Practices in Implementing Quality Assurance and Improvement Programs. The Institute of Internal Auditors Austin Chapter. Austin. 2012.
- v Institute of Internal Auditors. International Professional Practices Framework (IPPF). Altamonte Springs. 2009.