



# WHAT IS A PERFORMANCE AUDIT?

## **SUMMARY**

**A performance audit is an independent examination of a program, function, operation, or the management systems and procedures of a governmental or non-profit entity to assess whether the entity is achieving economy, efficiency and effectiveness in using its available resources.**

PERFORMANCE ASPECTS LLC  
[www.performanceaspects.com](http://www.performanceaspects.com) | [reports@performanceaspects.com](mailto:reports@performanceaspects.com)



**a. What is a Performance Audit?**

To a governmental or non-profit entity, a performance audit conducted in accordance with generally accepted government auditing standards (GAGAS), objectively assesses aspects of a program – effectiveness, economy, efficiency, compliance, internal control – against acceptable criteria, resulting in findings and recommendations that assist management and those charged with governance and oversight, in improving the program’s performance.

**b. Why would you need a performance audit?**

As a state or local government, or non-profit entity, your funding agreement, regulations, or law, may require that your program undergo a performance audit periodically. Your entity’s board or management may also decide to have a performance audit conducted to get an objective evaluation of a specific aspect of the program to assist it and others charged with governance and oversight in improving the program’s performance. For example, the performance audit may look at the effectiveness of your program – is the program achieving its goals? If not, what are the root causes? What are the effects of the program not achieving its goals? The audit report would include recommendations to remedy the findings.

**c. What Kind of GAGAS Audit Does Your Program Require?**

You should be clear on what type of audit your program requires. Your grant agreement, regulation, or law may state that you require a GAGAS audit, but GAGAS identifies 4 different types of audits (1) Financial Audits (2) Attestation Engagements (3) Reviews of Financial Statements and (4) Performance Audits. Obviously, Financial Audits and Reviews of Financial Statements relate to your program’s financial statements – Balance Sheet/Statement of Financial Position, Income Statement/Statement of Activity, Cash Flow Statement, etc. Attestation Engagements and Performance Audits are not so clear-cut; depending on the objective, an attestation engagement or a performance audit may touch on your program’s financial statements.

**d. An Attestation Engagement and a Performance Audit - What is the Difference?**

If you want to know, “this is what is happening” and, “why is it happening?” and, “how do I prevent this from happening in the future?”, you need a performance audit. If you only want to find out, “did this happen or is it happening?”, then you need an attestation engagement. Keep in mind, however, that GAGAS has three different types of attestation engagements with varying levels of assurance 1) Examination 2) Review 3) Agreed-Upon Procedures.

Another distinction between an attestation engagement and a performance audit, according to GAGAS, is that, “In an attestation engagement, the subject matter or an assertion by a party other than the auditors is measured or evaluated in accordance with suitable criteria”, while in a performance audit, “auditors are the party who measures or

evaluates the subject matter of the engagement and who presents the resulting information as part of, or accompanying, the audit report. Therefore, GAGAS does not require auditors to obtain management assertions with respect to the subject matter when conducting a performance audit”.

**e. What are the standards for conducting a performance audit?**

Unlike financial audits, attestation engagements, and reviews of financial statements which most state laws require that be performed by a certified public accountant (CPA), and therefore in accordance with professional auditing standards, a performance audit does not have to be performed in accordance with any standards. Your grant, agreement, regulation, or law, however, may stipulate the standards to be used, and for the credibility of the audit, you probably want it done in accordance with a recognized standard such as (1) United States federal government General Accounting Office’s generally accepted government auditing standards (GAGAS) (2) The Institute of Internal Auditors’ International Professional Practices Framework (3) The Association of Inspector Generals’ Principles and Standards for Offices of Inspector General (4) International Organization of Supreme Audit Institutions’ International Standards of Supreme Audit Institutions (5) Joint Committee on Standards for Education Evaluation’s Program Evaluation Standards (6) Information Systems Audit and Control Association’s IT Standards, Guidelines, and Tools and Techniques for Audit and Assurance and Control Professionals.

**f. Who conducts a performance audit?**

A performance audit can be conducted by any individual or organization that meets the standards under which the audit is performed. The audit does not have to be conducted by a CPA or a CPA firm. For example, if the audit is conducted under GAGAS, then the auditor must meet the standards’ continuing professional education (CPE) requirements and the firm must submit itself to periodic peer review. As a matter of fact, a lot of performance auditors do not have a finance or business background.

**g. How long does a performance audit take?**

Depending on scope and objective, a performance audit can run from a couple of months to well over a year. Keep in mind, though, that if the audit takes too long then the recommendations resulting from the audit may be outdated, and therefore not useful, by the time the report is released.

To continue the discussion, you can call us at **804-479-8077** or email us at **[reports@performanceaspects.com](mailto:reports@performanceaspects.com)**