

Performance Audits

**1.25** Performance audits are defined as engagements that provide assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program<sup>13</sup> performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability. Reporting information without following GAGAS is not a performance audit but a nonaudit service provided by an audit organization.

**1.26** Performance audits that comply with GAGAS provide reasonable assurance that the auditors have obtained sufficient, appropriate evidence to support the conclusions reached. Thus, the sufficiency and appropriateness of evidence needed and tests of evidence will vary based on the audit objectives and conclusions.

**1.27** A performance audit is a dynamic process that includes consideration of the applicable standards throughout the course of the audit. An ongoing assessment of the objectives, audit risk, audit procedures, and evidence during the course of the audit facilitates the auditors' determination of what to report and the proper context for the audit conclusions, including discussion about the sufficiency and appropriateness of evidence being used as a basis for the audit conclusions. Performance audit conclusions logically flow from all of these elements and provide an assessment of the audit findings and their implications.

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<sup>13</sup>The term "program" is used in this document to include government entities, organizations, programs, activities, and functions.

**1.28** Performance audit objectives may vary widely and include assessments of program effectiveness, economy, and efficiency; internal control;<sup>14</sup> compliance; and prospective analyses. These overall objectives are not mutually exclusive. Thus, a performance audit may have more than one overall objective. For example, a performance audit with an initial objective of program effectiveness may also involve an underlying objective of evaluating internal controls to determine the reasons for a program's lack of effectiveness or how effectiveness can be improved.

**1.29** Program effectiveness and results audit objectives are frequently interrelated with economy and efficiency objectives. Audit objectives that focus on program effectiveness and results typically measure the extent to which a program is achieving its goals and objectives. Audit objectives that focus on economy and efficiency address the costs and resources used to achieve program results. Examples of audit objectives in these categories include

- a. assessing the extent to which legislative, regulatory, or organizational goals and objectives are being achieved;
- b. assessing the relative ability of alternative approaches to yield better program performance or eliminate factors that inhibit program effectiveness;

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<sup>14</sup>In the context of performance audits, the term "internal control" in this document is synonymous with the term management control and covers all aspects of an entity's operations (programmatic, financial, and compliance).

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- c. analyzing the relative cost-effectiveness of a program or activity;<sup>15</sup>**
- d. determining whether a program produced intended results or produced results that were not consistent with the program's objectives;**
- e. determining the current status or condition of program operations or progress in implementing legislative requirements;**
- f. determining whether a program provides equitable access to or distribution of public resources within the context of statutory parameters;**
- g. assessing the extent to which programs duplicate, overlap, or conflict with other related programs;**
- h. evaluating whether the audited entity is following sound procurement practices;**
- i. assessing the reliability, validity, or relevance of performance measures concerning program effectiveness and results, or economy and efficiency;**
- j. assessing the reliability, validity, or relevance of financial information related to the performance of a program;**
- k. determining whether government resources (inputs) are obtained at reasonable costs while meeting timeliness and quality considerations;**

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<sup>15</sup>These objectives focus on combining cost information with information about outputs or the benefit provided or with outcomes or the results achieved.

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l. determining whether appropriate value was obtained based on the cost or amount paid or based on the amount of revenue received;

m. determining whether government services and benefits are accessible to those individuals who have a right to access those services and benefits;

n. determining whether fees assessed cover costs;

o. determining whether and how the program's unit costs can be decreased or its productivity increased; and

p. assessing the reliability, validity, or relevance of budget proposals or budget requests to assist legislatures in the budget process.

**1.30** Internal control audit objectives relate to an assessment of the component of an organization's system of internal control that is designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations. Internal control objectives also may be relevant when determining the cause of unsatisfactory program performance. Internal control comprises the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal control includes the processes and procedures for planning, organizing, directing, and controlling program operations, and management's system for measuring, reporting, and monitoring program performance. Examples of audit objectives related to internal control include an assessment of the extent to which internal control provides reasonable assurance about whether

a. organizational missions, goals, and objectives are achieved effectively and efficiently;

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**b.** resources are used in compliance with laws, regulations, or other requirements;

**c.** resources, including sensitive information accessed or stored outside the organization's physical perimeter, are safeguarded against unauthorized acquisition, use, or disposition;

**d.** management information, such as performance measures, and public reports are complete, accurate, and consistent to support performance and decision making;

**e.** the integrity of information from computerized systems is achieved; and

**f.** contingency planning for information systems provides essential back-up to prevent unwarranted disruption of the activities and functions that the systems support.

**1.31** Compliance audit objectives relate to compliance criteria established by laws, regulations, contract provisions, grant agreements, and other requirements<sup>16</sup> that could affect the acquisition, protection, use, and disposition of the entity's resources and the quantity, quality, timeliness, and cost of services the entity produces and delivers. Compliance objectives include determining whether

**a.** the purpose of the program, the manner in which it is to be conducted, the services delivered, the outcomes, or the population it serves is in compliance with laws, regulations, contract provisions, grant agreements, and other requirements;

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<sup>16</sup>Compliance requirements can be either financial or nonfinancial.

b. government services and benefits are distributed or delivered to citizens based on the individual's eligibility to obtain those services and benefits;

c. incurred or proposed costs are in compliance with applicable laws, regulations, and contracts or grant agreements; and

d. revenues received are in compliance with applicable laws, regulations, and contract or grant agreements.

**1.32** Prospective analysis audit objectives provide analysis or conclusions, about information that is based on assumptions about events that may occur in the future along with possible actions that the audited entity may take in response to the future events. Examples of objectives pertaining to this work include providing conclusions based on

a. current and projected trends and future potential impact on government programs and services;

b. program or policy alternatives, including forecasting program outcomes under various assumptions;

c. policy or legislative proposals, including advantages, disadvantages, and analysis of stakeholder views;

d. prospective information prepared by management;

e. budgets and forecasts that are based on  
(1) assumptions about expected future events and  
(2) management's expected reaction to those future events; and

f. management's assumptions on which prospective information is based.