



Audits on Performance Measurement Systems

An evolving process!

**New York, RIAS
7-10, September 2016**

*"Internal Audit Service:
Improving the Commission's Performance"*

Internal Audit
Service



Performance Auditing (definition)

Performance auditing is an independent and objective assessment of an entity's activities, processes, internal controls systems, governance and risk management, with regard to one or more of the three aspects of economy, efficiency and effectiveness, aiming to lead to improvements.

** This definition is based on that of the European Court of Auditors, adapted to the needs of the internal audit profession and the EC environment.*



What is a Performance Measurement System* (PMS)? (Reference to Root Cause article p.4)

- Private sector, PMS collects data that help identify potential improvements to business models. Knowledge provided by this data, enables increasing financial performance.
- PMS similar when applied to not-for-profit Organisations. Helps identify opportunities for improvement in approach to achieving impact, and can inform day-to-day and longer-term decision making.
- The saying, “What gets measured gets done” is apt as it draws attention to results of actions undertaken and resources applied.
- Performance Measurement = determination of what a programme accomplishes and whether desired results are being achieved.
- PMS = ongoing monitoring and reporting of programme accomplishments, particularly progress towards pre-established goals.
- Sometimes also referred to as a Performance Measurement Framework.

Andrew WOLK, Anand DHOLAKIA and Kelley KREITZ, "Building a Performance measurement systems", Root Cause, Cambridge MA, 2009: <http://www.rootcause.org/docs/Resources/Books/Building-a-Performance-Measurement-System/Building-a-Performance-Measurement-System.pdf>

"Improving Commission's Performance"

Performance Audits in the EC IAS

YEAR	TOTAL No. AUDIT REPORTS	No. PERFORMANCE AUDITS	% PERFORMANCE AUDITS	No. PMS
2013 ⁽¹⁾	23	12	52%	4
2014 ⁽¹⁾	31	12	38%	3
2015 ⁽¹⁾	52	35	67%	2
2016 (planned)	67	42	80%	5

(1) Annual Internal Audit Reports for 2013, 2014 and 2015 (Article 99(3) of the Financial Regulation)

Performance Audits in the ECA (EU NAO)

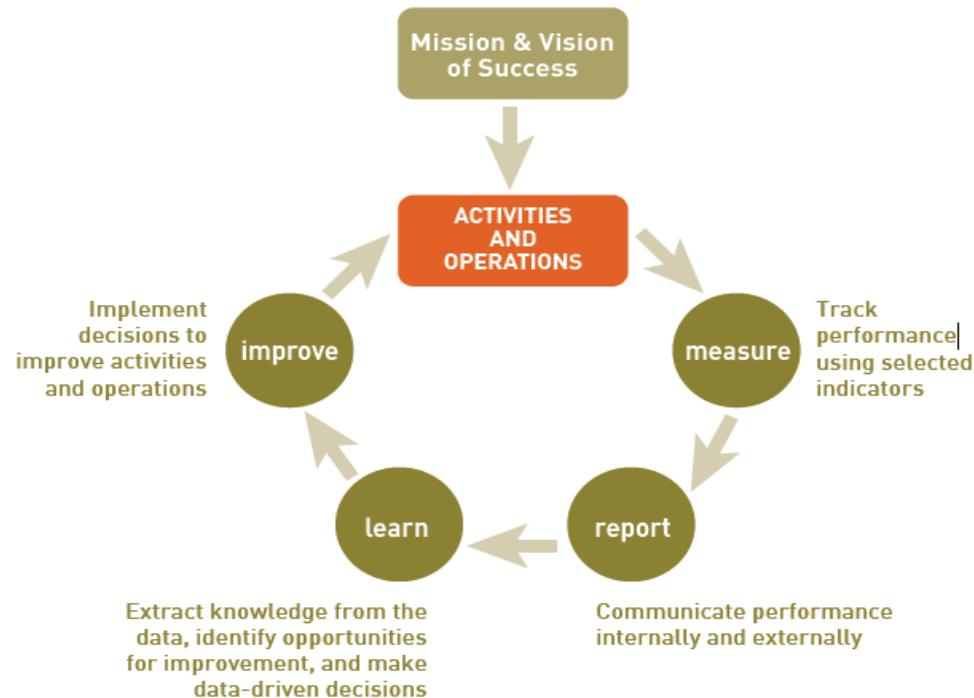
YEAR	TOTAL No. AUDIT REPORTS	No. PERFORMANCE AUDITS	% PERFORMANCE AUDITS
2014	89	24	27%
2015	88	25	28%
2016 (planned) ⁽¹⁾	90	25	27%

(1) 2016 EC Work Programme (http://www.eca.europa.eu/Lists/News/NEWS1601_12/WP2016_EN.pdf)

Performance Measurement Cycle

(reference to Root Cause article p.5)

Figure 1. The Performance Measurement Cycle



Andrew WOLK, Anand DHOLAKIA and Kelley KREITZ, "Building a Performance measurement systems", Root Cause, Cambridge MA, 2009: <http://www.rootcause.org/docs/Resources/Books/Building-a-Performance-Measurement-System/Building-a-Performance-Measurement-System.pdf>

"Improving Commission's Performance"

Performance Measurement Systems – Key Risks

Summary of the key generic risks

Risks	Audit objectives
<ul style="list-style-type: none"> • Inadequate performance measurement framework; • Inadequate reporting framework; 	<p>The Organisation's performance measurement and reporting frameworks are adequate and support the effective management of corporate resources in the achievement of the mandate.</p>
<ul style="list-style-type: none"> • Ineffective indicators or measures; • Inconsistent supporting systems and processes; 	<p>Effective systems exist for collecting, validating and using performance information</p>
<ul style="list-style-type: none"> • Lack of compliance with prescribed performance measurement and accountability reporting policies and guidance; • Lack of reliability in reported performance information; • Ineffective and insufficient support of management decision making. 	<p>Performance information is appropriately presented and reported.</p>



Performance Measurement Systems – Risk Assessment in EC

- EC has 3 year Strategic Audit Plan (SAP).
- Focus started on Financial Entities. Risk Assessment of each 3-year iteration includes identification of more non-financial entities in audit universe.
- As Performance audits taking higher role, more emphasis on risks associated with PMS.

EC IAS Strategic Audit Plan (SAP) 2009 to 2018 – Auditable entities				
Auditable Entities	Financial	Non-Financial	Total	% Non-Fin.
2010 - 2012	283	137	420	33%
2013 - 2015	247	450	697	65%
2016 - 2018	220	411	631	65%

EC IAS approach to auditing PMS (1)

- Distinction made between INTERNAL dimension of PMS (or PM Framework) for day-to-day operational & administrative activities and EXTERNAL dimension for delivery of the Policy objectives.
- Generally use common approach, but dependent on Service/process audited.
- Typically, horizontal analysis of internal processes for setting objectives & KPIs and related reporting and monitoring systems (both for internal activities and the delivery of policy).
- Some audits focussed on Objective setting, linked to Strategic Programming and Planning (SPP) Cycle.



EC IAS approach to auditing PMS (2)

- Detailed review of the processes for setting objectives, indicators, monitoring, evaluation and performance reporting concerning the audited Funds/process, focussing both on Entity's own activities and on the assessment of policy delivery.
- When developing audit criteria, the IAS referred to EU/EC internal reference frameworks as well as international best practices and reference frameworks.

Approach to auditing PMS (3)

Performance audit reports must include an overall assessment on how satisfactory is the performance of the audited entity/process/activity with regard to one or more of the **3 E's** (sound financial management):

- **Efficiency** – relationship between resources employed and results achieved (inputs vs output).
- **Effectiveness** – are the intended results achieved or specific objectives attained?
- **Economy** – resources available on time, in appropriate quantity and quality and at the best prices.

Approach to auditing PMS (4)

Performance audit covers:

- Auditee's activities, processes and internal control systems (how the auditee organises the achievement of its objectives in line with mission of IAS as stipulated in the Financial Regulation applicable to the EU budget).
- European Commission's DGs/Services.

Performance audit does not cover:

- Direct assessment of the *impact of policies and programmes* on society at large (= evaluation).
- Implementing bodies (Member States authorities, third countries authorities) and beneficiaries (outside scope of IAS mandate).

Approach to auditing PMS (5)

- **DIRECT APPROACH**

Examine directly the (internal) performance of the EC's services in terms of input, output, results.

The IAS assesses whether the EC's DGs/Services/other Bodies soundly manage their resources.

- **INDIRECT APPROACH**

Examine the external performance (achievement of programme objectives) through the assessment of the adequacy of policies and procedures to monitor and evaluate performances.

The IAS assesses how the DGs/Services measures the achievement of the programme objectives for which they are responsible.

The indirect approach is used most often due to the lack of performance measurement systems and clearly identified benchmarks.



EC IAS – Examples of some processes audited I

- **EU Agency N°1**: Production process for major report (every 5 years = "core product"). 220 Staff. Approx. 21 Man/Years resources to produce.
- Main Audit Question: Do Management & Control systems effectively & efficiently support process leading to production of Report?
- **EU Agency N°2**: Small Agency – manages projects with private sector participation – Annual Budget (Pymts) \pm €135 mill. Staff:36.
- Main Audit Question: Have effective & efficient systems been set up to monitor Projects and to report on Operational Performance?



EC IAS – Examples of some processes audited II

- **EC Dept. N°1**: Medium size dept. with large spending programme in educational field using National Agencies (NAs) in Member States as designated bodies to help it accomplish its mission (co-funded by EC, approx.€350 mill. p.a.).7 Year prog. Decentralised Grants \pm €9,064 mill. (2007-2013). 2014-2020 programme spend increased by 64%.
- Audit assessed 2 specific dimensions:
 - the internal dimension of the process: i.e. how Dept. measures the economic and efficient use by NAs of their operating grant, and
 - the external dimension of the process: i.e. how Dept. measures the efficient and effective use by NAs of the decentralised grants.
- Audit Conclusion: PMS needs to be significantly enhanced.



EC IAS – Examples of some processes audited III

- **EC Dept. N°2:** Objective and Indicator setting in context of annual Management Plan (MP). Newly created Dept.in 2014 following entry of new Commission. 10 new priorities of President Junker.
- Why Consultancy, not audit? New Dept. with politically important policy tasks. Certain processes not yet mature enough to be audited.
- To further improve the MP and related planning processes, the IAS considers that Dept. should:
 - (1) complement its MP with additional planning/performance measurement tools;
 - (2) define clear general and specific objectives aligned with political priorities;
 - (3) apply a more systematic approach to developing indicators.

IAS Performance Measurement Audits

YEAR	EC/AGENCY	AUDIT REPORT	BUDGET (€ mill. Pymts, p.a.)	No ENTITY STAFF
2013	Agency	Project Monitoring & reporting of Operational Performance	?	?
2013	EC	IAS Audit on Performance of National Agencies in DG EAC	9,064 (7 years)	?
2013	EC	Audit on DG EMPL Performance Measurement Systems	11,335	816
2013	EC	Audit on DG REGIO Performance Measurement Systems	37,434	777
2014	EC	Audit on performance measurement system in DG TAXUD customs activities	40.9	331
2014	Agency	IAS Audit on Project Monitoring and Reporting of Operational Performance (IMI JU)	135	36
2014	EC	Management Letter on Common Performance measurement/Human resource management issues, DG HR	N/A	N/A
2015	EC	Final Report on the consulting engagement on objective and indicator setting in the context of DG FISMA's Management Plan	N/A	N/A
2015	Agency	IAS Audit on Continuing Airworthiness Oversight	162	?
2016	EC	IAS Audit on Setting of Objectives and Measurement of Performance in DG GROWTH - Draft Report	1,929	1341
2016	EC	IAS Audit on Setting of objectives and measurement of performance in DG MOVE - Draft report	2,296	417
2016	EC	Draft Audit Report on Performance Management System in DG DEVCO	5,826	3,971
2016	EC	IAS Audit Report on the design of DG AGRI's performance measurement system for the CAP 2014-2020	408,312	?
2016	Agency	IAS Audit on the 2015 State of the Environment Report (SOER) preparation process	219	224



Applicable Audit Standards

IIA Standard - 2130 Control

The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

ISSAI 3100 - Performance Audit Guidelines – Key principles

The auditor is not normally expected to provide an overall opinion on the achievement of economy, efficiency and effectiveness by an audited entity in the same way as the opinion on financial statement. Where the nature of the audit allows this to be done in relation to specific areas of an entity's activities, the auditor is expected to provide a report which describes the circumstances and context to arrive at a specific conclusion rather than a standardised statement.

