Is a Performance Audit in Your Future?

Performance audits tell you much more than the usual audit can.

By Oscar Adongo

What Is a Performance Audit?

A performance audit gives you new information regarding a measurable performance aspect (such as effectiveness, economy, efficiency, or timeliness) of your nonprofit's program. The audit assesses the inputs, processes, and outcomes of the program.

According to the General Accounting Office (GAO), a performance audit provides objective analysis, findings, and conclusions to help managers and leaders:

- ***improve*** program performance and operations
- ***reduce*** costs
- ***facilitate*** decision-making by those responsible for overseeing or initiating corrective action
- ***contribute*** to public accountability.

Performance auditors are guided by the GAO's Government Auditing Standards, also known as generally accepted government auditing standards (GAGAS).

How Can a Performance Audit Help You?

Here are five ways a performance audit can help your organization:

> "A performance audit is like a searchlight."

1. A performance audit will give you a broader view of your program's performance than you would get in the usual financial statement audit. For example, say your nonprofit owns a building. A financial audit will only verify that the building exists, your nonprofit is the legal owner, the building is recorded in your books at its fair market value, and that it's reported in the right reporting period. A performance audit, however, can answer questions such as:

- ***Does the building meet*** the nonprofit's needs?
- ***Was it purchased or financed*** at the best possible price?
- ***Is the space being used*** efficiently?
- ***Does the nonprofit really need*** this building?

2. A performance audit gives you the flexibility to focus only on areas of significant concern. While a financial audit is like a fixed light trained on one area, a

> You have much more flexibility than in a financial audit.

performance audit is like a searchlight that you can move and train on various components of your nonprofit. For example, while a financial audit generally has the same audit objective and scope every year, each performance audit has a different objective and scope.

The objective defines where to direct your searchlight. For each audit, you can change the objective to focus on an area of concern – each time shifting your searchlight to a different part of your organization. As an example, say your nonprofit provides food to families in Kenya, and you want to know if you're meeting your goal of alleviating hunger. You ship tons of donated foodstuff to Kenya but you'd like to know whether the recipients qualify as poor (based on, for example, the poverty guidelines of the World Bank) and whether the food donations are making a difference to the recipients. The audit objective would be to determine whether your food program is effective. For the next performance audit, you may decide that you'd like to know whether your nonprofit is adequately staffed to deliver on its goal. This time, your objective will be related to workforce and employee headcount.

The scope defines the boundaries of your searchlight. You can widen or narrow the scope as you feel necessary. While you've focused your searchlight on a particular area of your nonprofit, you now determine how wide you want the beam to be, recognizing that having too wide a beam will result in the searchlight losing its intensity and focus. For your nonprofit with operations in Kenya, you could ask the auditors to limit their scope to only the past two years of your program's operations in Kenya or narrow the scope to activities in specific locations in Kenya.

3. The auditors will identify areas where the program's performance is inadequate – commonly referred to as the auditors' "findings." A finding includes

- ***the condition*** as it currently is
- ***the criteria*** used to evaluate the inadequacy
- ***possible causes*** of the inadequacy
- ***the effects of the inadequacy*** on the program's operations.

Knowing all the elements of the finding will give you invaluable insight into any inadequacy and how it affects your program, allowing you to make more informed decisions on where to allocate resources.

4. The audit report includes recommendations on how to remedy any inadequacy identified in the finding. The recommendations, required by auditing standards for every finding, give you a roadmap to addressing the finding. If you follow the roadmap and promptly implement the recommendation, the inadequacy will be addressed and your program will avoid the negative impact that the finding anticipated.

5. Auditing standards require that the auditor be on the lookout for internal control deficiencies, fraud, waste, and financial abuse. If there's a deficiency in any of these areas, it's vital that you be aware of it and know how to address it. If the auditors come across any of these issues, they'll bring it to your attention.

A Missed Opportunity?

Performance audits performed in compliance with GAGAS aren't widely used by nonprofits. If used correctly, however, your organization, your board, and your donors can benefit from the insights that such audits provide.

Oscar Adongo is a performance audit manager with Performance Aspects LLC (performanceaspects.com, reports@performanceaspects.com), a minority-owned CPA firm based in Glen Allen, Virginia. The firm specializes in conducting performance audits for nonprofits.

> The finding will give you invaluable insight.

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