



Focus on audits of Performance Management Systems

European Commission Internal Audit Service

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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>

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>

EC IAS – Examples of processes audited I (page 1)

- **EC Dept. N°1**: Large size dept. covering industry/SMEs areas (2016: €1.7 b.). Reorganised in 2015.
- **Audit objective**: Adequate PMS for day-to-day operational & administrative activities ?
- Focus mainly on:
 - setting high quality objectives and performance indicators (design and implementation of the process) in line with the policy;
 - PMS for monitoring, evaluating and reporting the (internal and external) performance of activities.
- **Audit conclusion**: PMS to be further improved to demonstrate how Dept.'s short-term actions effectively contribute to the achievement of its strategic objectives and consequently to the high-level Commission priorities.

EC IAS – Examples of processes audited I (page 2)

- **EC Dept. N°1**: Identified two Very Important issues:
- **EC Dept. performance framework**
- *Different tools used to plan and monitor its activities, actions and initiatives are not complemented by an overarching strategic vision describing how the DG organises its interventions.*
- **Monitoring & reporting on performance in the context of the Strategic Planning and Programming cycle (SPP)**
- *The Dept.'s 2016-2020 Strategic Plan does not always provide sufficient information to understand which unit is in charge of monitoring the different indicators and which data sources will be used for this purpose.*

EC IAS – Examples of processes audited II (page 3)

- **EC Dept. N°2**: Large size dept. Development area (2015: €5.8 b. Pymt. Budget). Operates in highly complex environment, due to devolved structure (86 EU Delegations worldwide), diversity of partner countries & implementing organisations.
- Audit objective: Adequacy of PMS to plan, monitor and report on achievement of objectives.
- Focus mainly on:
 - setting high quality objectives and performance indicators in different performance management tools: Strategic Plan (SP), Management Plan (MP) and Programming documents;
 - PMS for monitoring, evaluating and reporting the performance of activities;
 - Setting project-level indicators, monitoring and reporting, including closure

EC IAS – Examples of processes audited II (page 4)

- **EC Dept. N°2:**
- Audit conclusion: IAS acknowledges that some useful performance management tools have been developed and linked to result-orientated reporting initiatives. Nonetheless PMS to be significantly enhanced to strengthen its effectiveness.
- One Very Important issue (+ 3 Important ones):
- No systematic monitoring of progress made towards the achievement of objectives and targets set in the management plan.
- No central guidance on monitoring on the objectives and targets set in the action documents.
- Type of information reported on performance is limited & lacking links to programme objectives and achievements.

EC IAS – Examples of other types of Performance Audits carried out

- Risk management: Mainly a management task, uneven application
- HR management: have effective HR strategies been designed and implemented to deal with challenges of new priorities, changes in staffing levels and reorganisations
- IT Management: always room for improving effectiveness of IT operations
- Implementing budget operational & administrative appropriations: Direct, Indirect & Shared Management

Conclusions

- Commission moving to a 'performance culture' with higher level of accountability – helps acceptance of Performance Audits (PA): generally viewed as a positive contribution
- PA - very useful tool to influence/improve audited services performance
- Stakeholder expectations are partially met through PA
- PMS are major contribution to reassuring services, central management and governance structures, that systems working effectively



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