

Seven Barriers to Performance Auditing in Canadian Cities

An excerpt from the upcoming IIARF research report titled
Performance Auditing in Major Cities in the United States and Canada

The full report will be available free at
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About the Lead Researchers

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O'Connor's career included performance audits of many federal entities and programs, including several where federal funds were provided to cities. In his training capacity, he has interacted extensively with auditors and others at both state and city entities, thereby gaining an important understanding of the public sector activities at those levels. He is the author of two IIARF publications: *CGAP Exam Study Questions* and *CGAP Exam Study Guide*, 4th Edition. The CGAP (Certified Government Auditing Professional) exam includes significant coverage of performance auditing issues.

Introduction

In an era of increasing public expectations for improved government services—particularly when budgets are constrained—*performance auditing* is a useful tool to enhance decision-making at the local government level. Performance auditing can lead to more efficient, effective, and economical program delivery; stronger controls; and improved compliance with laws and policies.

Many audit functions within local governments in the United States and Canada have embraced performance audits with the support of council and staff. Others, however, are still conducting few or no performance audits.

To learn more about the conditions that affect performance auditing, the researchers sent surveys to the city auditors of all the major cities in the United States and Canada with populations greater than 150,000, along with several smaller cities to ensure all states were surveyed. Surveys were completed by 126 audit functions. (For more details, see appendices A, B, and C.) The researchers also conducted follow-up interviews with 36 audit leaders from these cities to understand why some cities were conducting fewer performance audits than others.

The full report, which will be released in the fourth quarter of 2014, includes in-depth analysis of all barriers in the United States and Canada, plus the best practices being used to mitigate them. This excerpt from the report focuses on the seven barriers to performance auditing that are unique to Canada and the actions that could be taken in Canada to mitigate their impact.

Time Spent on Performance Auditing

Survey results show that the time spent on performance audits varies widely between cities within Canada and within the United States. Overall, auditors in Canadian cities spend less time on performance auditing than their American counterparts. The average time spent by respondents in Canada is 48%, compared to 58% in the United States.

However, it is important to look at the details shown in exhibit 1 to see the wide range of responses. For example, a notable percentage of audit functions in both Canada and the U.S. reported spending only 10% of their time on performance auditing (25% of Canadian respondents and 20% of U.S. respondents.) In addition, a much greater proportion of U.S. respondents reported spending a very high percentage of their time on performance auditing. (Thirty-two percent of U.S. respondents spend 90% of their time on performance auditing, compared to 6% of Canadian respondents.)

Exhibit 1: Time Spent on Performance Auditing in Major Cities in Canada and the U.S.

Time Spent on Performance Auditing	Canada (32 respondents)		United States (84 respondents)	
	Count of Respondents	Percentage of Respondents	Count of Respondents	Percentage of Respondents
10%	8	25%	17	20%
20%	2	6%	0	0%
30%	1	3%	9	11%
40%	2	6%	0	0%
50%	1	3%	9	11%
60%	11	35%	1	1%
70%	5	16%	21	25%
80%	0	0%	0	0%
90%	2	6%	27	32%
100%	0	0%	0	0%
TOTALS	32	100%	84	100%
Weighted Average	N/A	48% average	N/A	58% average

Barriers to Performance Auditing in Canada

The perceived impact of the barriers on the percentage of time spent on performance auditing is higher in Canada than in the United States—and highest in Quebec. The barriers with the most impact in Canada were:

- Lack of mature governance processes (both in Quebec and English Canada)
- Lack of provincial legislation (particularly in English Canada)
- Lack of affordable and effective training (particularly in Quebec)
- Lack of guidance, standards, and guidelines (particularly in Quebec)
- Lack of understanding and support of internal audit (particularly in Quebec)

The barrier levels were calculated by taking the following steps:

- Respondents were presented with a list of 15 potential barriers to performance auditing. They were asked to agree or disagree with whether these barriers affected their organization. (These barriers are listed in appendix D.)
- Responses were converted to a numerical score by the research team (fully agree, 1; partially agree, .5; partially disagree, .25; totally disagree, 0).
- Average scores were calculated per barrier. Higher scores indicate more widespread and stronger impact from the barrier.

Exhibit 2 provides a listing of the barriers that were most impactful in Canada and discussed further in this article.

Exhibit 2: Seven Barriers to Performance Auditing: A Comparison of Canada and the U.S.

	English Canada	Quebec	United States
1. Responsibility for performance auditing is not set out in state or provincial legislation.	.60	.25	.45
2. Affordable training courses are not available.	.48	.65	.44
3. Effective training courses are not available.	.35	.65	.35
4. Internal audit is not sufficiently understood or supported.	.38	.53	.36
5. Governance processes are not mature.	.52	.55	.33
6. Authoritative guidance is not available.	.27	.50	.28
7. Standards and guidelines are not adequate.	.36	.40	.21

Note: Each barrier received a score from 0 to 1. A score of 0 would indicate that no respondents from that region reported an impact from the barrier, and a 1 would indicate that all respondents from that region reported maximum impact from the barrier.

1. Lack of Provincial Legislation Requiring Performance Auditing

In English Canada, respondents indicated that lack of provincial legislation requiring performance audits was the most serious barrier to effective performance auditing, receiving a score of .60 out of 1 (see exhibit 2).

In Quebec, lack of legislation represented much less of a barrier with a score of .25 out of 1, probably due to the fact that cities in Quebec with populations of 100,000 are required by provincial legislation to conduct performance audits.

In English Canada, several provinces have recently introduced legislation to enable cities to create optional auditor general functions. Exhibit 3 shows a summary of provincial requirements for appointing municipal auditor generals, or city auditors.

Exhibit 3: Provincial Legislation for Municipal Auditors in Canada

Local Government Required to Appoint Municipal Auditor General	Local Government Empowered to Appoint Municipal Auditor General	No Provision for Municipal Auditor General or City Auditor
Nova Scotia	Winnipeg, Manitoba (specific provisions)	Saskatchewan
Quebec (for cities with populations over 100,000)	Ontario (specific provisions)	Territories of Nunavut, Yukon, and Northwest Territories
Toronto		Newfoundland
British Columbia		New Brunswick
		Prince Edward Island
		Alberta (legislation proposed in 2009 but defeated)

Each province has followed a unique path to its current legislative position. Below is a summary of the most recent activity in each province.

Alberta: The province of Alberta proposed legislation in 2009 to allow cities to create an auditor general function, but the legislation was defeated. Calgary and Edmonton have had city auditors in place for years, even though they are not required by provincial legislation.

British Columbia: The province of British Columbia passed legislation in 2012 to create an auditor general for local government and an independent audit council. The first auditor general, who reports to the audit council, was appointed in January 2013.

Manitoba: The province of Manitoba created legislation in 2009 to require Winnipeg to establish an internal audit function. The City of Winnipeg Charter Act sets out the duties, powers, and qualifications of the city auditor.

Nova Scotia: In 2008, the province of Nova Scotia passed Bill 138 to allow the minister of Service Nova Scotia and Municipal Relations to appoint a municipal auditor general. Legislation has not been proclaimed, however, as the province and Union of Nova Scotia Cities have been unable to agree on how to fund the municipal auditor general’s office. In 2008, the Nova Scotia Legislature amended the Halifax Regional Municipality (HRM) Municipal Charter to add the requirement for Halifax Regional Council to appoint an auditor general. In September 2009, HRM appointed its first auditor general.

Ontario: Cities can appoint an auditor general whose role is to assist the council with holding itself and city administrators accountable for the adequacy of safeguards over city assets and to ensure value-for-money within city operations. This legislation is optional, however, and cities can decide to have no internal audit function or auditor general function.

To date, six cities in Ontario, including Windsor, Toronto, Sudbury, Ottawa, Oshawa, and Markham, have opted to introduce auditor general functions with mixed results. Windsor and Oshawa eliminated their functions after disputes occurred over their authority and independence. Steps also have been taken by councils in Sudbury and Ottawa and other cities to reduce the independence of their auditors general. At the time of this research, the auditor general position in Markham has been vacant since 2010.

Quebec: Local governments are required to appoint a municipal auditor general in cities with populations of more than 100,000. Performance auditing became a requirement following amalgamation of the municipalities in 2002.

Others: New Brunswick, Newfoundland and Labrador, Prince Edward Island, and Saskatchewan, plus the territories of Northwest Territories, Nunavut, and Yukon, have either not introduced or passed legislation requiring cities to establish audit functions of any type.

Observations: Given the mixed experience with the introduction of legislation to allow auditor general functions to be established, the researchers suggest that IIA Canada collaborate with the Municipal Internal Auditors' Association (MIAA) and the Association of Local Government Auditors (ALGA) to identify model legislation to encourage greater accountability and transparency within municipal governments. That legislation should include mechanisms to ensure auditor independence and funding formulas that provide sufficient resources to enable audit functions to fulfill their mandates and meet professional audit standards.

2. Affordable Training Courses Not Available

Lack of affordable training was identified as the third largest barrier to performance auditing in English Canada. Respondents indicated that few affordable courses in performance auditing are available for staff. Cost-effective training at the intermediate and advanced levels are particularly difficult to find in Canada as significant tailoring is required to adapt courses to the local government environments. While effective annual training is available in the United States from the Association of Local Government Auditors (ALGA), it is cost-prohibitive for most staff in English Canada due to most auditors facing significant budget pressures.

In Quebec, lack of affordable training is one of the most significant barriers to effective performance auditing. Many audit staff are fluent only in French and, due to the lack of courses available in French, they must incur travel costs to receive relevant training in performance auditing. Budgetary restrictions limit the amount of training that can be undertaken. The

introduction of webinars may alleviate these pressures, but many staff still prefer to attend in-person classroom training.

Observation: More coordination between the local IIA chapters in Canada, IIA Canada, MIAA, and the Canadian Comprehensive Auditing Foundation (CCAF-FCVI) will be required to improve the availability of affordable courses.

3. Effective Training Courses Not Available

In Quebec, a lack of effective training is one of the largest barriers to performance auditing. Respondents reported that the lack of effective training is mostly a language issue as it is difficult to obtain relevant training in French. According to respondents, training in all levels (basic, intermediate, and advanced) is needed in Quebec where performance auditing is still a relatively new function (starting with the city amalgamation in 2002). Many staff have a financial audit background with little experience in performance auditing.

In English Canada, lack of effective training is not considered to be a significant barrier because participants can access courses from The IIA, CCAF-FCVI, and MIAA. Respondents also noted that effective training was also available through ALGA, which offers an annual conference.

Observation: Coordination between the local IIA chapters, IIA Canada, and CCAF-FCVI is required to address the need for performance auditing courses in French.

4. Internal Audit Not Sufficiently Understood or Supported

Lack of support and understanding from city councils, city staff, the media, and the public was identified as a significant barrier to performance auditing within most of the small and medium-sized cities in Quebec. Respondents indicated that the performance auditing function is still relatively new within these cities, and time will be required to improve the understanding of the various stakeholders.

Respondents in English Canada had mixed views on this barrier. Those in medium-sized cities identified it as a more important barrier than those in larger cities. Orientation sessions with members of council were seen to be critical to ensure the role of internal audit and the auditor general—and the differences between the two roles—were understood.

Observation: IIA Canada, ALGA, MIAA, and the CCAF-FCVI can assist with initiatives to improve governance processes within local governments, which will improve the understanding and support for internal audit.

5. Lack of Mature Governance Processes

The IIA defines governance as “the combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.” The maturity of governance processes varies significantly from

one city to the next. Maturity levels within smaller cities were generally lower than those within larger cities.

In both English Canada and Quebec, immature governance processes were identified as a barrier to effective performance auditing. Respondents within many of the small and medium-sized cities indicated that members of council do not fully understand the roles of the auditors general or the council's responsibilities for governance. In Quebec, this problem is aggravated by the fact that most of these cities have not established audit committees.

Interviews with best practice audit functions indicated that having clear terms of reference for both the audit function and an audit committee will facilitate the success of the audit function and effective governance practices. These leaders suggested that internal audit could provide council members with training on governance processes, such as the role of performance auditing in public sector governance and the roles of an audit committee in the public sector.

Observation: IIA Canada, ALGA, MIAA, and the CCAF-FCVI could assist with the provision of governance training. These organizations have an interest in making improvements to governance processes and have access to best practices within the public sector.

6. Authoritative Guidance Not Available

Lack of authoritative guidance in French is a significant barrier to effective performance auditing in Quebec. Many of the auditors general in Quebec are chartered professional accountants (CPAs) who are required to follow the CPA Canada's value-for-money audit standards. Respondents pointed out that CPA Canada has not issued any recent guidelines or publications to facilitate implementation of these standards.

Lack of authoritative guidance on performance auditing is not a significant barrier in English Canada where participants noted the availability of guidance, including a textbook on performance auditing from The IIA (*Performance Auditing, A Measurement Approach, 2nd Edition*).

Observation: Collaboration between IIA Canada and The IIA would help to ensure authoritative guidelines on performance auditing are available in French.

7. Standards and Guidelines Not Adequate

Discussions with survey respondents in Quebec revealed that the value-for-money audit standards of CPA Canada are used extensively by half the auditors general and to some extent by the others. Respondents reported that no authoritative guidelines on performance auditing have been issued by other professional accounting and auditing bodies in Canada or by The IIA. The best-practice text endorsed by The IIA, *Performance Auditing, A Measurement Approach, 2nd Edition*, is not available in French.

Observation: Collaboration between IIA Canada, CPA Canada, and the CCAF-FCVI is required to develop authoritative guidelines in both official languages to improve performance auditing practices in Quebec and the rest of Canada.

Conclusion

The barriers to performance auditing within cities in Canada can be mitigated through the combined efforts of audit leaders in these cities, IIA Canada, local chapters of The IIA, CPA Canada, CCAF-FCVI, MIAA, and ALGA. The researchers suggest that:

1. IIA Canada, MIAA, and ALGA collaborate to address the need for common legislation.
2. IIA Canada, local chapters of the IIA, MIAA, and the CCAF-FCVI coordinate to ensure effective, affordable training is available in Canada in both English and French.
3. IIA Canada, ALGA, MIAA, and the CCAF-FCVI work together to develop governance training for senior staff and councilors within local governments to improve the understanding and support for internal audit.
4. CPA Canada, IIA Canada, and the CCAF-FCVI collaborate to address the lack of recent guidelines and authoritative guidance on value-for-money auditing and performance auditing in both English and French.

For More Information

This article is an excerpt from the upcoming IIA Research Foundation report titled *Performance Auditing in Major Cities in the United States and Canada* (to be released in the fourth quarter of 2014).

Visit www.theiia.org/research to download the complete report when it is released and to access other free research reports for IIA members.

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The lead researchers would like to thank the following audit leaders who acted as advisers to the research team:

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Todd Horbasenko, CIA, CCSA, CMA, recently retired as city auditor in Calgary, Alberta. He was the deputy city auditor for Edmonton, Alberta. Horbasenko has served in all executive positions of the Edmonton Chapter of The IIA and represented Alberta on The IIA's Canadian Council, including two years as chairman. He currently serves as a director on IIA Global, IIA North America, and IIA Canada boards.

Michael McLaughlin, FCMA, is the former deputy auditor general of Canada and the former vice president and chief financial officer for the Canadian Air Transport Security Authority. McLaughlin is a past president/executive director and chair of the CCAF-FCVI, a Canadian auditing research and educational foundation, and is currently providing training to performance auditors as a CCAF Associate. McLaughlin has 30 years of experience and is an independent consultant providing advice and training in performance auditing.

Appendix A: U.S. and Canadian Cities That Participated in the Survey

Montgomery	AL	Kansas City	MO	Richmond	VA
Anchorage	AK	St. Louis	MO	Virginia Beach	VA
Tempe	AZ	Springfield	MO	Chesapeake	VA
Glendale	AZ	Charlotte	NC	Vancouver	VA
Mesa	AZ	Raleigh	NC	Seattle	WA
Phoenix	AZ	Henderson	NV	Milwaukee County	WI
Anaheim	CA	Las Vegas	NV	Calgary	AB
Irvine	CA	Albuquerque	NM	Edmonton	AB
San Diego	CA	Buffalo	NY	Burnaby	BC
San Francisco	CA	New York	NY	Richmond	BC
San Jose	CA	Rochester	NY	Surrey	BC
Los Angeles	CA	Cincinnati	OH	Vancouver	BC
Riverside	CA	Cleveland	OH	Winnipeg	MB
Denver	CO	Dayton	OH	Moncton	NB
Colorado Springs	CO	Oklahoma City	OK	Brampton	ON
Hartford	CT	Tulsa	OK	Burlington	ON
Tampa	FL	Portland	OR	Greater Sudbury	ON
Miami	FL	Pittsburgh	PA	Hamilton	ON
Cape Coral	FL	Philadelphia	PA	Kitchener	ON
Tallahassee	FL	Sioux Falls	SD	London	ON
Orlando	FL	Knoxville	TN	Mississauga	ON
St. Petersburg	FL	Clarksville	TN	Oakville	ON
Atlanta	GA	Memphis	TN	Oshawa	ON
Columbus	GA	Arlington	TX	Ottawa	ON
Honolulu	HI	Austin	TX	Toronto	ON
Chicago	IL	Brownsville	TX	Vaughan	ON
Aurora	IL	Garland	TX	Gatineau	QC
Fort Wayne	IN	Laredo	TX	Laval	QC
Overland Park	KS	Dallas	TX	Levis	QC
Wichita	KS	Grand Prairie	TX	Longueuil	QC
Louisville	KY	Irving	TX	Montreal	QC
New Orleans	LA	Chattanooga	TN	Quebec City	QC
Baton Rouge	LA	Nashville	TN	Saguenay	QC
Shreveport	LA	Corpus Christi	TX	Sherbrooke	QC
Boston	MA	El Paso	TX	Terrebonne	QC
Springfield	MA	San Antonio	TX	Trois-Rivières	QC
Grand Rapids	MI	Alexandria	VA	Saskatoon	SK
Detroit	MI	Hampton	VA		
Minneapolis	MN	Norfolk	VA		

Appendix B: Major U.S. and Canadian Cities with No Continuous Audit Activity

A key finding was the absence of an audit function in a significant number of cities that met the population criteria for this study.

- Twenty-two (13.4%) of the 164 cities surveyed in the United States had no audit function. Three of those 22 cities had populations greater than 250,000.
- Three (8.3%) of the 36 cities surveyed in Canada had no audit function. One of those three cities had a population greater than 250,000.

This research study did not specifically examine why these cities did not have formal or continuous audit functions, but several reasons were mentioned, including budgetary constraints, intermittent use of contractors for internal auditing, intermittent assignment of audit work to audit function, and absence of a mandate to have an audit function

Major U.S. and Canadian Cities Without Audit Functions in 2013

U.S. Cities	Population	Canadian Cities	Population
Peoria, AZ	163,000	Markham, ON	302,000
Gilbert, AZ	222,000	Richmond Hill, ON	193,000
Chandler, AZ	250,000	Regina, SK	186,000
Bakersfield, CA	324,000		
Chula Vista, CA	224,000		
Corona, CA	151,000		
Fremont, CA	206,000		
Garden Grove, CA	166,000		
Huntington Beach, CA	193,000		
Oceanside, CA	173,000		
Pomona, CA	152,000		
Rancho Cucamonga, CA	172,000		
San Bernardino, CA	198,000		
Santa Clarita, CA	169,000		
Santa Rosa, CA	157,000		
Port St. Lucie, FL	154,000		
Des Moines, IA	201,000		
Lincoln, NE	254,000		
Eugene, OR	153,000		
Salem, OR	155,000		
Salt Lake City, UT	183,000		
Tacoma, WA	200,000		

Note: These cities met the size requirement for the project, but they did not participate in the survey because they did not have an audit function at the time of the survey.

Appendix C: Survey Response Rates

After the cities with no audit functions were excluded, the response rates were 59% for the United States, 100% for Quebec, and 92% for the rest of Canada, also referred to as English Canada. The cities that responded to the survey are listed in appendix A.

Jurisdiction	Surveyed	Responses	No Response	No Audit Function
United States	164	84	58	22
English Canada	27 ^a	22	2	3
Quebec	10	10	0	0

^a Both the internal audit and auditor general functions in Toronto completed surveys.

Appendix D: Survey Questions About Performance Auditing Barriers

Note: These are the questions about the barriers to performance auditing that appeared in the survey sent to the city auditors of all major cities in the United States and Canada.

If any of the following items are presently obstacles to conducting performance audits within YOUR organization, please indicate that you agree with the statement—either fully or partially. [The response options for each item were fully agree, partially agree, partially disagree, and totally disagree.]

34. The City's/Town's IA function's responsibility for conducting performance audits is NOT set out in legislation passed by the State or Provincial Government.
35. The City's/Town's IA function's responsibility for conducting performance audits is NOT set out in the bylaws or other legal document of your organization.
36. The City's/Town's IA function does NOT have sufficient independence from those it is required to audit to allow it to plan its audit activities and both conduct and be perceived to conduct its work without interference.
37. Performance auditing is NOT identified as one of the duties or responsibilities in the mandate, constitution, or charter of the City's/Town's IA function.
38. Performance audits in the City's/Town's IA function CANNOT be conducted with complete and unrestricted access to employees, property, and records as appropriate.
39. The City's/Town's IA function does NOT have sufficient funding relative to the size of its audit responsibilities.
40. The legitimacy of the City's/Town's IA function and its mission is NOT sufficiently understood and supported by a broad range of elected and appointed public sector officials, as well as by the media and involved citizens.
41. Authoritative guidance on performance auditing is NOT readily available within textbooks, professional journals, research reports, and studies.
42. Effective training courses in performance auditing are NOT available for all levels of the IA staff in your City/Town.
43. Affordable training courses in performance auditing are NOT available for all levels of the IA staff in your City/Town.
44. Adequate education programs are NOT provided by colleges and universities to prepare individual auditors for careers in your City's/Town's IA function as performance auditors.
45. Professional audit standards/guidelines do NOT provide an adequate framework to support performance audits.

Seven Barriers to Performance Auditing in Canadian Cities

46. The collective competence level of the staff in your City's/Town's IA function is NOT sufficient to support effective performance audits.
47. Performance reporting processes within the local/municipal government entity are NOT mature.
48. Governance processes within the local/municipal government entity are NOT mature.