Some Views on "Effectiveness: Reporting and Auditing in the Public Sector"

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The Canadian Comprehensive Auditing Foundation's report titled **Effectiveness: Reporting and Auditing in the Public Sector** presents an accountability framework which includes the following principle: "managers provide information in the form of representations to help governing bodies form judgments about effectiveness." This article reviews this fundamental principle and the approach to reporting on attributes of effectiveness. The Foundation recognizes that recommended approach will evolve over time as new thoughts are developed and experience in implementing it is gained. The views in this article are presented in the spirit of contributing to further developments as we support the importance of including management representation in the evaluation of effectiveness.

Management Representations

The notion of management representations and the role of auditors in relation to them is a fundamental premise underlying the conclusions and recommendations in the Report: "In the Panel's view, using management representations to report effectiveness will best respond to the obligations of managers and the expectations of governing bodies." The role of auditors is to attest to the fairness of the representations which are based on information collected by the measurement community, including program evaluators.

A traditional role of auditors in the accountability scheme is outlined in the Report. In the private sector, for example, accountants prepare the financial statements and auditors attest to their accuracy and fairness. The Foundation's report applies this logic to non-financial matters in the public sector. Management in the ideal situation would be expected to receive information on value-for-money issues for their uses and report it to governing bodies to fulfill accountability requirements. In fact, it would be a useful exercise for management and governing bodies to negotiate the types of representations which would adequately serve accountability requirements.

However, some flexibility is needed for this "orthodox" position in the non-financial domains. The Report recognizes a situation where auditors may be expected to undertake direct measurement and reporting: "In the absence of an active management report on effectiveness however, there is always the possibility that auditors may be asked to fill the gap and assume what would more properly be a management responsibility." Considering the prevalence of audit findings about the lack of information for decision-making, there will be numerous occasions for direct measurement and reporting by auditors, even though this may be viewed as more properly a management responsibility. The absence of the information would be an important finding and might form part of a judgement on management's responsibility for measuring effectiveness.

There are other circumstances where auditors could be expected to measure directly and report information. This may be the case where audits find reported information which is inaccurate and invalid. The auditor's independent measurement can serve to present less biased information to governing bodies. This would serve two purposes: 1) to document the seriousness of the problems with the information provided to management and used for representations; and 2) to provide accurate and valid information to governing bodies for them to exercise their accountability responsibility.

Auditors measure and report various dimensions of performance to document the consequences and implications of findings related to inadequate management controls. For example, an audit may find fault with controls which management does not recognize, such as poor verification procedures for determining eligibility for welfare or unemployment insurance. To document the seriousness of the consequences associated with poor controls, the auditor could measure the level of fraud and overpayments (assuming this is not included in the management representations). Such an approach would counter the common criticism of audits which call for the introduction of controls without sufficient concern about the cost and value of controls in preventing serious consequences.

In the context of internal auditing, involvement of auditors in measuring and reporting information can also be justified in relation to the objectives for the auditing exercise. Internal audit groups in the public sector often have a mandate to assist management and not simply to serve the interests of accountability. This is reflected in the following description of the objective for an internal audit group in a Crown Corporation:

> The objective of Internal Audit is to help management achieve or maintain efficiency and effectiveness in its operations, with due regard to economy, as well as report to Management the degree of compliance with established policies, plans and procedures and applicable laws and regulations, including the control afforded over assets and expenditures.

In other words, senior management in the public sector can expect their internal audit groups to undertake direct measurement to assist management, recognizing these measurement and reporting activities would be subject to review by the legislative auditor which reports to the governing body—e.g., the legislature or Parliament.

What the foundation's Report calls for is a much more aggressive role for Internal Audit. The roles would include working much more closely with management in the framing of effectiveness attributes and in their direct measurement. This new role for internal audit will require skills that typically are not found in Internal Audit groups.

Despite the appeal of the Report's distinction between the role of managers to make representations (using information produced by program evaluators and others in the measurement community) and the role of auditors to attest to the fairness of the representations, there are circumstances which will call for auditors to measure directly and report information to fulfill its objective.

Meaning of Effectiveness

The Foundation chose to focus on the term effectiveness rather than common used terms in the management literature such as: program effectiveness, operational effectiveness and organizational effectiveness. The Report defines effectiveness according to twelve attributes. This section addresses the use of the general term effectiveness (i.e., without the modifiers) and the following section discusses the use of the framework and the twelve attributes. There is, of course, the argument that three modifiers have been replaced by twelve.

The following conclusion is drawn in the Report as the basis for the Foundation's viewpoint:

> "The dissatisfaction with current approaches stems primarily from a continuing concern that there has not yet evolved a commonly basis for understanding and reporting information on effectiveness—one that will serve good management, accountability and decision-making."

There are debates in the literature on ways to view *program* effectiveness and *organizational* effectiveness. For example, most approaches to program effectiveness measure the extent to which a program achieves to formal objectives. However, there is an alternative approach referred to as "goal-free" evaluation which involves measuring a program's performance according to whether needs are being met rather than the achievement of objectives. Similarly, there are competing perspectives in the organizational literature. For example, Max Weber viewed an organization (including its structure and procedures) as an instrument for achieving external objectives. On the other hand, Chester Barnard viewed the organization as an organism whose performance is reflected in its ability to service by adapting to its environment.

Why does the Report use the general effectiveness rather than adopt terms which include the modifiers—operational, program, and organization? The reason is as follows: "Simply stated, the problem is that attempts to report effectiveness at such high levels commingle so much information on different types that the resulting statement is not meaningful in any practical sense—it can't be proven."

The modifiers allow you to select the level for reporting information, from operations to the whole organization, and these conceptual distinctions help avoid commingling different types of information. In other words, the modifiers are ways of overcoming the problem that the Foundation presents and the use of a general term such as effectiveness contributes to the problem because the entity or unit of analysis is lost. The debate referred to by the Foundation pertains to the interpretation of effectiveness, not the modifiers. So why drop the modifiers?

The Report resorts to using modifiers program or organization in the definition for nine of the twelve attributes. This is understandable because in the absence of these modifiers, there is little direction for providing representations at the appropriate level. For example, using one of the attributes—achievement of intended results—information could be produced in relation to an administrative activity (e.g., processing payments), an operation within an overhead function or program, a service or benefit of a program, the overall program, or the whole organization. For programs involving applications for services or benefits (e.g. pension or welfare benefits), the responsiveness of administrative processes is important. At the other extreme, the whole organization could be the appropriate focus of attention where there is concern with social and economic impacts. The use of modifiers is not incompatible with the use of attributes but helps clarify them to increase their usefulness.

The Framework: Twelve Attributes

The framework to define effectiveness includes the following attributes:

- management direction
- relevance
- appropriateness
- achievement of intended results
- acceptance
- secondary impacts
- costs and productivity
- responsiveness
- financial results
- working environment
- protection of assets
- monitoring and reporting

An obvious question related to the use of these attributes is: Why were these particular attributes chosen and not others? A conceptual or theoretical framework normally indicates the relationships among attributes, providing coherence among them. However, the Report does not provide a conceptual or theoretical framework, meaning that the listed attributes do not fully define the concept of effectiveness. The Report argues that the concept will be filled out and refined only through extensive practice, testing and examinations over a lengthy period of time. It does not appear to dispute the comment of the incompleteness of the concept.

The failure to elaborate the framework which includes these attributes raises questions about the relevance or relationship of attributes to effectiveness. In what sense does an attribute such as protection of assets relate to the notion of effectiveness? Isn't an attribute such as working environment a precondition of effectiveness rather than an attribute of it. Why include basic controls such as providing financial results and monitoring and reporting as attributes. There may be good justification for the inclusion of these and possibly other attributes but this is difficult to assess without a coherent framework.

The Report says that the attributes are "sufficiently detailed to allow the generation of information that is needed to support accountability and to help governing bodies form judgments about effectiveness." This is an important criteria for assessing the attributes because detail is essential for providing direction for management representations. However, several of the attributes as described in the Report fail to satisfy this criterion. For example, working environment has the following description: "This attribute concerns the extent to which the organization provides appropriate opportunities for development and achievement, and promotes commitment, initiative and safety." The terms covered in this description are so broad as to require separate definitions—definitions which must be made explicit and measurable. These definitions will require considerable management input and effort as well as skilled assistance from those who will measure. The biggest question is, of course, whether these resources and efforts will be forthcoming.

Conclusion

This article has argued that the notion of management representations and the role of auditors to attest to these assertions is an appropriate objective to pursue in improving accountability. However, this does not mean that auditors are or should be completely excluded from doing direct measurement and reporting for the reasons mentioned above. A more fluid arrangement will likely continue.

The Foundation has chosen to use the term effectiveness rather than terms which include modifiers, such as: operational, management, program and organization. In so doing, the meaning of effectiveness is lost (despite the list of attributes which cover a wide domain) because the entity or unit of analysis is left out. Perhaps a more appropriate title for the Report would have been **Accountability: Reporting and Auditing in the Public Sector.** This would more fairly depict the broad coverage in the framework.

Using modifiers to define effectiveness is not incompatible with the use of attributes. In fact, the Report used modifiers to describe the attributes, recognizing that it is necessary to identify the level for reporting information. A matrix could cover the attributes and types of effectiveness and the cells would indicate the emphasis given to the different types of effectiveness for each attribute.

Elaboration is required of the framework to provide justification for the inclusion or exclusion of attributes and to indicate their relevance to effectiveness. This would contribute toward the need to more clearly define the attributes, providing more specific direction for management representations. We believe further work in this area will be worthwhile.