

# The Performance Pivot

Modernizing the public auditor's role: why compliance alone is no longer enough

BY ERIK CLARKE

**F**or decades, compliance auditing has been the backbone of public-sector accountability. Verifying adherence to laws, regulations, and internal controls remains essential to protecting public resources and maintaining fiscal discipline. Yet many finance professionals increasingly encounter a persistent challenge: Programs can be fully compliant and still fail to deliver meaningful results.

Rising service expectations, constrained budgets, complex capital programs, and heightened public scrutiny have altered the accountability landscape. Stakeholders now ask not only whether public dollars were spent legally, but whether they were spent effectively, equitably, and in a manner that delivers lasting value. These questions extend beyond the traditional scope of compliance auditing and place public audit functions at a critical inflection point.

Compliance remains necessary and, in fact, many public-sector audit functions do this kind of audit well.

Standing alone, however, it is no longer sufficient to improve the effectiveness and efficiency of government.

This article explores why a compliance-only audit model no longer meets the needs of modern public finance, describes the defining characteristics of performance-focused audit functions, and outlines practical steps finance officers and auditors can take to modernize audit planning and execution. It also discusses how audit results can be used to drive action rather than generate shelf reports, identifies common pitfalls, and concludes with recommendations for strengthening accountability through performance-focused auditing.

## The limits of traditional compliance auditing

Traditional compliance audits are designed to answer a specific and important question: Was this expenditure or activity permissible under applicable rules? When performed well, compliance audits reduce fraud risk, reinforce internal controls,

and provide assurance that public funds are handled appropriately.

But compliance audits often don't address whether programs achieve their intended outcomes, whether resources are deployed efficiently, or whether spending decisions align with broader policy goals. In many governments, audit plans are driven by recurring cycles, statutory mandates, or vague, risk-based guidance rather than cost magnitude or service impact. This can result in disproportionate attention to low-risk areas while high-dollar programs, capital projects, or systemic operational challenges receive too little scrutiny.

The distinction between compliance and performance auditing is not theoretical. Exhibit 1 illustrates the way the two approaches differ in focus, methods, and outputs, underscoring why both are necessary but insufficient on their own.

### What a performance-focused audit function looks like

A performance-focused audit function expands the auditor's analytical lens while preserving independence and objectivity. Rather than replacing compliance work, it builds on it by asking broader questions about effectiveness, efficiency, and results.

In practice, performance audit offices tend to share several characteristics. Audit questions are framed around outcomes rather than transactions alone, emphasizing whether programs deliver value relative to their cost. Audit planning is both risk-based and impact-based, prioritizing areas with fiscal exposure, operational complexity, and public consequence. Analysis routinely integrates financial data with operational, workforce, capital, and technology information. Finally, audit results are communicated clearly and publicly, allowing decision makers and residents to understand not just what went wrong, but what can be improved. The approach to communication stretches beyond professional communication, typical of an audit report release, and includes

**EXHIBIT 1 | Comparing Compliance Audits and Performance Audits**

Dimension	Compliance Audits	Performance Audits
<b>Primary Question</b>	Were laws, regulations, and policies followed?	Did the program or activity achieve intended results efficiently and effectively?
<b>Core Objective</b>	Ensure legality, accuracy, and adherence to established rules	Assess outcomes, value for money, and alignment with policy goals
<b>Scope Definition</b>	Narrowly defined by statutes, contracts, or formal requirements	Broadly defined by risk, cost magnitude, service impact, and public interest
<b>Typical Triggers</b>	Mandated review cycles, regulatory requirements, prior findings	High-dollar programs, cost overruns, service failures, systemic risk, executive judgement
<b>Methods Used</b>	Transaction testing, control verification, documentation review	Data analysis, benchmarking, process mapping, outcome evaluation
<b>Time Orientation</b>	Retrospective, focused on past compliance	Retrospective and forward-looking, focused on improvement opportunities
<b>Nature of Findings</b>	Errors, violations, control weaknesses	Inefficiencies, root causes, performance gaps, improvement options
<b>Primary Audience</b>	Finance staff, auditors, regulators	Executives, elected officials, finance officers, and the public
<b>Typical Output</b>	Technical report emphasizing compliance status	Decision-useful report emphasizing impact, trade offs, and results
<b>Contribution to Decision-Making</b>	Confirms financial integrity	Informs budgeting, program design, and resource allocation

storytelling and promoting the audit to decision makers and the public.

For finance officers, these characteristics provide a practical benchmark against which existing audit functions can be assessed.

### Practical steps to shift from compliance to performance

Modernizing an audit function doesn't require abandoning established practices or undertaking wholesale organizational change. It involves deliberate adjustments in planning, developing skills, and raising the bar on standards.

The first step is reframing audit planning. Rather than relying

primarily on fixed schedules or historical precedent, audit plans should be grounded in risk and impact. Programs with large budgets, persistent cost overruns, recurring delays, or unclear performance measures warrant deeper performance scrutiny than low-risk transactional areas. Finance officers can play a critical role by helping auditors identify where fiscal exposure and service outcomes intersect most directly. Exhibit 2 presents a sample performance-based audit planning framework that jurisdictions can adapt to their own risk environments.

The second step is expanding audit skill sets. Performance auditing

**EXHIBIT 2 | Sample Performance-Based Audit Planning Framework**

Planning Dimension	Key Considerations	Practical Application for Finance Officers and Auditors
<b>Fiscal Exposure</b>	Size of program or project budget; multi-year financial commitments	Prioritize audits of programs or projects representing a material share of operating or capital spending
<b>Operational Complexity</b>	Number of departments involved; reliance on vendors or contractors	Focus on areas with cross-department coordination or heavy third-party involvement
<b>Service Criticality</b>	Importance of the service to public safety, mobility, or basic needs	Elevate audits of services where failures have immediate public impact
<b>Performance History</b>	Prior audit findings; history of cost overruns, poor results, or delays	Use past issues to inform audit selection and scope depth
<b>Change and Disruption</b>	New programs, reorganizations, or major system or policy implementations	Audit areas experiencing significant change
<b>Public and Stakeholder Risk</b>	Labor concerns, public complaints, or media attention	Incorporate stakeholder signals as legitimate indicators of audit risk by monitoring information and actively seeking feedback
<b>Timing and Decision Alignment</b>	Upcoming budget cycles or policy decisions	Schedule audits so findings can inform real-time decisions

requires capabilities that extend beyond traditional accounting and compliance audit expertise. Data analytics, program evaluation methods, capital project oversight, operations experience, and basic technology and cybersecurity literacy all enhance an audit office's ability to assess outcomes. These competencies can be developed incrementally through targeted hiring, professional development, and strategic partnerships.

The third step involves integrating finance and audit perspectives earlier in the decision-making process. Audit findings are most valuable when they inform budget development, program design, and long-term planning rather than arriving after decisions are finalized. Structured communication between finance, audit leadership, and political decision makers helps ensure that performance insights translate into useful fiscal, operational, and policy decisions.

**Using audit results to drive action**

One of the most common criticisms of audit work is that reports are produced but not acted on. Letting good audits collect dust on shelves is a management failure. Performance-focused audit offices place particular emphasis on implementation and follow-through.

Effective approaches include prioritizing recommendations based on financial and operational impact, assigning clear responsibility and timelines for corrective action, and tracking progress over time. Reporting implementation status, internally and publicly, reinforces accountability and signals that audits are intended to improve outcomes.

Typically, audits achieve attention when they're released and when there's a follow-up report released. An effective audit communications function extends attention by having the chief audit executive communicate with the press,

neighborhood groups, and other stakeholders through dynamic storytelling to reinforce the importance and impact of audit recommendations.

**Common pitfalls and how to avoid them**


The transition toward performance-focused auditing is not without risk. Audit offices can blur the line between auditing and management, or compromise perceived independence in an effort to remain relevant. These challenges are most likely when performance auditing is pursued without clear standards.

Such risks can be mitigated by anchoring performance work in documented criteria and evidence, maintaining clear boundaries between auditors and management, and engaging finance and operational leadership early in the process. A disciplined, transparent, and knowledgeable approach preserves credibility while expanding impact.

**The future role of the public auditor**

Compliance auditing will always remain a foundational responsibility of public audit offices; however, modern fiscal stewardship demands more than rule verification alone. Performance-focused auditing strengthens accountability by helping governments understand whether public dollars produce meaningful, sustainable value.

For public-sector leaders, this evolution offers a stronger partnership that reinforces financial integrity while providing better insights into outcomes, risk, and opportunity. For auditors, it represents an opportunity to align the profession more closely with the realities and expectations of a more efficient, effective government.

The future of public auditing is integrating both compliance and performance auditing to better serve the public interest and achieve results. 

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