

Approaching Performance Audit in Public Institutions

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Abstract: Nowadays, the financial and economic realities from Romania and further, have revealed the fact that, besides the obligation of spending public money according to the legal provisions, these need to be used in efficiency and effectiveness economic conditions. In this context, by the specialty institutions from our country a wide implementation process which has the most modern practices of audit performances used internationally was initiated; process which supports the need of the Romanian society to use the public internal financial resources optimally and with efficiency and effectiveness economic conditions; resources of other organisms or international bodies, including the non-reimbursable financial assistance funds from the European Union.

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1. Introduction

The specification of decisions at managerial level within the public institutions, determine that the activity proposed by the audit performances is to be confronted with a wide and heterogeneous palette of problems, which in turn requests from the ones involved in this activity, a series of skills and the capacity to understand the management and organisational contexts practices and activities in which they are developed.

In this way, to offer a safe framework where the logical and detailed description of authors towards the complex aspects confronted are needed to report the INTOSAI audit reports (International Organisation of Supreme Audit Institutions), considering the fundamental directional lines on performance audit principles, arrived from the experience of the above mentioned organisation members. Yet, it must be stated that, due to the multiple themes of the performance audit which cover all the public sector, the said directional lines cannot be constituted in some universally available standards, "prescriptions" which can function by the same procedures in all cases.

Thus, the performance audit standardization firstly needs to answer the question "what has to be done?" and eventually afterwards to the question "how to be done?". Otherwise said, an auditor needs to cover all specific problems related to a such mission but how is he going to be able to pull it off, what methods and techniques will he use, there are decisions which he will take considering their application, he needs to concentrate on the specific and the organisational context of each audited patrimonial entity.

We underline that, although the construction and execution of the consolidated state budget is based nowadays in a large proportion on the modern budgetary measure named "programmes budget", which consist in the allocation of some sums of money for a concrete project (programme), which will be done in a wider horizon of time and will be quantified with the help of performance indicators of which role is that of offering relevant information regarding the implementation method and consequences of the public services.

2. Performance audit approaches

Conceptually, the international standards INTOSAI define the performance audit as being "an audit of economy, efficiency and effectiveness with which the audited entity use the resources in the purpose of fulfilling its responsibilities", or "an independent examination of the activities efficiency and effectiveness, programmes or governmental organisations, considering economies with the purpose of improvement.

Targeting as previously mentioned, especially the programme's budget achievement, the performance audit is based on taken decisions or established objectives at the superior management level of the public sector.

Preponderantly using the professional rationing, the auditor analyses if "the public money were well spent", mainly examining the undertaken measures by the audited entities in regard to the economic principles respecting towards the administrative activities in report to the principles and practices of a performant management, the efficient use of all resources (human, financial, etc.), the quantification method and performance indicators management along with the withheld deficiencies remediation and the effectiveness in fulfilling the programmed objectives which were established by comparing the effective result with the expected one, also known under the phrase "the three E".

The necessity of a such activity has at its basis a series of ideas generated by the complexity and dynamics of the modern world whereas the induced problematics of limited resources and economic phenomena hardly controlled and rarely contradict the economic laws generated, can be deciphered only by public accountability of the ones whom have attributions in the efficient and effective management of public financial funds. Thus, a sole argument targets the importance of assessment by the three E of all public activities and that is why an audit is needed to surprise and assess all aspects which can contribute to a better management and use of public financial funds materialised in the offer of some quality public services and to a better public management and accountability.

Secondly, the quality of held information, assessed by legalities, exactness, accuracy and independence, needs the opinion of an auditor whom will represent the public interests and will act independently in the assessment of the situations submitted to checks.

Finally, considering that the performance audit does not present any given interest and does not have financial links or of any nature with the audited entities, there needs, on one part, to be a big thinking and details regarding the public activities, and on the other part, there needs to be a competent auditor whose special qualities can influence the improvement of managerial decisions and consequently the institutional performance.

An important feature of this kind of audit, in comparison with the financial one, is imprinted by the flexibility of choosing the subjects, objectives, methods and opinions and by the origins of the audit in the public sector, which determines the performance audit not to be within the rules of a regular audit, with rigorous opinions and strict recommendations, but rather within the category of some independent checks, with a reduced repeatability degree, which has a wider field of covering opened to the reasoning and interpretation and which use a vast palate of investigative and assessing procedures. This feature is specially determined by the plurality of aspects subjected to the audit and by their heterogeneity, which almost makes the "check list" specific to the financial auditor useless.

We state above that the performance auditor needs to answer to these two special questions, respectively "what should be done?" and afterwards "how should be

done?”, or otherwise formulated: “Are the proper things done?” and then “Are the things done properly?” Surely, in this context, the first question is the one that defines considerably the meaning of this type of audit. Its fundamentally necessary that the policies, procedures and means applied at the institutional management level to be the proper ones, thus ensuring goal achievement, expected in all that regards the impact over the society. The practiced policies inefficiency or the nonconformity of the expected results with the ones achieved always lead to supported criticisms and even when the society contests the concerned public institutions.

The second question is actually associated with the normative landings of the developed activities. From this point of view we find a similarity with the financial audit, with the sole hue that we can extend the answer stating that the achieved activities can be considered appropriate, aiming in this was the economy and the efficiency.

Thus, we can conclude that one way or another, the two questions are founded in an interdependent relation, respectively the achievements represent the effect of the efforts and measures taken in order to achieve the proposed goals.

Additionally we will consider an explicative analysis of the three functional dimensions where the performance audit sits, respectively the economy, efficiency and the effectiveness.

Defined as being the degree in which the resources are ensured to be minimised in an activity without distorting the optimum achievement of its proposed objectives, the economy proposes itself that, by keeping a high quality of the developed activities it will reduce substantially (at the minimum) the costs of the used resources in order to support them.

In practice, it was underlined that, from the three objectives aimed within the performance audit, the economic audit is the toughest one done. The major difficulty consists firstly in the formulation of an opinion and secondly of some recommendations which need to be materialised in the reduction of costs (“exits”), without affecting the quantity and quality of services (“entries”). Regarding the economy as a good resource management, the auditor needs to distinguish exclusively based on his reasoning between the “good management” and the “waste”, fact that inserts into the “equation” the experience and generally his quality. With no reference standard, for the auditor it is difficult to appreciate the obtained results in comparison with the used resources, otherwise said, if the available resources were used economically, the quality of services is yet to be the highest. The efficiency approach needs to consider the relativity of auditor’s expressed opinions, because in few cases its opposite, may be explicitly and immediately underlined. A frequently used method for the appreciation of the efficiency is considered to be the comparative analysis of some activities appreciated to be similar or of some temporary previous intervals or plainly the appliance of some good practice procedures.

Answering the question that if the resources were properly used, respectively that the affected time and quality of the carried out services were satisfactory and they could be done with a lower consumption of resources, we cans state that the efficiency runs from the economy. Also it must be underlined the fact that the consumed resources in order to achieve the expected quality public service level, the efficiency aims to the way in which these services satisfy enough the user’s needs. Otherwise said, the efficiency pursues the relations between the number and the degree of satisfying the needs of the users (the result), quality and eventually the provided service quantity, on the one part and the cost of the used resources on the other part. Any instituted public service, but not provided as for its non-requesting by the potential beneficiaries, affects directly the efficiency of the respective activity through the inefficient use (in such situations) of the allocated resources.

In order to analyse the efficiency, the auditor may consider a series of aspects of which developments have a direct implication in its support. Namely it follows: the measure in which the human resources, materials, etc. (costs) are efficiently used; the correspondence between the assumed objectives and the developed activities within the public institutions; providing services with celerity and at a high quality level;

If we refer to one of the above mentioned objectives, respectively the analysis of efficiency costs, that needs to be approached through their reasoning comparatively with the achieved results. Concretely, the efficiency of costs may be "commensured" based upon the relation between the activities costs and the achieved results, which are expressed as unitary obtained result. Thus, a reasonable cost of the activity may be achieved only if the instituted public service is requested by a larger number of beneficiaries, in this way the unitary cost being smaller and thus, the result, as efficiency indicator, being a big one. Consequently, as foreseen by the audit standards of INTOSAI - ISSAI 3000, "the efficiency is specially mentioned in two possible ways: if the same exit would be obtained with fewer resources, or, in other words, if the same resources would have been obtained to achieve better results (in what regards to the quantity and quality of exits)".

We wish to do a single observation regarding to the ones stated in the standard, and that what is referred to the notion of "result", which we see as materialised in the volume of the ones that access the instituted public service considering it useful and not necessarily in the quality and quantity of provided services. The quality and quantity are with no doubt the elements which insure the achievement of the result, otherwise said the efficiency, but not the actual result. The investments of public financial funds done with the economy proves to be the efficiency if the public services where it is materialised is used, "consumed" by an ever growing number of beneficiaries, under the conditions of carrying out some small costs in order to achieve them. Also, arithmetically the efficiency is determined as a report between the achieved results and the used resources, resulting in a favourable situation when it is over the unit.

Regarded as the relation between the expected impact and the achieved one, the efficiency consists in the degree of fulfilment of the activity's stated objectives.

In the effectiveness case, the question which needs to be answered by the auditor is that if the pursued (proposed) goal regarded to the used means, achieved exits and aimed impact were fulfilled and if this impact is the fruit of the internal management and operations of the institution or the result of some external variables which have no connection with the concerned institution.

From the question's contents, results that the effectiveness aims towards two aspects of the activity, respectively if the goals were achieved and if yes, in the extent of this aspect due to the institution's management or in other circumstances.

The first aspect assessed, needs from the starting phrase a compatible formulation with such an approach. Considering that the effectiveness of some public institutions is audited, it is difficult to carry out such an assessment, which lends itself rather in the case of abstract goals achievement. Thus, the auditor will have to look for the answer of the first part of the question by checking how useful the provided services and what their effect among the beneficiaries were there. In fact, he will compare, analyse the assessment result regarding the provided services with the proposed managerial objectives and will formulate an opinion. With no doubt, in this context there needs to be taken into account the objectives establishment mode, which needs to be a realist one, comprehensive and to determine direct connections as much quantifiable as possible with the result or the aimed impact.

The second part of the questions, targets as stated, the degree of internal managerial policies (practices), at objectives fulfilment. This approach assumes evidence collecting from which needs to result that the managerial policies objectives were achieved firstly as internal management practice and not due to the influence of certain factors. For example, let's say that the objective of the applied practices from a governmental entity is the reduction of inflation. In cases where it is found that the impact of applying the respective policies is the expected one (inflationist phenomena was reduced), the question arises if this fact is due to the activity of the respective entity or it's the result of an economic-financial environment improvement over which it hadn't any direct influence.

We underline that these evidences may be obtained by comparison, respectively the assessment of the activity before applying the policies and afterwards their implementation, but the achieved results are not conclusive, considering that these comparisons are generally hard to achieve due to the lack of comparative material. In other train of thoughts, by effectiveness audit the efficiency can be determined along with the consistency and clarity of institutional programmes; the quality and relevance of the objectives and means afferent to these programmes; the efficiency and effectiveness of the control and management system concerning the decision of programmes implementation; public services quality and if are according to the expectations; performance limiting factors.

Its needed to state that, the performance audit does not assume obligatory the concomitant analysis of the 3 E but in practice if an audit is developed, of which objective targets the efficiency and economy, the auditor needs to manifest a certain interest for effectiveness as well, formulating in this way an opinion, and if the approached objective is the effectiveness, this needs to consider the aspects of economic efficiency.

It is remarked the fact that, undergoing a performance audit differs from a state to another being directly influenced by the specific administration form of the public funds. There are remarkable approaching differences in the case of states whereas the public funds are based on problems, situation in which the audits are folded especially on the analysis of the opportunity elements afferent to the legal norms and less on the way in which the norms were respected, towards the states where the accent of public fund administration targets the results and secondly the issues, case in which the approach is opposite, respectively the aspects which target the lawfulness are especially targeted and in a small extent the way in which the norms are appropriate to the purpose of which they were issued.

In the problem orientated approach, the auditor directs its work towards the problem existence checks and towards their case analysis from the economic, efficiency and effectiveness point of view. Specifically to this approach is the fact that it is based on affirmations well established (testable) regarding the problem cause and effect which will be audited. Thus, we can argue about the analytical perspective and the unlimited instrumental one, after which the auditors obtain current information regarding the foreseen problems and their way of outsourcing them. The purpose that needs to be targeted aims to the consideration of all material causes which generated the audited problems, never being excluded from the recommendations regarding the normative modifications.

The result oriented approach, as above stated, allows the auditor to assess the performance and to create the connection between the onsite real situation and norms, the weak points being considered deviations from it. In this case we can discuss about a normative perspective, the meaning of the recommendations being the one of normative deviations removal.

From the above mentioned, it can be remarked that although there are approaches of the same audit type, they have at their basis different ideas regarding the performance audit, respectively in the foreground of the audit arise the responsibility towards the norms, in the second case the accuracy and prioritising of identified problems are stated, firstly.

No matter the administrative instituted form over the public funds, the performance audit is done by examining the economy, efficiency and effectiveness of their use, the auditors answering to the specific questions of each notions, which will represent the basis of formulating an opinion and pertinent recommendations.

From the contents of these recommendations, a series of information regarding: the existence of a well individualised structure of performance objectives; use of the public funds which need to have at their basis the appropriate instruments and methods; costs which sit at the base of public services which need to be made aware fully and by their beneficiaries; distribution of responsibilities, which need to be adequate at each levels of authority, need to be detached from.

Another element considered is the performance audit approach for the organising and functioning mode of the internal control system. In this context, the performance audit needs to be established if there is an express preoccupation in this way. Likewise, within the performance audit, an accent on results, recommendations and formulated opinions is put with the occasion of developing the financial audits, these indicating the existence of poor performances in the funds administration.

3. Conclusions

Considering the developed aspects in this material, it is appropriate to conclude regarding the importance and role of which the performance audit approaches have within the work of the public auditors and not only, developed in this field.

Thus, the performance audit based upon the economic, efficiency and effectiveness analysis may target the whole public sectors offering answers to questions like: The achieved entries, are they done by the most economic public finance resources? The provided public services are of the highest quality? Due to the public investments, expected results were obtained, and are they the fruit of the institution management policies?

Being an audit which mainly approaches the performance, it doesn't offer special standardised opinions, based upon the exclusive analysis of the offered expenses from the accounting. Targeting economy, efficiency and effectiveness, he is subjected to the variety and complexity of aspects generated by these goals.

Finally, the performance audit has two different approaches which confers it a wider field of analysis, separating definitively the financial audit and conferring the specific of research unstandardized work which highlights the reasoning, imagination and skills of the auditor.

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