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Performance Audit, an Independent Assessment Instrument for the Management of Public Institutions

Iliodor Tiberiu PLESA¹

Abstract

The activity of public institutions in Romania is extremely important in the context of ensuring the good functioning of Romanian society as a whole. The article analyzes the effect of the performance audit performed by the Romanian Court of Accounts at the level of the public institutions on the efficiency, effectiveness and economy of the public resources used by them. Also, is analyzed the international framework regarding the performance audit, with a range of issues found at other Supreme Audit Institutions of INTOSAI.

Keywords: *management, efficiency, economy, effectiveness, INTOSAI, Romanian Court of Accounts.*

1. Introduction

INTOSAI's definition of performance audit, through the ISSAI 3000 international standard (revised at the 21st INTOSAI Congress held in Abu Dhabi in December 2016) describes this type of audit as "an independent, objectively and reliably assessment that the enterprises, systems, operations, programs, activities or governmental organizations operate in accordance with the principles of economy, efficiency and / or effectiveness and whether there is room for improvement." [9]

This type of audit, in contrast to the compliance audit (control) and financial audit, seeks, in particular, to ensure a sound financial management

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of public funds, through respecting by the audited entities of the 3 principles (or "3 E" as they are referred to in the literature), namely economy, efficiency and effectiveness. These three principles do not need by all means to be considered concurrently. [9]

As compared to other types of audit, the scope of public performance audit is represented by programs, projects, processes, activities and public entities. Another difference is represented by the audit reports. While for the compliance audit (control) and financial audit are issued audit reports and financial audit reports, for the performance audit are issued specific performance reports. These reports differ in structure and content, depending on the proposed objective.

2. Theoretical Background

INTOSAI (International Organization of Supreme Audit Institutions) developed, through the Performance Audit Subcommittee within the Professional Standards Committee (Objective 1 of the INTOSAI Strategic Plan), a series of performance audit guidelines in order to guide the supreme audit institutions in performance auditing of public sector. INTOSAI also developed the International Public Sector Performance Auditing Standards (ISSAIs) [14]:

1. ISSAI 3000 - Standard for Performance Auditing
2. ISSAI 3100 - Appendix
3. ISSAI 3100 - Guidelines on Central Concepts for Performance Auditing
4. ISSAI 3200 - Guidelines for the Performance Auditing Process

These standards were updated at the INTOSAI Congress in Abu Dhabi in 2016.

At the same time, good practices were developed in the field of performance audit, as follows [17]:

1. Selecting performance audit topics
2. Communication in performance auditing process
3. Quality Assurance in the Performance Audit Process
4. Making performance audits in a "friendly" form for readers
5. Designing Performance Audits: setting audit questions and criteria

Based on these international standards generally accepted and on good practice in the field of performance audit, each supreme audit institution has adapted the performance audit function to the specifics of the public sector of the country to which it belongs.

3. Argument of the paper

The performance auditing standards describe how to perform performance audits and how to prepare performance audit reports so that they can be read and understood easily by the beneficiaries/stakeholders.

The article aims to describe how performance audits are performed in a number of supreme audit institutions at international level. Also, taking into account the best practices identified internationally, regarding the preparation of audit reports, these practices can be improved by including elements to refer to practical issues encountered in the audited field.

4. Arguments to support the thesis

The consequences of lacking economy, efficiency and effectiveness in public sector entities and implicitly of poor management of public resources, have implications at all levels of the society and is materializing in negative effects on achieving the objectives of the entity's processes / programs /activities/projects that lead to social problems, as a result of subjective decisions taken and insufficiently substantiated by the management of the entity.

Therefore, the importance of performance auditing in the public sector, taking into account of what has been described above, is crucial. Based on the results of the performance audit and taking into account the role of the management in the decisions taken regarding the implementation of the entity's processes/programs /activities/projects, decisions can be taken on the evaluation of a manager by senior hierarchical decision makers.

5. Arguments to argue the thesis

Generally, due to the complexity of public sector issues, many of the supreme audit institutions tend to carry out more compliance audits and financial audits rather than performance audits, believing that they may get a better picture of the public sector and an improved financial discipline.

5.1. Structure

The paper is structured as follows:

- Performance audit and Romanian public sector performance
- The international experience in performance auditing in public sector
- Practical issues regarding the performance audit report

5.2. Performance audit and Romanian public sector performance

Within the public sector in Romania, the authority performing external performance audit is the Romanian Court of Accounts, the supreme audit institution in Romania, which is the external auditor of our country [1].

Also, the Law no. 94/1992 on the organization and functioning of the Romanian Court of Accounts, republished, defines the performance audit conducted by the Romanian Court of Accounts as "an independent assessment of the way in which a public entity, program, project, process or activity functions from the point of view of efficiency, economy and efficiency." [1] Through the recommendations of this audit are aimed the significantly improving of the use of public funds, reducing waste and making savings.

The 3 E refers to purpose (efficacy), maximum results (efficiency) and minimum costs (economy). All these are analyzed in performance audits, concurrently or separately, depending on the audit objective. The audit may consider minimizing the cost of the resources allocated to achieve the expected results of a program, project, process or activity while maintaining the same results, may analyze the ability or the potential of a program, process or activity to achieve maximum results under limited resource usage or to examine the extent to which the goals or objectives are achieved, addressing the relationship between the effects sought and the results obtained in the program, process or activity under consideration [7].

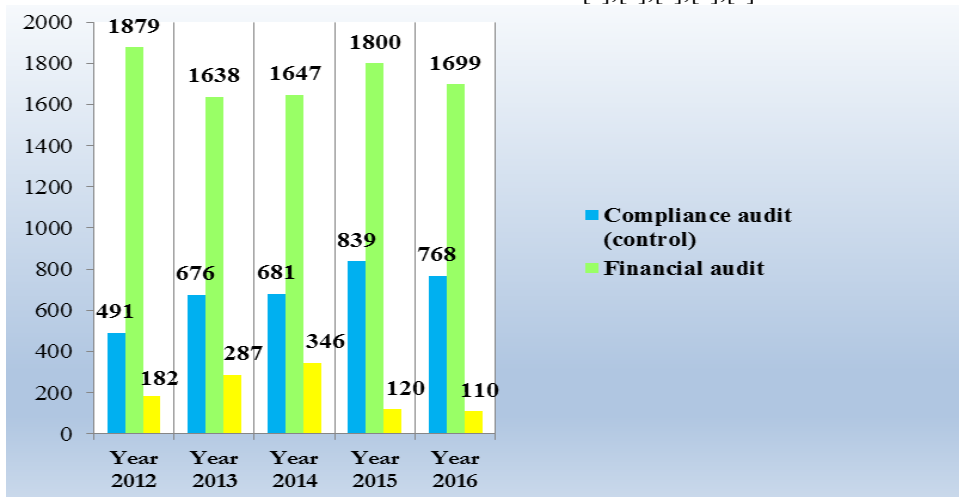
For the purpose of analyzing 3E, audit criteria are used which are reference terms (standards) against which the assessment is made, comparing what exists with what should be. Audit criteria can be represented by legislation, performance criteria, general standards or industry standards, relevant indicators, criteria used by other foreign audit institutions abroad in similar audits, etc. [7]

The Romanian Court of Accounts, according to its law on organization and functioning, decides independently on its Program of Activities. [1] In this program are included compliance audits, financial audits and performance audits. The share of the three types of audit differs from one year to another. The table below shows the share of the three types of audit performed by the Romanian Court of Accounts in 2012-2016 [2],[3],[4],[5],[6]:

Table 1. The share of the three types of audit performed by the Romanian Court of Accounts in 2012-2016 [2],[3],[4],[5],[6].

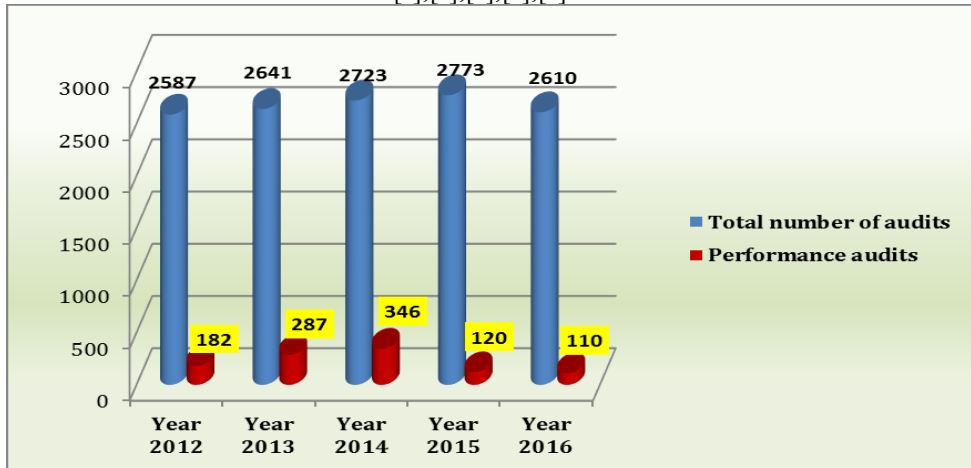
Year	Compliance audit missions (control)	Financial audit missions	Performance audit missions	The share of performance audit in total audit missions
2012	491	1879	182	7%
2013	676	1638	287	11%
2014	681	1647	346	13%
2015	839	1800	120	4%
2016	768	1699	110	4%

Chart 1. The evolution of the three types of audit performed by the Romanian Court of Accounts in 2012-2016 [2],[3],[4],[5],[6].



From the data presented above, it can be noticed that the largest share in the analyzed period is represented by the financial audits, followed by the compliance audits, the performance audits taking the last place.

Chart 2. The share of performance audits carried out by the Romanian Court of Accounts during the period 2012-2016 in the total missions carried out [2],[3],[4],[5],[6].



From the above chart, we can see that the share of performance audits conducted by the Romanian Court of Accounts in the period 2012-2016 is quite low, in relation to the total number of audit missions carried out by the institution over the same period, the highest number of performance audits being recorded in 2014 [2],[3],[4],[5],[6].

Analyzing the data presented above and taking into account the fact that the form of organization of the public system as well as the way of managing the public resources influences the priorities related to the performance audit, within the audits carried out by the Romanian Court of Accounts the focus is on the compliance and financial audits and less on performance audits, although the recommendations issued following performance of the performance audit and implemented by audited entities have led to a marked improvement in their performance.

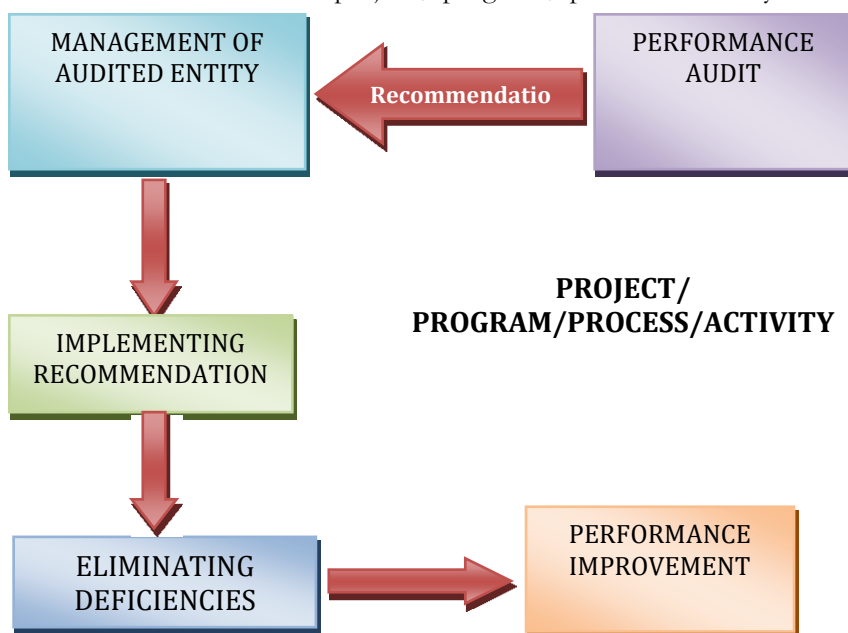
Although the Romanian Court of Accounts has so far focused on compliance and financial audits, in the Institutional Development Strategy for the period 2016-2020, the Romanian Court of Accounts has proposed "increasing the number of performance audit themes conducted, increasing the number of recommendations implemented and the impact of performance audits "[8]. This means that the performance audit has had good results that have materialized in improving the activity of the audited entity, but also in its management. This has been made through achieving better results by the audited entities, reducing spending and wastage of public funds, and increasing the 3 E: efficiency, economy and efficiency in the use of public funds.

The performance audit also performs an assessment of the quality of the management, the decisions and actions of the management of the audited entity regarding the management of human resources, public funds and heritage, according to the established objectives.

The measurement of performance is done through performance indicators as a permanent activity that can serve as a warning to management regarding possible deviations that may occur in the program, project, process or activity. This is the responsibility of the audited entity's management, the Romanian Court of Accounts' mission being the assessment of performance measurement systems.

The results of the performance audit must be used by the legislature and the executive, taking into account that both the executive and the legislator need information to provide an overview of the extent to which the programs, projects, processes or activities carried out have achieved their goals.

Figure 1. The action of the performance audit conducted by the Romanian Court of Accounts on the project / program / process or activity



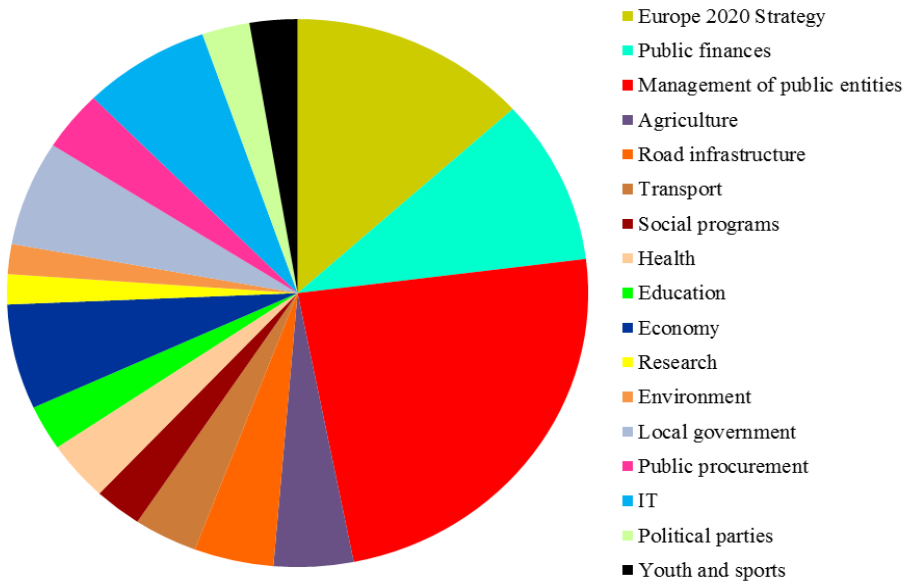
If the objectives of a project, program, process or activity have not been achieved or have been partially achieved, the external auditors of the Romanian Court of Auditors must identify the causes that have led to this situation and make recommendations for improving performance and

eliminating deficiencies [7]. The management of audited entities by implementing the recommendations issued by the Romanian Court of Accounts ensures the improvement of the activity of these entities, thus eliminating all those weaknesses identified by the supreme audit institution that lead to deficiencies in the activity of the program, project, process or activity being analyzed.

5.3. International experience in performance auditing in public sector

The Romanian Court of Accounts, according to its responsibilities under the Law on organization and functioning, carries out audit missions on its own initiative, in addition to its missions under the Program of Activities. These are on some topics of interest to the public or key sectors. These performance audits were conducted in the following areas [12]:

Chart 3. Areas where the Romanian Court of Accounts performs own-initiative performance audits



As can be seen from the graph above, the focus is on the area of interest dedicated to the management of public entities, followed by the Europe 2020 Strategy (this strategy is of particular importance at the level of the European Union) and the public finance area. All areas audited by the Romanian Court of Accounts in terms of performance are areas of interest to both citizens and decision-makers at the level of public administration.

At international level, almost all the supreme audit institutions of INTOSAI (International Organization of Supreme Audit Institutions) carry out performance audits. However, there are supreme audit institutions that, due to their organization, carry out a small number of such audits.

Thus, at **INTOSAI** level, there is a special subcommittee created for this purpose under Objective 1 Professional Standards Committee: the Performance Audit Subcommittee, created in 2005. This subcommittee is headed by the Norwegian Court of Accounts and comprises 27 representatives of the Court of Accounts members of INTOSAI, including the Romanian Court of Accounts, one of the observers being the Institute of Internal Auditors. Among the tasks of this Subcommittee are the development of standards, guides, manuals and methods for developing performance audit, monitoring the public sector development and the reforms within it which may have an effect on performance audit [13].

At the level of **EUROSAI** (The European Organization of the Supreme Audit Institutions), an INTOSAI subgroup, there is the same concern about the development of this type of audit, all 50 Supreme Audit Institutions (including the European Court of Auditors) conducting this type of audit. Some of them paid more attention to the performance audit, setting up a dedicated department to this type of audit (25% of them, some of them even having two departments set up for this purpose), while the others have chosen that the performance audit to be carried out by all their structures, to a certain extent in relation to compliance and financial audits.

In Europe, the Court of Accounts of the United Kingdom (National Audit Office) assigns the highest share of performance audits to the conduct of its specific activity. According to the Annual Activity Report of the National Audit Office of the United Kingdom, 93% of the recommendations issued by the institution as a result of performance audits were or are being implemented at the level of audited entities, which demonstrates the high efficiency of this type of audit.

The National Audit Office of the United Kingdom (NAO), as well as the Romanian Court of Accounts, conducts performance audits in areas of interest to citizens and other stakeholders (government, Parliament, mass media, etc.): railway infrastructure, accommodation for asylum seekers, allowances for students with disabilities, health financing, fraud, etc.[15]

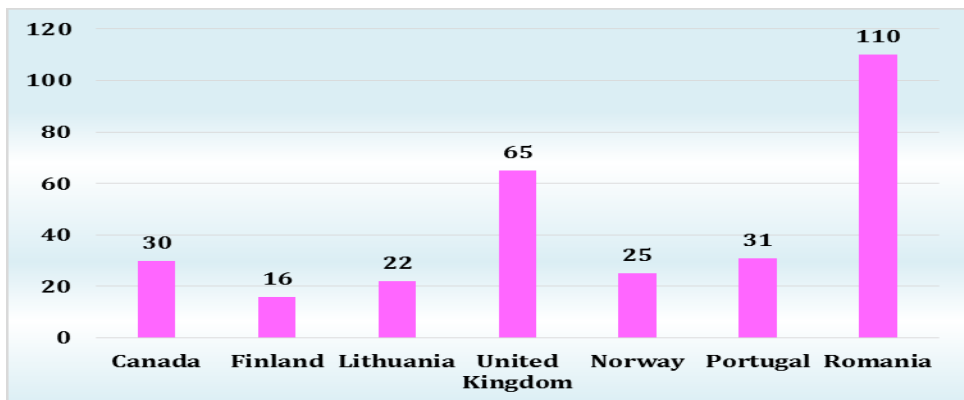
The United States Court of Accounts (Government Accountability Office) also conducts performance audits in areas of interest for stakeholders, and has even set up a list of high risk areas for agencies with vulnerabilities to fraud, waste of public resources, improper management, or which are requiring transformation. This list of high risk areas is updated by the Government Accountability Office every two years.

The 2017 list refers to administration operations, transport, regulation and consumer protection, environment and natural resources, information technology, national security, information security, the health system and the pension system [21].

The Canadian Audit Office (the Office of the Auditor General of Canada), in conducting its performance audits, uses a risk analysis in the planning of its work. This analysis is detailed in order to identify those areas or themes of interest to Parliament. Examples of risk areas used by the Office of the Auditor General of Canada include those areas that could generate significant additional costs for citizens or threaten the health and safety of Canadians. Annually, the Office of the Auditor General of Canada performs between 25-30 performance audits, a significantly lower number of performance audits conducted by the Romanian Court of Accounts [16].

The Finnish Court of Auditors also uses a risk analysis when planning its performance audits. This risk analysis was carried out in 2015 on the central administration and the national economy as a whole [20].

Chart 4. The number of performance audits carried out by the various supreme audit institutions of INTOSAI in 2016



From the graph above, we can see that the number of performance audits carried out by the Romanian Court of Accounts is significantly higher than in the other countries, a possible explanation being that this type of audit is carried out by all specialized structures of the Romanian Court of Accounts, while in other cases there is a department within the institution that performs performance audit missions [12], [15], [16], [18], [19], [20].

The efficiency of these performance audits is measured by the degree of implementation of the recommendations issued following the missions of the supreme audit institutions to the audited entities. The higher the number

of recommendations implemented is, the more likely it is for the public entity, program, project, process or audited activity to improve its performance.

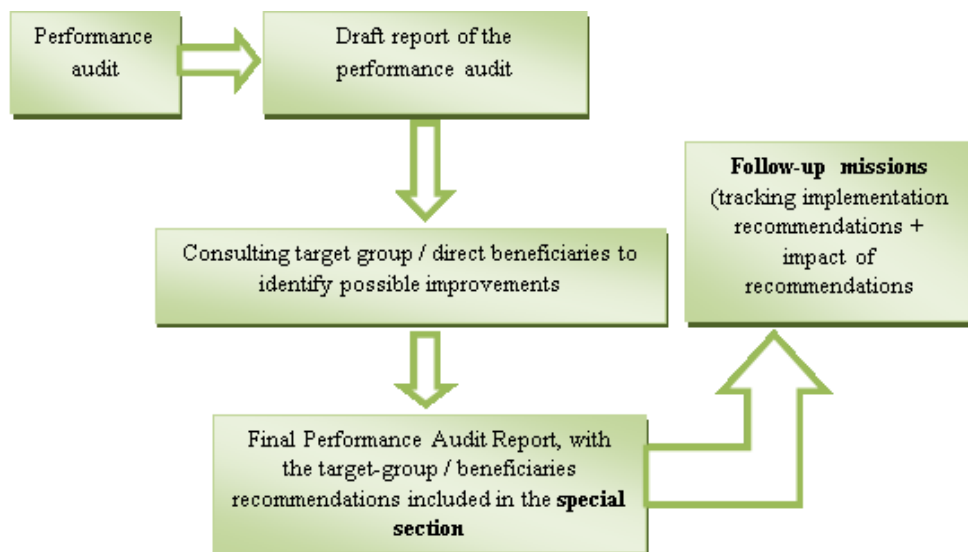
In order to monitor the implementation of the recommendations issued following a performance audit, the supreme audit institutions carry out follow-up missions. These missions are separate from audit work and are aimed at identifying those recommendations that are not being implemented and analyzing the underlying causes of their non-implementation. Also, there are followed the consequences and recommendations implemented and their impact on improving the management of the audited entity.

It is very important that the recommendations issued as a result of the performance audits to be implemented. If this is not happening, the deficiencies identified in the performance audits are perpetuated from one year to the next one, generating a number of factors that affect the well-functioning of the audited entity in the medium and long term. The management of the audited entity is responsible for the implementation of the recommendations issued following the performance audits, which must have remedial measures. The higher the number of recommendations implemented is, the more the entity remedies the existing deficiencies, until their elimination.

5.4. Practical issues regarding the performance audit report

With regard to the final recipients of performance audits, they may have an important role to play in drafting the report and the impact of the audit on the audited field. For example, the involvement in the performance audit of socially disadvantaged groups can generate a substantial improvements in this area. This could be achieved by including a **distinct section** in the audit report for the direct beneficiaries of the performance audit. In this section, they may describe the main dysfunctions of the audited field and their expectations for the future, assuming that no one knows the issues in the audited field better than those directly affected. Such an approach would certainly add value to performance audit reports and would increase the responsibility of those involved in running projects or programs in the area for socially disadvantaged people, a highly sensitive issue around the world.

Figure 2. The involvement of the direct beneficiaries of the audited field in the process of remedying the deficiencies identified during the performance audit missions



On the other hand, on the occasion of the follow-up missions aimed at implementing the recommendations, the external public auditors can take into account the distinct section dedicated to the direct beneficiaries of the performance audit and monitor whether the implementation of the recommendations leads to results that meet the expectations of the direct beneficiaries of performance audit reports.

6. Dismantling the arguments against

Although there is a tendency among supreme audit institutions to perform compliance audits and financial audits in particular, there are also supreme audit institutions that focus on performance audits. They have even a distinct department in their organizational structure that deals exclusively with this type of audit.

It should be noted that the existence of a distinct department in the organization chart of a supreme audit institution does not necessarily mean an increase of performance audits, as was demonstrated in this paper.

At international level, in the last years, an increased interest in performance audit has been observed, and this is was also found at the level of the Supreme Audit Institution of Romania, the Romanian Court of

Accounts, which has introduced a distinct objective in its institutional development strategy.

7. Conclusions

The impact of performance audits over the time has highlighted a number of benefits for audited entities in the public sector, ascertained both at the national level by the Romanian Court of Accounts and also at international level by the other supreme audit institutions members of INTOSAI. The first benefit would be that this type of audit helps to identify problematic areas, including the factors that cause problems.

Secondly, the performance audit can identify alternative solutions through recommendations that can help mitigate deficiencies.

Another benefit is that this type of audit helps to get an overview of citizens and other stakeholders about the performance of public resource management by public sector entities. At the same time, it can help the executive to make decisions about the priorities in terms of programs/projects carried out and the delivery of quality services.

At the same time, for government decision-makers but also for Parliament, performance audit can be an independent assessment tool for a manager of a public entity.

When assessing a manager's activity, both the results of the performance audits and those of the follow-up missions can be considered (tracking the implementation of the recommendations). On this occasion, the government decision-makers can have a clear picture of the performance of the audited entity's manager on the degree of achievement of the objectives included in a project/ program/activity carried out by the entity as well as on the efficiency, effectiveness and economy of the public resources used.

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