

ASPECTS REGARDING THE PRINCIPLES OF PERFORMANCE AUDIT

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Abstract

The performance audit represents an examination and, more particularly, an independent and objective evaluation of the extent to which a program or an activity of a public entity functions efficiently, while being productive. The international INTOSAI audit standards define the concept as being an “audit of productivity and efficiency with which the audited entity utilizes its resources to fulfill its responsibilities”. The nature of performance audit requests a careful selection concerning the methodology used to obtain and examine the audit evidence. For this reason, the auditors have to consider, at all times, the validity and coherency of the methods and techniques utilized. With time, performance audit has imposed itself as an indispensable analysis criterion in the process of decision making, maybe one that is even more important than legal control. When it comes to performance audit, an essential condition is the one referring to the allocation, administration and use of resources effectively, economy-wise. The performance audit does not necessarily involve the simultaneous analysis of productivity and efficiency. That is why we can state that auditing performance refers to auditing inputs economy-wise, auditing the efficiency of the program and auditing the effectiveness of the results. Lately, in practice, a fourth component has been added to the other three – respectively, auditing the impact that a program, project or activity has on the environment. This special type of audit assists the government in elaborating economic policies, contributing to the public responsibility, because the performance audit cannot verify the objectives themselves, but their impact.

Key words: audit, performance, principles, optimal result, international audit standards

Performance audit represents a form of auditing economic efficiency and efficacy with which the audited entity uses its resources to fulfill its responsibilities.

It offers an analysis of objectives so that managers can use the information to improve performance and program operations, to reduce costs and facilitate the decision-making processes.

One can say that performance audit represents the dynamic process which stipulates the adherence to applicable audit standards within the activity of auditing.

The auditors' job is facilitated, as far as selecting the information to be presented and the adequate context for the audit conclusions, including here the discussion on the existence of enough evidence to support it, by the continuous evaluation of objectives, audit risks, procedures and evidence while auditing.

The conclusions of performance audit is a logical result of all the elements mentioned above, and offers an evaluation of audit findings and their signification.

MATERIAL AND METHOD

Our approach has as objective a clarification of the issue of importance and necessity as far as undergoing performance audit is concerned.

Our research focused on systematizing and synthesizing the concepts comprised by the field-related literature. To accomplish this, the authors have gathered information from various documents, using a fundamental method of research.

RESULTS AND DISCUSSIONS

The sources in this field are extremely varied. Thus, according to Allouche & Laroche (2005), performance is a social construction carrying as many significations as there are individuals or groups that use it. The concept of performance covers notions whose meaning is often contextual and leads to numerous interpretations (Allouche et al., 2003). It contains a framework of complementary and sometimes contradictory parameters, that do not have the same importance, even though the economic dimension remains the dominant one (Chrétien et al., 2005). Performance is an evolving concept,

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because the factors that can contribute to the success of the organization at a certain stage of innovation could later on become incompatible with the factors demanded by a different stage of development or research (Boudabbous, 2011).

According to the International Audit Standards INTOSAI, performance audit represents an evaluation or an independent assessment of the degree to which an activity, a program or an organization functions efficiently, according to economic rules.

The legal framework in the field of performance audit (shortened A.P. as follows) is represented by the Decision of the Court of Accounts, no. 1/2009 for approving the set of rules regarding the organization and progress of specific activities, published in „Monitorul Oficial”, no. 78/February 10, 2009, chapter IV, 181 – 240 from the main appendix, as well as the Guide elaborated by the Romanian Court of Accounts.

As far as strategies, planning, policy development, projects, activities and public operations are concerned, the auditors will check whether the management:

- undergoes periodic analyses, to eliminate useless operations;
- evaluates the resources used and the results obtained, compared to planned objectives;
- compares the separate and total costs of operations to those of similar businesses;
- gets involved in the professional training of the employees, uses performance factors, uses time rationally, introduces advanced methods and develops the technology;
- keeps to the conformity of public acquisitions, as far as deadlines, quantities, type, quality and prices are concerned;
- proceeds to safely handling of the heritage of public organizations;
- improves the quality of the output without raising specific and general costs;
- has designed and set a functional system for measuring the quality of the results of the activity;
- compares the degrees of the „3 E’s”, before and after having take correctional actions, based on complete data;

The main objective of performance audit, that of adding value and credibility to the opinion stated in the audit reports, is fulfilled if the audit mission is completely independent and there is freedom regarding the domains to be audited.

The main characteristics of missions of performance audit are the following:

- Conformity with the International Audit Standards; performance audit is done according to the mandate given by law, in conformity with the

provisions of national audit standards, elaborated based on INTOSAI standards;

–Complexity and completeness– performance audit is, by its nature, an ample enterprise, that can cover, selectively, several years, and it does not only refer to one year of activity;

–Identification and selection of the most adequate criteria to assess performance; the selection of criteria represents a complex activity, done by the auditors, based on the objectives of each audited entity;

–Persuasiveness of the evidence obtained after auditing; the performance audit has to provide information oriented towards achieved performance and which allows the evaluation of the effect generated by the conclusions, regarding efficiency and efficacy;

Performance audit has to combine direct audit with the audit of control systems, focusing particularly on resources results and impact, as well as the degree to which policies and procedures executed by managers to promote, monitor and evaluate performance are adequate.

The process of performance audit entails three phases – planning, examination and report. In order to guarantee, as much as possible, the success of performance audit, all three phases have to possess certain qualities.

That is why the specialized literature focuses on the SMARTTEST approach, so that the auditor has to make sure that:

- sound judgement is exercised along the entire process;
- a combination of adequate methodologies is used, in order to collect data;
- audit questions are formulated, based on which conclusions can be drawn;
- risks that can influence the report are analyzed and managed;
- the necessary tools are used in order to successfully audit;
- the evidence is sufficient, coherent and usable for the conclusions of the audit;
- the structure of the final report is taken into consideration right from the planning phase;
- transparency is crucial – an approach with no „surprises” for the audited entity.

By nature, performance audit covers a complex domain, making appeal to reason and interpretation; indeed, each aspect of performance audit requires professional reasoning and personal initiative.

Balanced reasoning has to be exercised, in particular, with processes of establishing audit objectives (also called „audit questions”), of defining relevant audit criteria, of establishing the

adequate quantity and quality for the audit evidence, of elaborating the findings of the audit, of formulating conclusions, as well as in the process of reporting.

Methodology sums up techniques for collecting and analyzing data that help acknowledge the evidence to formulate conclusions.

In the ideal case, multiple methodologies will be used to collect a series of data and to colligate findings from different sources, thus enhancing the quality and reliability of audit evidence on which findings, conclusions and recommendations are based.

In the case of performance audit, it is recommended that the audit objectives be established in the form of questions to which the audited entity will have to answer.

Among the risks that can affect finishing the report in due time, for a quality audit, there are difficulties in gathering data, insufficient staff and the lack of cooperation on the part of the audited entity.

The use of adequate instruments will contribute to the guarantee of elaborating a realistic plan, and will consequently contribute to monitoring and examining the accomplishments based on the plan.

The evidence collected along the audit process represents a real basis to formulate observations and conclusions related to the audit questions. The pieces of evidence contribute to demonstrating, convincingly, a fact or a point that has been examined.

Taking into consideration the structure of the audit report, right from the beginning, will contribute to the proper management of the entire process and will enhance the probability of obtaining positive results.

Having in mind the diverse character of performance audit, one especially needs good planning. This contributes to a certain ease in establishing whether the audit is useful and possible, and it helps towards establishing clear, reasonable objectives, and towards defining the adequate approach and the necessary resources. In case the audit is badly planned, there is a risk for a lack of efficiency in the audit activities.

An essential conceptual landmark of performance audit is represented by the actors of this process: the audit coordinator, the audited manager, and the auditor.

This approach is useful because these different actors all have a profound interest in the audit process, but sometimes differently and antithetically, especially in what concerns the results of the audit.

The main objective of performance audit, that of adding value and credibility to the opinion stated in the audit reports, is fulfilled if the audit mission is carried under conditions of complete independence, while respecting the following principles: the existence of a well-defined warrant of performance audit, the freedom in selecting fields, and reasonable insurance.

To these, one can add the specific principles guiding the auditors' activity: responsibility, integrity, objectivity and independence, the value added as a result of having implemented the audit recommendations, competence, accuracy, perseverance, clear communication.

Approaching performance audit with respect to the management sub-system automatically assumes defining the framework of management relations which is to be investigated and evaluated, right from the moment of issuing the warrant for the mission of internal audit.

The auditor aims at establishing the active factor, the person who puts into practice the designated task, while taking into account the following: in-company relations, rights, obligations, competences, responsibilities, deadlines, information flows and circuits which are connected to management relations.

At the practical level, in the activity of carrying out the performance audit one uses the definitions of the internationally acknowledged „3 E's”.

Performance audit does not imply, and should have as purpose, a simultaneous and thorough examination of all aspects related to economic efficiency and efficacy.

Rather, it will only focus on certain aspects related to efficiency, based on the major potential risks that have been identified.

The problems related to economicity are raised when a certain entity or an activity could reduce its costs of resources significantly for a certain level of accomplishments or results.

The audit of economicity has as purpose establishing whether the resources chosen to fulfil the objectives are adequate and whether they are acquired at the lowest possible cost.

Examining the aspects connected to economicity often leads the auditor to the analysis of procedures and decisions within the audited entity, with respect to the acquisition of goods and services.

The auditor will establish, in particular, whether the acquisition procedure has allowed for the best ratio quality/ price.

In using the concept of efficiency, the auditor will evaluate, within the analysis of the program implementation or of the activity, to what

degree has the audited entity managed to obtain the adequate result, qualitatively and quantitatively.

When the efficiency audit has as objective the examination of results, auditors often evaluate the processes through which an organization turns resources into results.

When efficiency audit has as objective the examination of results one usually needs certain economic instruments to assess the real potential of an audited entity, operation or program, to obtain certain results, at a certain cost.

Based on the approach to auditing, the auditors will examine the reliability of the analysis done by the audited entity, or they will analyze everything themselves.

Efficiency audit requires evidence, such as objectives, results that have been observed and created by the analyzed action itself, and not by other potential factors. Consequently, there is a direct relationship between cause and effect. The efficiency audit will be oriented towards accomplishments, results and impact.

Auditors need to identify the risks that could affect economicity, efficiency and efficacy, and to formulate, based on these aspects, the audit questions. Each concept has an equal importance, and establishing priorities will be handled differently from case to case; nonetheless, auditors are encouraged to consider efficiency an element of analysis, whenever this is possible.

Through limiting the performance audit to some of the whole array of economic aspects, one can lower the risk for the audit to be overly ambitious.

In performance audit, reports represent a modality of making available to the Parliament independent information, through findings, conclusions and recommendations regarding economicity, efficiency and efficacy of using public funds by the audited entities.

Simultaneously, the information is also useful to other entities, connected to the audited entity through various hierarchical relations or contracts – that is, the citizens.

The reports regarding performance audit have to indicate the attention given by the political power, by the state and local administration to their

actions, represented by policies, programs, activities, from the point of view of economicity, efficiency and efficacy.

All these need to correspond to the necessities of society, through focusing on the priority-issues, through a rigorous control of effects, and through the economic use of resources.

In order to elaborate the report it is necessary to stick to a well-defined structure, in which the objectives as well as the evidence of the audit are found, together with its conclusions.

CONCLUSIONS

In performance audit, the conclusions which are to be formulated by the auditors of a superior audit organization will specify whether the activity, the program or the entity audited have been managed in an economic, efficient manner. The auditors will identify, collect and analyze audit evidence, regarding cash flow, process descriptions, as well as the perception and opinions of the public.

In performance audit, the activity of collecting audit evidence has to be systematically organized, in order to support the reasoning ability of the auditors, who are to draw conclusions regarding the entity, program, activity or action that has been audited.

For this, the audit evidence needs to be coherent, relevant and reasonable.

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