

THE PERFORMANCE AUDIT. THE EXPERIENCE OF OTHER SUPREME AUDIT INSTITUTIONS

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People using financial records, such as stockholders, bankers, creditors, governmental authorities and the public must be persuaded that the company's image, as presented, is not confusing. That is why the laws in force stipulate that the general manager has to obtain a second opinion, belonging to an expert outside the company, known as the financial auditor. The auditor does not depend on the company's management and does not represent a group of interests. The financial records are credible due to his expertise, education, integrity, practice of professional reasoning and, the most important of all, due to his independence. The auditor is responsible in front of the stockholders having designated him.

Key-words: external audit, international auditors, performance audit twinning

The performance audit of the financial resources in the public sector, as well as of the state public and private patrimony management has become the most evolved expression of external audit, which the supreme audit institutions in western countries are progressively adopting nowadays.

Performance audit in the public sector stands for an independent evaluation of the degree of effectiveness and efficiency of a certain activity, program or institution, while observing the principles of cost-effectiveness.

The Supreme Audit Institutions (S.A.I.) from countries such as Great Britain, Sweden, Netherlands or United States have taken the first steps towards measuring the cost-effectiveness and the efficiency of using public funds ever since 1980, therefore they have improved the work techniques and methods on a permanent basis.

The National Audit Office of the United Kingdom of Great Britain and Ireland (N.A.O.) considers that „measuring the performance represents a necessity managers at all levels, in order to get a clear image of their objectives, to assess and to weigh the results of the respective objective, wherever possible”.

In the near future, the performance audit in Romania will have the same objectives as the performance audit in Great Britain.

The public audit in Great Britain is regulated by the National Audit Law, dating from 1866, amended and completed in 1921 and 1983, when the right of the Controller and Auditor General to carry out the performance audit came into force.

The British National Audit Office's motto is: „Let's help the nation spend wisely!”

In the United States, the General Audit Office of Public Accounts (G.A.O.) considers that performance audit is „an objective examination of reality in order to provide a systematic performance assessment of a major organization, program or activity, so that it obtains information concerning the use of public funds and the ease in the decision-making from the part of the responsible with monitoring and implementing corrective measures.”

The objectives in view refer to the cost-effectiveness and the efficiency of using public money, as well as to the program audit, which includes determining the degree in which the expected results and benefits are reached, or whether the entity has observed the main laws and regulations concerning the respective programs.

Since 1989, The Swedish National Audit Office (S.N.A.O.) has had a separate division in charge with the performance control, designed to make more than examine the entities, monitor the activities and record the defaults, that is to pay more attention to analytical measures and substantiated recommendations.

In this country, the performance audit has therefore set the objective to assume a more active role in changing the efficiency and effectiveness of the governmental administration, wherever necessary.

The Dutch Chamber of Accounts examines “whether the money has been well spent, and also whether it would have been better spent elsewhere.” The performance audit is defined as a scrutiny over the efficiency and effectiveness of the governmental policy, considered as a starting point.

The supreme audit institutions’ competency to carry out performance audits, as well as the dimension and scope of the respective audits are regulated by the Constitution or by special laws of organizing and functioning.

The World Bank’s experts recommend the countries which decide to adopt or to improve the performance audit (such as the Romanian Court of Accounts) to choose strategies implemented in countries with a substantial experience in the field.

Thus, the performance audit carried out by the General Office of Public Accounts from U.S.A. meets the requirements of the legislative power, interested in knowing whether the government’s activities are efficient. The G.A.O. examines every program, activity and function of the federal government of the United States and draws up pertinent and substantiated conclusions.

Over the last century (the G.A.O. was founded in 1921), the Congress solicited the respective body to identify imperfections in the governmental activity, so that to eliminate the waste and inefficiency in public spending; the G.A.O. also confirms if the governmental funds are legally spent and if their evidence is accurate. Moreover, the G.A.O. decides if the program objectives are achieved within the established costs, and if changes in the governmental policy are necessary, it suggests what decisions should be made by the Congress in this respect.

The recommendations issued by the G.A.O. have triggered positive effects, reflected in significant cuts in budget expenses, as well as in revenue increases, estimated at about 100 billion dollars by the World Bank. Each year, the G.A.O. carries out over 1,000 performance audits, its representatives presenting themselves in front of the Congress committees around 300 times a year, in order to hand in reports on the audits.

Before initiating a performance audit, the G.A.O. establishes if such a measure is justified. In this respect, the body prepares a series of surveys and organizes debates around its responsibilities, to make sure that the audit can accomplish its mission and that the estimated budget is covered by the final results.

The final report takes into account independent viewpoints, supervised at various levels within the G.A.O., concerning the response to objections and the modifications brought to the initial forms.

The G.A.O. has also introduced a system of subsequent quality assessment of the performance audit, in order to amend the procedures; the system uses independent staff taking notes on deviations from the audit standards and procedures.

Due to this subsequent audit evaluation system, the G.A.O. brought in 1998 a series of amendments to its audit standards, known as the “Yellow Book”; according to the World Bank’s experts, the “Yellow Book” stands for the highest quality standard in the field of performance audit.

Following the initiative of the Committee of Public Accounts within the British Parliament, in 1983, the performance audit was legislated; thus the National Audit Office of Great Britain became one of the top supreme audit institutions, being characterized by rigor, quality and objectiveness.

The N.A.O. carries out the most part of the performance audits on a specific theme or subject, nevertheless its works are monitored by several government departments.

The main N.A.O. objective is “to help the nation spend wisely.”

Its primary role is “to verify and to independently inform the Parliament upon the way in which the governmental departments, the executive agencies and other public bodies accounts for and use the tax payers’ money. It also helps these bodies to implement a better financial management.”

The N.A.O. certifies the annual budgetary execution accounts of the public bodies, thus being responsible with the regular financial auditing of almost the entire amount of government expenditure (around 540 accounts); it is entitled to audit approximately 4,000 bodies receiving public funds for housing, education, professional formation, etc.

About 40% of the annual N.A.O. budget is directed to the performance audit, almost 50 reports being issued each year.

The quality and value of these reports have mainly grown as a result of applying strict audit methodologies and themes, of using audit experts, of identifying the possibility to set up a financial economy.

One of the priorities during the reform of the audit process with the Romanian Court of Accounts, and probably the most important one, is developing the financial audit, implementing the performance audit and harmonizing all these with the modern audit standards used by similar institutions in Europe and on other continents, much more advanced in this field.

This priority was also highlighted by the experts coming from the U.N. the World Bank and from the E.U. They benefited from the assistance of the SIGMA specialists in drawing their conclusions to the SIGMA reports between 1999 and 2005.

Based on the conclusions and recommendations included in the Reference Act and the Final Report, the Romanian Court of Accounts elaborated and approved the Strategic Development Plan between 2001 and 2004, setting as a strategic top objective of the institution “enhancing the institutional capacity to increase the degree of administrative responsibility in the legal and efficient use of public funds in Romania”.

The peer-review between May and June 2000, as a stage in the strengthening of the institutional capacity of the Romanian Court of Accounts, reflects the major preoccupation for a fast integration in the process of institutional reform generated by the perspective of Romania’s adherence to the European Union.

As a consequence of the recommendations received, several amendments were brought to the Romanian laws at the time; the audit area extended not only to the field of privatization, but also to the way of administering, managing and using the public funds and the public and private state patrimony; these were responsibilities consistent to the strategies of other Supreme Audit Institutions or Chambers of Accounts.

The differences appeared when auditing the financial management, the efficiency criteria, the cost-effectiveness and efficiency in using public funds. This situation was due to the lack of a strategy and a performance audit guidance book, which include indicators and performance criteria; also, the conclusions of the supreme audit institution from Romania reported to the Parliament did not have a pertinent finality, and the few recommendation were adopted by the beneficiaries.

Starting with the year 2000, the Court of Accounts has enjoyed EU funding through the PHARE programs. Thus, by means of the PHARE 2000 program, aiming at strengthening the institutional capacity, two components were financed:

- The twinning component created in collaboration with the U.K. N.A.O. (with the contribution of the Greek Audit Court) and completed in September 2003. The main activities included were the development of legal activity, the update of the legal framework, the development of human resource management and organization, the development of the IT component and the introduction of computer-assisted auditing techniques.
- The investment component, having as objective “The Development of the IT Infrastructure of the Chamber of Account, the Control and Human Resource Formation”.

In December 2002, the reunion of the Presidents of the Supreme Audit Institutions from Central and Eastern Europe, Cyprus, Malta, Turkey and the European Court of Accounts took place in Bucharest. Special guests from the Russian Federation and the United States were invited to the debates on the transition process of the financial control structures from Romania.

The transition involved reshaping the monitoring mechanisms of the public finance management, of the efficient and effective use of public funds in the legal framework.

Still, this period also generated dangerous phenomena, which imposed joining efforts to find solutions to counteract corruption and fraud, flourishing due to the lack of legal framework, of the confusing status of property during the economic reform, as well as of the state’s weakness.

The close ties with the similar European Supreme Audit Institution will lead to the harmonization of the Romanian laws, of he means and methods of financial audit with the European model.

Since 2003, the Romanian Court of Accounts, as Certifying Body of the financial assistance within the SAPARD program, has benefited from the technical support granted to the SAPARD Agency by another PHARE program, comprising two axes:

- The first axis, based on professional formation, included training courses for the staff involved in the activity of certifying the SAPARD funds (completed in 2003), in order to improve the

theoretical and practical knowledge of employees responsible with auditing the funds allotted through the SAPARD program.

- The second axis, oriented towards long-term assistance and consultancy in the field of the SAPARD auditing programs was finalized at the end of 2004.

In 2003, the Romanian Court of Accounts received from the E.U. non-reimbursable financial assistance within the framework of another PHARE program, aiming at improving the institutional capacity, comprising two components:

The 0.8 million euro twinning component, materialized as a Twinning Convention between the Romanian and the Spanish Courts of Accounts, in collaboration with the German Court of Accounts, had the following objectives:

- Developing the auditing activities of funds granted by the E.U. and other international financing sources, in conformity with the European and international standards of external auditing of budgetary funds;
- Organizing training courses for staff involved in the privatization process;
- Continuing the development of the financial audit, both on local and central level;
- Improving the skills of the Court's personnel, in order to audit the following fields: health, banking, subsidies or other state-supported forms of financial assistance;
- Training courses for the Court's auditors, in order to give them the possibility to identify criminal activities (fraud, corruption, tax dodging, money laundering), to establish the legal measures to be taken and to apply them on the culprits.

The Twinning Convention was signed in November 2003 and extended over a period of two years.

- The investment component was directed towards linking the Romanian Court of Accounts to other public institutions, towards developing an information system concerning the control/audit activity, towards equipping the Romanian Court of Accounts with IT systems, as well as towards modernizing four professional training centers.

In the monitoring reports issued by the E.U. Commission in October 2003, it was revealed the fact that the external audit systems from the adhering countries were much more developed than the internal control/audit ones, which led to a more intense cooperation in order to harmonize the professional standards in all the countries members of the EUROSAI (European Supreme Audit Institutions).

The PHARE program for institutional development between 2004 and 2006, addressing the Romanian Court of Accounts, stipulates a twinning contract with similar institutions in Spain and Germany, in order to set up an independent external control/audit institution for public funds, a professional, reliable entity, able to comply with the E.U. membership conditions.

In order to accomplish the above-mentioned objectives, we must: introduce modern auditing methods, consistent with the international audit standards and with the best European practices, employ well-trained personnel, constantly preoccupied with improving their professional skills, use modern technical support, prove an appropriate internal and external communication.

In the spirit of the permanent collaboration between the Supreme Audit Institution members of the EUROSAI, the Romanian Court of Accounts benefited from a financial assistance program set up by the International Development Department of the British Government, responsible with promoting the development and fighting against poverty on a global level.

The program has three stages, respectively:

- The first stage (October 2000-October 2001) referred to the technical assistance, having as main objective the improvement of the audit activity concerning the public expenditure in Romania, based on European and international standards.
- The second stage (2002) focused on training the 170 employees within the Romanian Court of Accounts in auditing the privatization process in accordance to the EUROSAI standards.
- The third stage (2003-2005) aimed at implementing the financial and performance audit in conformity with European and international standards.

- The main specific objectives of this program contributed to the improvement of cost-effectiveness and efficiency of public expenditure in Romania, to the initiative of supporting the Romanian Court of Accounts in the process of European integration, as well as to the carrying out of audits according to the International Audit Standards, the Rules of implementing the INTOSAI standards and the best European practice.

At present, the Training Program developed by the KPMG and the BPP for the Romanian Court of Accounts, with the support from the E.U. is in progress, as part of the project called "Authorizing the financial controllers of the Romanian Court of Accounts as international auditors", implemented with European financing.

By raising the professional level of the public auditors in the field of financial, IT and performance audit, as a result of further formation and improvement programs with European assistance, the Supreme Audit Institution will be able to present the Parliament interesting audit reports and the public administration will be able to act following the Court's recommendations. In the same time, by ensuring the transparency of the financial and performance audits, the institutions will prove reliable, both for the citizens, and for the international institutions and bodies interested in protecting their financial resources.

By modifying its organizing and functioning law, the Romanian Court of Accounts will have competencies in the field of financial and performance audit, thus accomplishing the proposed objectives; it will be also able to hand in to the Romanian Parliament, the E.U, to other institutions and to the public opinions high quality reports concerning the legal and effective use of public money.

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