

## SOME CONSIDERATION REGARDING TO PERFORMANCE'S AUDITING

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**Abstract.** *The audit of performance analyzes the expenditure of public funds, by probing the measures undertaken by the audited entities. This analysis is meant to focus and to follow up the compliance with the principles of economy, efficiency and effectiveness, and also to observe the achieved performances. The main objective of the performance audit is to provide the top management with independent information and opinions, in order to reveal a better understanding of the challenges the entity is facing. This evaluates the organization and highlights the best ways of improving economic processes, as to be able to achieve its objectives.*

**Keywords:** public funds, audit, assessment, efficiency, performance.

### INTRODUCTION

The genesis and meaning of the word performance has changed over the years, thus becoming a polysemantic word which has various aspects depending on the domains in which it is used. In the economic specialty literature, performance is seen in different manners and is rarely defined; even in the works in which performance is the main object of study. The word performance is of Latin origin, but its meaning comes from English.

The most similar words regarding performance are *performare* in Latin, *to perform* and *performance* in English:

-*performare* - to shape something completely. The performance of the staff of an entity consists in shaping and realizing the rule system, projected and planned by the managers;

-*to perform* - to realize something regularly, to carry out something, to lead to its accomplishment in a convenient manner, to carry out a promise, to implement the clauses of a contract, to achieve something that demands an ability or a certain skill;

-*performance* - the achievement of something, of a work of art, of an act or the manner in which an entity complies with the objectives that have been established, by analyzing : *the effectiveness*, which defines at what degree the objective is carried out; *the productivity* which compares the results to the means that were used.

In this sense, **Michel Lebas** describes the difference that exists between: *a performance*, *performance* and *to be performing*: "*a performance*" is what is generally said about a measured result, superior to the one foreseen or to the one that comes from previous results, thus always indicating a positive connotation; "*the performance*" can be both positive and negative and refers to past results. The adjective "*performing*" is mostly used to refer to the future, to future results, so it is an indicative of potential, of dynamics.

In Romania, this concept has been reinstated into its legal rights when Law nr. 672/2002 concerning the public internal auditing became effective, at the beginning of 2003. In Great Britain, performance audit is related to the concept of value for money (reaching the quality and quantity required level for an object with reasonable costs, in a planned unit of time) and represents a systematic and objective inspection of resource entries and the processes that take place in one entity for the evaluation of economic

results. This is why it can be defined as an audit of economicity, efficiency and effectiveness of the managerial policy in using public funds, considering its primordial role in achieving the objectives of the entity.

Often the terms *audit of resource optimization* and *performance audit* are used related to the inspection of resource usage by public entities. Performance audit can sometimes be seen as passing the specific aspects of resource optimization, including the achievement of the objectives of the entity (meaning all the instruments of measuring quantity, quality, cost and time). The terms *performance* and *resource usage optimization* are often used as synonyms by most auditors. To give a wider perspective to performance audit, we will show in the abstract some of the definitions extracted from the specialty literature.

**Performance audit** analyzes whether the criterion established for the implementation of the objectives and the tasks of a public entity are correct, establishes if they are according to the objectives, evaluates the results, analyses the economicity, efficiency, effectiveness and relevance of the indicators (means optimization according to the objectives, the quality of the managerial activity and the final results).

**Performance audit** represents an objective and systematic inspection of the program, activity, function, systems and managerial procedures of a public institution in the purpose of evaluating how the respective entity has used its resources in an economic, efficient and effective manner, in its attempts to attain predefined goals.

Although performance audit can be very ample, in wide terms it will apply to :

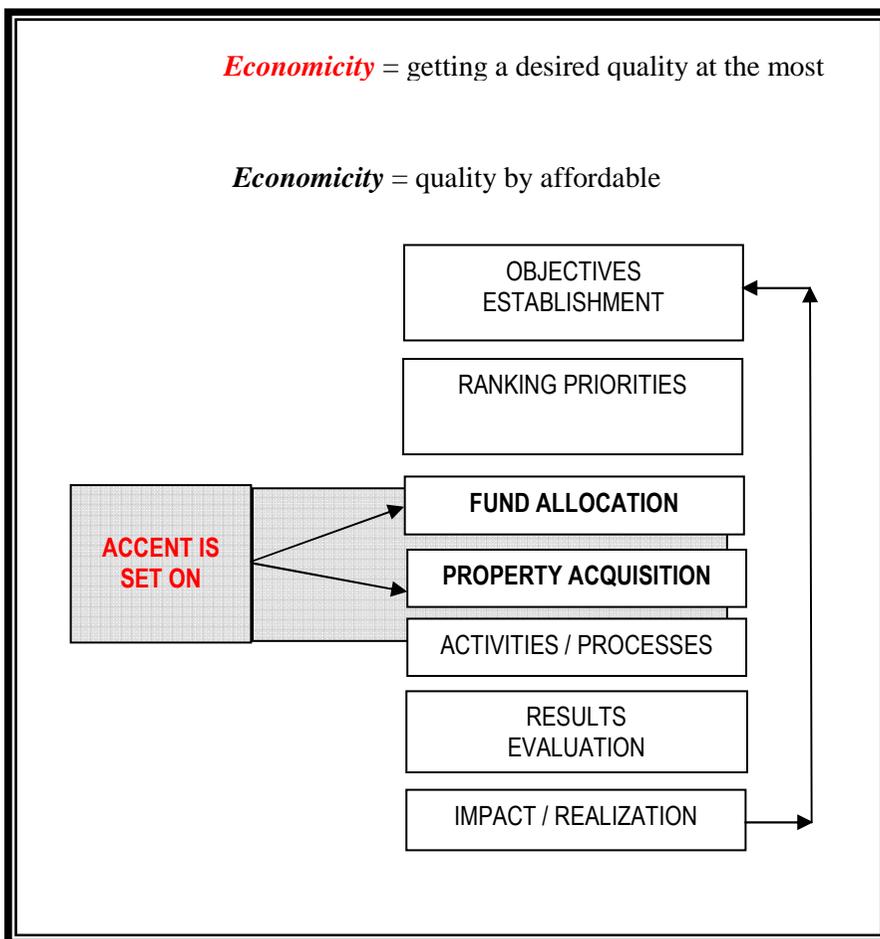
- the activities that imply a high level of resources;
- the projects that risk to fail its objectives;
- the main aspects that concern top-management.

*To conclude, we can say that performance audit represents the evaluation of the degree of achieving the economicity, efficiency, effectiveness and realization of the established objectives.*

The three elements of "resource usage optimization" can be defined as it follows:

- A. **Economicity** refers to the reduction of the costs of the used resources (staff, materials and equipments) in an activity carried out to accomplish the objectives and to the conformity of these resources with the principles, the practices of a good administration and the policies of a good management. An entity that works according to economic principles buys resources in sufficient quantities, agreeably to the standards of the quality/price report. So, *economicity* means minimizing the cost of the used resources, without altering their quality, meaning the economic expenditure, as shown in table nr.1.

Table 1



In order to measure the economicity the next calculus formula:

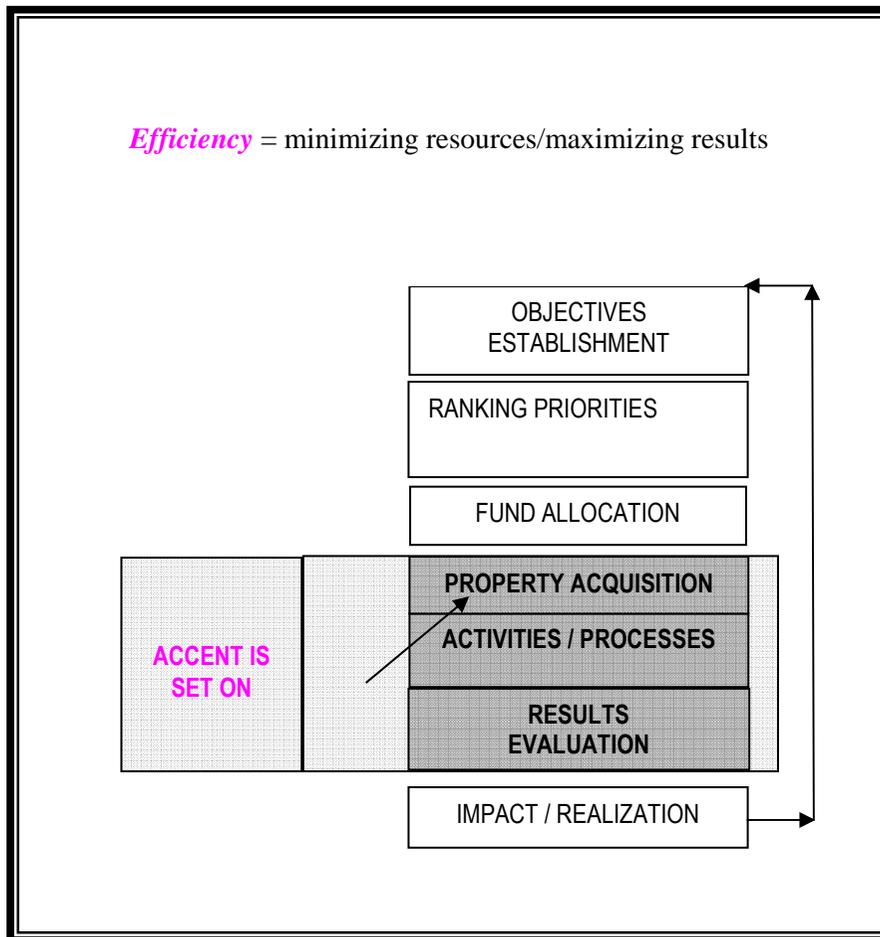
Economicity (Econ) =	Used resources ( $U_r$ )	:	Scheduled resources ( $S_{rs}$ )
	Final results ( $F_r$ )		Scheduled results ( $S_r$ )

If  $Econ < 1$ , the situation can be seen as favorable: certain standard items that are necessary to an entity, of a certain quality, are purchased at the most convenient price; the cost of a mobile good in comparison with another model, of similar quality. In this sense, we can state that a public institution doesn't have this indicator if dysfunctions of the acquisition system are observed or if there are too many staff members in report with the concrete activities that the entity develops. In these situations certain measures are imposed in order to crop the number of employees according to the real needs of the audited entity and to implement the system of public acquisitions according to the effective regulations.

**B. Efficiency** regards *connections between the goods, the results and the provided services and the resources used in their production (the entries)*. An efficient entity gets a maximum of results using a certain sort of resources or a minimal quantity of resources to get a result of a certain quality and quantity, which will be reflected in an increased

productivity and lower unit costs. To conclude, *efficiency* is linked to profitability and productivity and is the result of the registered results and resources introduced in the system: the maximization of the outputs or the results by using the minimum of entries or resources (see table nr. 2)

Table 2



In order to measure the efficiency the next calculus formula can be used:

Efficiency (Effici) =	Final results (F <sub>r</sub> )
	Used results (U <sub>r</sub> )

The favorable situation is considered when  $Efici_{realized} > Efici_{planned}$  or when it has a dynamic growth:

- we consider that efficiency is improved when the unit cost to supply the medical treatment has been reduced over time or when, without any supplementary resources, more students are formed in learning institutions or when more possibilities for treatment are available in the hospital;

-the reduction of costs for equipment, vehicles, computers or photocopiers' repairs and maintenance represent a sign of efficiency.

**C. Effectiveness** concerns the achievement of objectives (planned realizations) or predefined goals whose effective impact (achieved result) can be compared to the desired

impact (the objectives). On the other hand, the use of a large variety of instruments and indicators of measuring performance will give us the possibility to evaluate the effectiveness of an entity.

We can conclude that *effectiveness* means assuring that the results, objectives, targets or desired policies have been successfully accomplished, or in other words, *wisely spent*.

In order to measure effectiveness the next calculus formula is used:

Effectiveness (Effec) =	Final results (F <sub>r</sub> )
	Scheduled results (S <sub>r</sub> )

The favorable situation is when  $E_{fca} \geq 1$ ; the next examples are edifying:

- improving the results at school tests or lowering of the disease rate following medical care that has been provided;
- when an article or a service purchased is considered "*appropriate to the goal*";

Effectiveness must be seen under two aspects:

- *immediate effectiveness* - when the desired objective can be clearly quantified in natural units of measurement ;
- *resulted effectiveness* - when the desired objective is based on the achievement of several quantifiable objectives : building a number or kilometers of road can be considered an immediate objective following the activity of an entity. Resulted effectiveness must be seen as a bigger degree of road safety, time economy trough the growth of the travel speed, etc.

A specific aspect of performance audit is the analysis of secondary effects of an ongoing program at an entity (the effects of destruction through the burning of dangerous waste over the environment).

## MATERIAL AND METHOD

### 1.The relationship between entries, processes and results and between economicity, efficiency and effectiveness

In practice, the limits of economicity, efficiency and effectiveness are rarely clearly defined. Because of this, the inspections of the "resource usage optimization" follow simultaneously these diverse aspects of performance, as part of the same example, as shown in table 3.

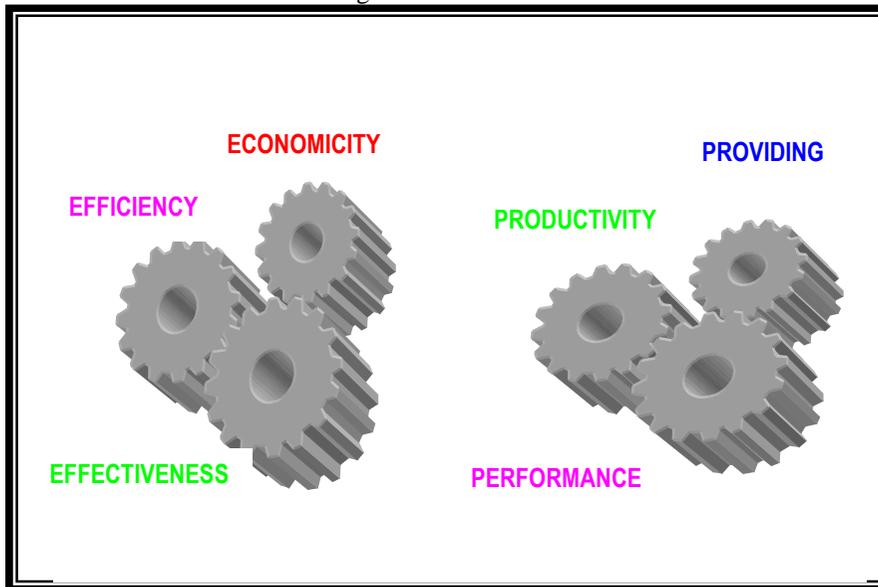
If we analyze the performance of the construction program of a school, we can consider one or all the aspects described below:

- auction, contraction and control procedures of the project, to establish at what extent the hospital and its infrastructure have been built according to specifications, terms and at the lowest possible cost or in certain approved limits of the costs (economicity);
- using the facilities, like the salons, beds, operating rooms and medical equipment; the repartition of the administrative and medical staff; the integrity of the services; the management and resources allocation systems (*efficiency*);
- the results seen from the perspective of the reduction of the waiting list for patients, the rise of the number of interventions, the improvement of the diagnostic process and of the levels of treatment and finally, the improvement of the health, of the quality of life and the reduction of mortality rates (*effectiveness*).

There are other entities that add a fourth E, *equality* or *equity*. This dimension shows the degree in which the access to services is equitable and if the services respond to the needs of everyone who demand it, being integrated in several general measuring frameworks (for instance, in Great Britain, both the SNS - Structure for the Evaluation of Performance and the set of performance indicators analyze the aspect of just and equitable access).

Table 3

The diagram of the 3 R's and the 3 P's



## 2. The Performance Audit Approaches

**The economic**, efficient and effective use of resources depends on the existence of a number of control instruments applied by the management, who has the responsibility to take all necessary measures in order to achieve the optimization of resource usage in that respective entity. Usually, control instruments used by the management also include policies for : planning, organizing, targeting and controlling the organization's activities; confirming the fact that the resources are used according to the legislation and regulations in effect; protecting resources against losses, waste and its defective use; measuring, monitoring and reporting the organization's performances; assuring the achievement of objectives; assuring the acquisition and maintenance of valid and feasible data which will be correctly transmitted through financial situations, reports and other documents.

The role of the internal auditor is to supply verified information independently concerning the necessary measures taken by the management and their effectiveness. Internal auditors are the most appropriate persons to perform performance audit, because they are not involved in resource management.

*The primordial objective of performance audit* is to supply information to the top-manager, together with assurance and independent opinions relating to the accomplishment of the desired objectives by the organization economically, efficiently and effectively, but also regarding the management of used resources in the way of reaching these objectives.

Considering this, the degree of success regarding the accomplishment by the entity's policies principles or standards management in an economic, efficient and effective way can be quantified. A secondary objective of performance audit is to identify ways to improve the entity's performances and to optimize resource usage and to help management take necessary measures in order to enhance the systems and control instruments.

*A. Performance audit has the following main goals:*

- inspecting and evaluating the steps to ensure the process of resource usage optimization in an entity that benefits from public funds;

- signaling major losses, extravagant attitudes or other examples of weak performances. The auditor's role is to evaluate on what scale and how the resources are managed in the respective organization;

- to help management concerning: the rise of the level of income/earnings; the reduction of costs or expenses; improving efficiency; consolidating or improving management, administration or organizational processes; improving service quality; accomplishing the organization's goals and objectives in a more effective way in terms of cost control; the elaboration of an effective policy; rising the level of awareness on the importance of responsibility and transparency in resource usage.

*B. The coverage area of performance audit*

The analysis of performance can be used to cover all types of projects, activities or programs and can also be applied to some sectors or to the whole entity.

Performance audit can be performed based on:

- entries - who can consider the cost of the resources used in relation to the final results;

- system - who refers to the staff plan, organizational structure or procedures at entity level;

- resources - who consider the effectiveness of expenditure of funds.

Thereby, it is possible to approach performance audit by:

*a) Selective reviews*

Auditing implies the inspection of major wastes, inappropriate attitudes, inefficiency, ineffectiveness or weaknesses at system control level. These are mostly limited to evaluating problems, if there are any, to examining causes, deficiencies or weaknesses, and to improvement propositions. For example, finding the reasons for which a construction project has gone over budget, over its deadline or hasn't managed to rise to the original level of expectations for which it was designed; what can be done in the future to avoid past mistakes; inspecting the criterion used in the location choice for the projects' realization.

*b) Extensive reviews*

In this case, auditing can cover a whole entity or just its most important activities, projects and programs. On the other hand, auditing can be designed to lead to balanced reports that can provide insurance in the main domains where the activities have been considered satisfying, but also who can attract awareness on the main weaknesses of the control system and the consequences of failing to set it to optimal parameters.

This can be exemplified by:

- the examination of the implementation and the results of the various schemes to shape a program that plans to reduce or eradicate poverty;

- the examination of the conditions for granting non-reimbursable loans to control river pollution;

-the evaluation of a plan by use of which an electricity supplier helps consumers to use electricity more efficiently.

c) *Reviews of standard operations performed by the management*

These examinations can cover procedures, systems and established practices, by using:

- areas of *proper internal administration* like acquisitions, buildings maintenance and the car park;
- examining warehouses, systems of stock management and adequate records;
- an examination of the office space in an entity to ensure that the lowest operating costs are obtained, and the need for space is as low as possible.

d) *Small-scale reviews*

These are designed to improve the resource usage optimization, to consolidate the systems and to encourage an attitude of awareness in cost reduction.

Performance auditing of a program / objective is usually done after implementing it, but at the same time the auditors must also focus their reviews on the current problems that have been reported, in order to draw conclusions and make recommendations that will increase the value of the future audit reports. A performance audit performed according to applicable audit standards gives the possibility to offer a reasonable assurance, in the sense that the information and data that make the base of drawing conclusions and making recommendations don't have material errors. Generally, "reasonable assurance" depends on the context in which the audit is performed, on the nature and availability of the evidence, on respecting the principles regarding the acquisition, collection and interpretation of the audit evidence, respectively drawing conclusions and making recommendations.

By making the assumption that the main objective of performance audit is that of adding value and credibility to the opinion expressed in the audit reports, the goal of the auditors is to make the most useful and precise recommendations, because through them they establish *what needs to be done* (regarding the causes), *why it needs to be done* (regarding the effects), *where, how, when and who should perform them*. The truthfulness of the recommendations helps the audited entity and gives the auditors the possibility to follow if it has taken the necessary action to achieve them. Generally, the recommendations don't refer to the ways in which a new system should develop, but focus on the ways of improving the present one, by clearly establishing the objectives of the change. If there is a clear solution to the reported problem, it is recommended, and the alternative solutions are mentioned together with the advantages and drawbacks of each one.

## CONCLUSIONS

Performance audit in the administration of public funds is done by examining the economicity, efficiency and effectiveness of their use or by examining the various mixtures of these ones. The main function of a performance audit is the flexibility in using the financial and/or non-financial information. Usually, within performance audit, the auditors perform an evaluation of management quality, by examining the manner in which the entities use the allocated funds. Moreover, the auditors consider the conclusions and recommendations of the financial audits, because they can indicate that a weaker performance in fund administration may exist.

According to the audit standards INTOSAI (International Organization of Supreme Audit Institutions), performance audit - unlike financial audit, which is an audit subjected

to specific provisions and requirements - is a broader one by its nature and requests more the reasoning and logical interpretation of the final results. As a result, performance audit reports are more diverse and contain more explications and reasonable arguments. While financial audit respects some relatively rigid standards, performance audit is more flexible in selecting the programs, activities and entities that will be subjected to the audit, to its procedures and methods and to drawing conclusions and making recommendations. In performance auditing, selecting the criterion is a lot more comprehensive and is performed by the auditors according to the audited subject, by usually operating with persuasive evidence (support points for conclusions). In this sense, the auditors select the most suitable auditing methodologies in order to obtain such evidence from different sources, who will lead to the same conclusion, which makes the performance audit report as convincing as possible.

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