

PERFORMANCE AUDIT AND ITS ROLE IN PUBLIC SECTOR- REPUBLIC OF KOSOVO

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Abstract

The Office of the Auditor General is an independent constitutional institution with aim to contribute to sound financial management in the state public administration.

The Office of the Auditor General (OAG) in Kosovo which soon shall be named the National Audit Office conducts annual statutory regularity audits of Kosovo Budget and Budget Organizations including other forms of audits such as Performance Audits. Main focus of this research paper is the role and functioning of performance audit in public sector which addresses the audit performance in terms of economy, efficiency and effectiveness which also is supported by the philosophy of this type of audit. The objective of this paper is to present through experience and research conducted in the field of Performance Audit (PA) the importance of this type of audit in three main aspects: theoretical, practical and scientific. This paper will not leave aside the contribution given by performance audit to accountability of democratic governments by measuring performance activities within Budget organizations.

In order this paper to achieve its objective, different sources of information will be used such as: INTOSAI standards, various PA manuals, scientific publications, good practices from different countries, the relevant annual reports, professional practices, etc.

Key words: Performance Audit, INTOSAI, public sector, accountability, 3Es.

1. Introduction

Auditing is an important aspect of managing an organization and all employees should have a good understanding of the audit concept and how it can help organizations become and remain successful.

Based on INTOSAI, scientific, best practices and other relevant literature we can always find that the meaning of Performance Auditing is related to economy, efficiency and effectiveness of activities carried out by budgetary organizations especially in public sector.

Performance auditing is relatively a new type of audit. According to INTOSAI Auditing Standards "Performance Auditing is an independent examination of the efficiency and effectiveness of government undertakings, programs or organizations, with due regard to economy, and the aim of leading to improvements"

A financial audit, or more accurately, an audit of financial statements, is the verification of the financial statements of a budgetary organization with a view to express an audit opinion.

However the character of performance auditing must not, of course, be taken as an argument for undermining the collaboration between two types of auditing.

This new type of Audit, Performance auditing, has evolved to meet the need for greater information by the taxpayer and its representative, Parliament, mainly regarding the efficiency and economy in the use of resources by the public managers acting on behalf of executive¹.

The need for development of PA originates from the status of 'EU candidate country' which is aim for a great number of Central and Eastern European Countries.

Thus, for as long as Kosovo Republic is intending and is making efforts to become an EU candidate country we will consider here some actualities regarding the performance auditing challenges.

2. The meaning of performance audit

Performance audit refers to an examination of a program, function, operation or the management systems and procedures of a governmental or *non-profit* entity to assess whether the entity is achieving economy, efficiency and effectiveness in the employment of available resources. The examination is objective and systematic, generally using structured and professionally adopted methodologies.

Pursuant to Kosova Office of the Auditor General, Performance Audit is one of these types of audits carried out in order to assess whether the governmental programs are being managed properly, cost-effectively and efficiently, and whether systems for measuring and reporting their efficiency are in place².

However by comparing different sources of definition we observe that PA has got to do with finding the fact whether the public money was spent in economically, efficiently and effective way.

The PA is a way for taxpayers, financiers, legislatures, executives, ordinary citizens and the media to 'execute control' and to obtain insight into the running and outcome of different government activities

By this, in a wider perspective, **performance audit** is an independent, objective and systematic examination of the management of an organization, program or function for the purposes of:

1. Forming an opinion on:
 - whether the organization, program or function is being managed in an economic, efficient and effective manner; and
 - the adequacy of internal procedures for promoting and monitoring economy, efficiency and effectiveness; and
2. Suggesting ways by which management practices, including procedures for monitoring performance, might be improved.³

¹ For more explanations – Relations between supreme audit institutions and parliamentary committees, SIGMA PAPERS: No. 33, 2002, pag.11, <http://appli1.oecd.org/olis/2002doc.nsf/linkto/ccnm-gov-sigma> (2002) 1

² <http://www.oag-rks.org/?cid=1,28>

³ http://www.anao.gov.au/uploads/documents/The_Role_of_Performance_Auditing_in_Strengthening_Democracies1

3. Performance Auditor and its role

INTOSAI's auditing Standards and its Code of Ethics states that all government auditors should act with integrity, impartiality, objectivity, competence and professionalism. To meet these standards the performance auditor must be adequately educated and have experience of investigative/ evaluation work.

Qualifications for staff members who conduct performance audits include:

- Knowledge of the methods applicable to performance auditing and the education, skills, and experience needed to apply such knowledge;
- Knowledge of government organizations, programs, and functions;
- Skills to communicate clearly and effectively, orally and in writing; and
- Special skills depending on the nature of the specific audit (e.g. statistics, IT, expert, social sciences, knowledge of the subject matter).

Supervision of the Performance Audit team by senior members of the audit staff involves directing, supporting and monitoring their work to ensure that the audit objectives are met. According to the Auditing Standards (AS 3.2.3), this involves ensuring that:

- All team members are fully understand the audit objectives,
- Audit procedures are adequate and properly carried out,
- International and national auditing standards are followed,
- Audit evidence is relevant, reliable, sufficient and documented, and
- Audit budgets, timetables and schedules are met.

Literature on performance auditing in public sector suggests that the roles of the Performance Auditors are to:

- (i) examine the records of the auditee,
- (ii) form an recommendation based on results of the examination,
- (iii) write a report based on recommendations,
- (iv) present the report to Parliament, and
- (v) Carry out a follow-up of the performance audit report recommendations.

4. Performance Audit Cycle

The Performance Audit Cycle covers several steps. Broadly speaking, it comprises the planning process, the execution process, and the follow-up process.

We may distinguish between two different types of planning in respect of audit project:

- Short term or operational planning
- Long term planning

Planning (Work plan)

The planning process is often divided into different stages. *The first* stage is strategic planning, where potential themes and topics are analyzed. Once a topic has been selected for performance audit, a pre-study- resulting in a work plan for the main study- may be undertaken to gather

information in order to be able to design a proposal for the main study.

Strategic planning is the basis for the selection of audit topics and possible pre-studies. The planning might be carried out with the following steps⁴:

- Determining the potential audit areas from which the strategic choices are to be made,
- Establishing the selection criteria to be used for these choices,
- Adding value,
- Important problems or problem areas,
- Risk or uncertainties.

One possible strategic choice is to decide to contribute to the modernization of the government administration and focus on auditing government programs with material effectiveness problems. An alternative choice might be to simply focus on auditing individual government agencies and their compliance with administrative/economic regulations.

Planning might be carried out in these steps: determining potential audit areas, establishing the selection criteria, and identifying the main sources of information for the potential audits.

Pre-study

Individual Audit Planning ensures that an audit of high quality is carried out in an economic, efficient and effective way and in timely manner.

In pre-study phase it is important to⁵:

- Define the specific issue to be studied and the audit objectives,
- Develop the scope and the design of the audit,
- Determine the quality assurance, the timetable, and the resources.

Define the specific issue to be studied and the audit objectives

This is a difficult and important step that involves examining the subject matter in depth, by studying relevant literature, documents and statistics, conducting interviews with major stakeholders and experts etc, and analyzing potential problem indications from various viewpoints

In short, this step involves elaborating on the following two questions:

What? What is the audit question or the problem to be studied?

Why? What are the audit objectives?

The wording of the basic audit question is an aspect in the examination process that is of great importance: it is a decisive factor for the results of the audit.

Develop the scope and the design of the audit

The scope defines the boundaries of the audit. It comprises the work of collecting information and the analyses to be executed (AS 3.1.3-4).

⁴ Standards and guidelines for performance auditing based on INTOSAI's Auditing Standards and practical experience

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The scope of an audit is determined by answering the following questions:

What? What specific questions or hypotheses are to be examined? What kind of study seems to be appropriate?

Who? Who are the key players involved and the audit (s)?

Where? Are there limitations in the number of locations to be covered?

When? Are there limitations on the time frame to be covered?

Determine the quality assurance, the timetable, and the resources

This means that it is needed to consider, if needed help from experts (consultants, other auditors) concerning how to secure quality in the audit.

Also it is needed to provide with sufficient staff and other resources to perform the audit and prepare a written plan.

The pre-study phase establishes whether the conditions for a main study exists and if yes, to produce an audit proposal with a work plan.

Main study

The purpose of the main study is to implement the work plan, conduct the audit and produce an high quality audit report. Performance audits must be carried out in compliance with the best practices.

Carrying out an audit may be seen as both an analytical and a communicative process.

An open and constructive dialogue is the ideal, but integrity is also important. The auditor may face varying situations, form openness and willingness to cooperate, to evasiveness and secrecy.

This especially might affect on the waste of time and the in quality of the audit report if the needed data were not offered by the audit.

At this phase quality in data collection, analysis, and documentation is vital. We should gather the best possible or most suitable information – facts as well as opinions, arguments and reflections – from different sources and seek requisite knowledge and expertise. See that the work is characterized by objectivity, impartiality, and sensitivity. Critically evaluate information obtained and arguments put forward. All relevant facts and arguments must be collected.

Reporting- Presentation of the audit results

According to the Auditing Standards, auditors should prepare written audit reports (AS 4.0.7).

Written reports should communicate the results of audits to all levels of government, make the results less susceptible to misunderstanding, make the results available for public inspections, and facilitate follow-up to determine whether corrective actions have been taken.

The audit report should be reliable and contain objectives, scope, methodology and sources used, as well as audit findings, conclusions and recommendations.

The report should be complete, accurate, objective, convincing, and as clear as and concise as the subject-matter permits (AS 4.0.8 and 4.0.24)

Being **complete** requires, for instance, that the report contains all information and arguments needed to satisfy

the audit objectives, promote an adequate and correct understanding of matters and conditions reported, and meet the report content requirements.

Accuracy requires that the evidence presented should be true and comprehensive and that all findings are correctly portrayed.

Objectivity requires, as mentioned above, that the presentation of the entire report be balanced in content and tone.

Being **convincing** requires that the audit results should be responsive to the audit objectives, the findings presented persuasively, and the conclusions and recommendations follow logically or analytically from the facts and arguments presented.

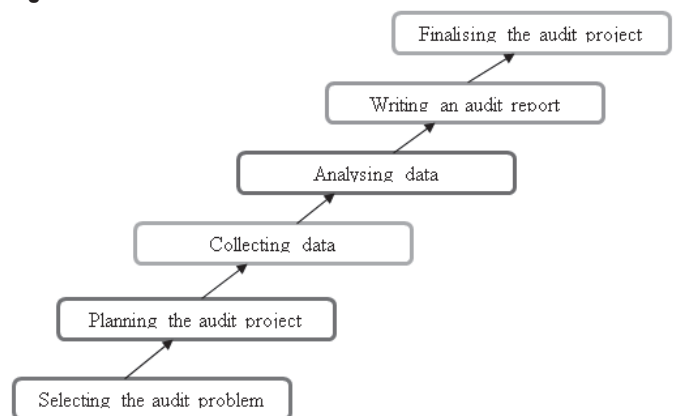
Clear requires that the report be easy to read and understand.

Being **concise** requires that the report be no longer than needed to convey and support the message.

As an conclusion we can summarize that the audit report should be reliable. The report should be informative and, if provided, have logical and clear recommendations that are linked to the audit objectives and the findings.

The auditors should report the audit objectives, scope, methodology and sources used, as well as audit findings, conclusions, and recommendations. It should be easy to understand the purposes of the audit and interpret the results.

Fig. 1 The Audit Process⁶



As seen from figure above, the audit process is a very long process which at every stage requires a special attention if its management and auditors want to produce, at the end of the audit process, a report reflecting a real situation of the entity and which would provide expected contribution.

5. History of term “Control”

The concept Auditors was officially introduced in England in 1285, in a decree of Edward the first. This decree stipulates that all administrators of public money will controlled-audited by auditors.

In the economic literature, the control means⁷:

⁶ INTOSAI- Code of ethics and Auditing Standards

⁷ Dr. Hajrulla Gorani, Control and Revision of the Enterprise, UP Prishtina, 1998, page 12

- Overseeing the work of the employees;
- Following-up the regularity of the technological process and regularity in terms of work functioning;
- Verification of the flow of a process,
- Verification and monitoring the regularity of implementing legal provisions and other provisions supported by laws,
- Comparison of the actual situation with the desired situation, or situation it should be, etc.

According to Donald H. Taylor and G. William Glezen-control- audit is defined as a systematic process on possession and objective assessment of information in terms of statements, actions and economic facts in order to assess the degree of accuracy of these statements in relation to the criteria set and the results which were communicated to users interested in this information.⁸ Currently, the Office of the Auditor General is the institution playing this role in Kosovo.

6. The Role of the Office of the Auditor General within the Republic of Kosovo

The Auditor General is an independent constitutional institution and reports directly to the Assembly. The Auditor General is supported by an office, the Office of the Auditor General (OAG). The Auditor General's mandate and duties are defined by the Constitution and the Law no. 03/L-075 on the Establishment of the Office of the Auditor General and Audit Office in Kosovo. The Auditor General is appointed by the International Civil Representative (ICR).⁹ The role of OAG is to contribute to sound financial management in the public administration. The OAG performs qualitative audits in line with internationally recognized auditing standards and good European practice¹⁰.

Office of the Auditor General carries out statutory annual regularity audits and performance audits of the Kosovo Budget and Budget Organisations.

The audit reports contain recommendations addressing the most serious identified weaknesses and by doing this, OAG provides to the Assembly, Government and taxpayers a professional and integrated audit service.

The role of OAG is also to assure the taxpayers and international donors that public funds are used economically, effectively and efficiently and this assurance can be achieved by ensuring that public funds are reported, administered, and used wisely and properly.

7. Performance Audits – their practical aspects

In Kosovo the same as in the other neighbour countries such as Bosnia Herzegovina, Montenegro etc. performance audit, compared to the traditional financial and compliance audits, is a relatively new innovation that emerged amidst accountability concerns in the public sector. It's a demand of time to conduct not only

compliance audit but also performance audit in order to raise accountability and transparency in the public sector. Since year 2008 until 2011 OAG has published six performance audits, and carried out 8 of them. In those audits were audited topics of social character and Financial Management and Control such as: Distribution of Essential medicines, Persons with disability- pension scheme, Effectiveness of the payment certification process, system of subsidies and grants in agriculture, supply with IT equipments in the Public institutions and Supply with stationery in the Central institutions.¹¹

In order to have a clearer picture in terms of audits carried out by OAG, we have presented a table below:

⁸ Donald H. Taylor and G. William Glezen, Auditing, page 2

⁹ <http://www.oag-rks.org/en-us/About-Us>

¹⁰ www.oagks.org

¹¹ www.oagks.org

Table 1 Audits carried out in last three years

Audited entities	2011/2012	2010/2011	2009/2010	2008/2009
Regularity Audits	87	77	64	56
Performance Audits	4	3	1	
Audits of donations	1	1	1	
Management Audits	8	4	2	
System Audits	2			
Contracted Audits	18	23	29	31

As seen then from the table above, the number of audits in general and those of performance in particular have increased over the past three years.

The purpose of performing any kind of audit is that in the end we come up with recommendations and as such they should be implemented or addressed by audited entities.

Often in public as well as visual and written media, an idea is created that public sector audit aims at punishing budget organizations if budget funds are not spent in a fair way. This is in fact is a misconception because the existence of audit institutions coincides with the need to monitor the use of the state budget and give recommendations, if there are findings, how this budget can be used in more economic, efficient manner, and perhaps even more effectively.

All these audits were performed based on the INTOSAI standards on performance audit. Also an important role in carrying out these audits was played by partners and external collaborators from Swedish National Audit Office and the Netherlands Court of Audit.

When we earlier mentioned standards for performance audits, the Office of the Auditor General also produced a manual for this type of audit. Such a manual is produced because the conditions and environment for carrying out performance audits vary from one country to another therefore it was appropriate to produce a manual which would adapted to the conditions and requirements for carrying out Performance Audit within Budget Organisations in Kosovo¹.

As in many other countries, depending on the mindset and knowledge that entities or budget organizations have for audit as a general term, usually there is an opinion that both regularity and performance audits are means of control by the institution performing it.

But in fact, if we want to understand it correctly, the performance and regularity audit of budgetary organizations or entities should be used as a tool to improve the processes and systems developed by the latter.

Certainly, it should be understood as such taking into account the objective why Supreme Audit Institutions in democratic countries are established in the first place.

This relates also to a very important aspect in course of performance audits which establishing a relationship with the auditee.

Despite the relationship established with the auditee when carrying out audits, which may last in some cases for 1-3 years. A very important stage during the entire audit

process is the moment of commenting the findings from both the Auditor and the auditee. This moment is almost the most important moment when finalising a report because in this case, both parties should feel more responsible than ever for the work they have carried out.

As a matter of normal practice, after the completion of an audit, auditees are given the chance to comment on the draft report of the audit. In particular, auditees are given the chance to comment on the accuracy, balance and presentation of the reports. Comments sought include whether facts have been correctly stated, any material facts have been omitted or if there are any unfair inferences conveyed. Furthermore, the auditees are also asked if the draft is relevant, reasonable and practical. From the official documents gathered in the sample, this process proved to be valuable to this study as it reflected the relationship that the auditors and auditees shared. The professional relationship is especially highlighted in areas where auditees disagree with the audit findings, where both parties negotiate a way to conclude the disagreement to be presented in the performance audit report. Following the comments, the AG will clear the final report after a final production edit has been undertaken.

In fact, at this point we have a moment where there is no turning back and the audited entity is responsible is held to account for our findings and it should find ways to improve them.

Recommendations can be addressed fully, partially or may not be addressed at all. It entirely falls on the professional conscience of the audited entity, which usually has one year available period to address the recommendations.

8. Conclusions and recommendations

The performance audit as a new form of audit will create new opportunities to improve systems, processes, accountability in public administration within Kosovo. It is not only related to whether the financial statements are in compliance with applicable laws and regulations, but it relates to the aspect whether or not budget organizations are using public funds or money in an economic, efficient and effective manner.

The process of carrying out this type of audit goes through several stages and requires the Auditor's special attention including Supreme Audit Institution.

In this paper, as we have noted above, our intention was to emphasize what does performance audit mean, including its key stages, international auditing standards. We have also briefly introduced the background of control and the role of the Office of the Auditor General (OAG) in increasing transparency and accountability in use of public funds by budget organizations.

¹See guide for performance auditing, http://www.oag-rks.org/repository/docs/PA_GUIDE_ENG_239137.pdf

It should be borne in mind especially because this type of audit is relatively new in Kosovo and as we mentioned above, the fact that this type of audit has other specifications distinguishing it from the regularity audit. Due to the specifics of the Performance Audit, it managed for three years to perform eight performance audits which have been qualified as very successful, and the requests for performing such audits by stakeholders especially by the Assembly are increasing. OAG for these years managed to establish a good base for carrying out performance audits, however there is always room for improvement.

In order that Performance audit achieves to play a stronger role in proper management of public money, I recommend that:

- Stakeholders, especially entities are informed about type of audit and its importance through trainings and seminars;
- OAG further beefs-up professional capacity of its staff;
- By building the capacity of its staff to increase the number of performance audits, at the same time having more quality audit reports which will have an impact in work performance within the audited entities.

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Standards and guidelines for performance auditing based on INTOSAI's Auditing Standards and practical experience

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