

CONTEMPORARY CHALLENGES FOR THE PUBLIC EXTERNAL AUDIT

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Abstract. *In a changing world, it is very important for states to be able to maintain financial discipline, an extremely important factor concerning the stability and credibility of a rule of law. Agenda 2030, as well as a series of United Nations resolutions highlighted the importance of supreme audit institutions in the rule of law, in terms of improving performance, ensuring accountability, fighting corruption and protecting the interests of its citizens. This article aims to analyze the performance measurement framework for the supreme audit institution, regarding their capacity to respond to contemporary challenges in the context of the latest economic and social developments.*

Keywords: supreme audit institution, performance, indicator, financial discipline.

JEL code: M42, H83

1. Introduction

The stability and credibility of a rule of law is very important in the context of the contemporary challenges of contemporary society. The financial discipline is one of the most important elements of the rule of law, being directly related to the proper functioning of all public sector institutions and entities. Maintaining the financial discipline is an attribute of the competent ministry (Ministry of Finance) and of the Supreme Audit Institution, the latter being the "guardian" of public finances in that state. Financial discipline in the public sector refers to the order that public entities are required to respect, in accordance with the laws in force (notably the laws governing the public finances) on economic and financial issues. It is known that there is a direct relationship between financial discipline, economic growth and rising living standards. The higher the financial discipline is, the more economic growth and, implicitly, an increase in the standard of living that directly affects the citizens of a state, is recorded.

2. The Role of the Supreme Audit Institutions in the contemporary society

In ensuring a proper financial discipline within a state, the supreme audit institution has a very important role to play by carrying out external public audit on public sector institutions and entities.

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The importance of the supreme audit institutions was also highlighted by the United Nations, first by Resolution A/ 66/209 "Promoting the efficiency, accountability, efficiency and transparency of public administration by strengthening the supreme audit institutions" adopted on 22 December 2011, then by the Resolution A / 69/228, adopted in December 2014. These Resolutions highlight the extremely important role of the Supreme Audit Institutions, not only in the institutional architecture of the state, but also in the international system as a whole. In addition to the specific external audit work carried out by the supreme audit institutions at national level on the entities under their control, a new trend is identified, namely to involve these institutions in a number of international commitments. A number of documents recently adopted at international level have highlighted the important role of the supreme audit institutions in implementing their provisions. This is the case for the Europe 2020 Strategy, adopted at the level of the European Union and the case of *2030 Agenda for Sustainable Development*, adopted at international level. The role of the Supreme Audit Institutions in these two adopted documents was to actively engage in overseeing the implementation of their objectives.

The Europe 2020 Strategy - A European Strategy for Smart, Green and Inclusive Growth, proposes a new economic vision to help the EU emerge from the crisis and build a smart, sustainable and inclusive economy with high levels of employment, productivity and social cohesion. This strategy provides a number of objectives to be achieved by 2020. The supervision of these objectives is achieved by indicators, these indicators being found at the level of the European Statistics Institute EUROSTAT. The agenda of the Contact Committee of the Supreme Audit Institutions from the Member States meeting in 2014 (Luxembourg) covered aspects related to monitoring the implementation of the Europe 2020 Strategy and how the national supreme audit institutions can contribute to this.

The Romanian Court of Accounts, as the supreme audit institution of the Romanian state, has fulfilled its role of monitoring the objectives of the Europe 2020 Strategy set for Romania by carrying out 15 national audit missions on the following areas: population employment rate, investment in research, development and innovation, environment, climate and energy, education level and poverty reduction.

As regards the *2030 Agenda for Sustainable Development*, this is a global action program in the field of economic, social and environmental development. For the first time, the actions of this global program are equally aimed at both developed and developing countries. The 2030 Agenda includes a set of 17 sustainable development objectives that aim at eradicating extreme poverty, tackling inequalities and injustice, and protecting the planet. The role of these objectives at national level in Romania is an additional tool in terms of economic and social

development, being drafted the "National Strategy for Sustainable Development of Romania. Horizons 2013-2020-2030".

2030 AGENDA

NATIONAL LEVEL

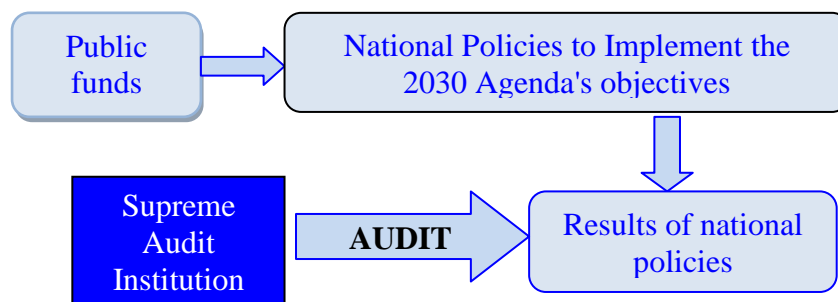


Fig.1. The role of the Supreme Audit Institutions within the 2030 Agenda's objectives
(Source: author's processing).

The role of the Supreme Audit Institutions in 2030 Agenda was highlighted by the United Nations Secretary-General at the XXII Congress of INTOSAI (International Organization of Supreme Audit Institutions) held in December 2016 in Abu Dhabi, mentioning the role of these institutions in strengthening the fight against corruption and promoting the responsibility of all stakeholders in transposing the new Agenda, which will result in a positive change across the globe. Also, through their specific work, the supreme audit institutions are in the center of all effective and responsible institutions, giving public authorities a true picture of the results of policies on sustainable development goals and on issues regarding the efficiency, economy, effectiveness and transparency.

2. The general international framework for measuring the performance of the supreme audit institutions

Given the extremely important role of the supreme audit institutions in terms of efficiency, economy and efficiency in the use of public funds, performance is becoming an indispensable concept in their work. The performance of the supreme audit institutions has always been a concern for INTOSAI, at the 2010 INTOSAI Congress in Johannesburg being taken the decision to establish a performance measurement tool for the supreme audit institutions. After a series of analyzes and consultations, it was concluded that it is beneficial to develop a general performance measurement framework at INTOSAI

level, which would be a guiding tool for measuring the individual performance of the supreme audit institutions. Thus the SAI PMF (Supreme Audit Institution Performance Measurement Framework) was born. SAI PMF provides an insight into the individual performance of the supreme audit institution about its practices as compared to INTOSAI good practices, provides a detailed assessment of strengths, weaknesses and needs for the development of its institutional capacity, contributes to the identifying the values and benefits that the supreme audit institutions can bring to citizens, at whose service is and facilitates the management, measurement, and monitoring of its performance. In the first instance, a number of supreme audit institutions agreed to apply the pilot version of SAI PMF, considering this to be beneficial in assessing their work.

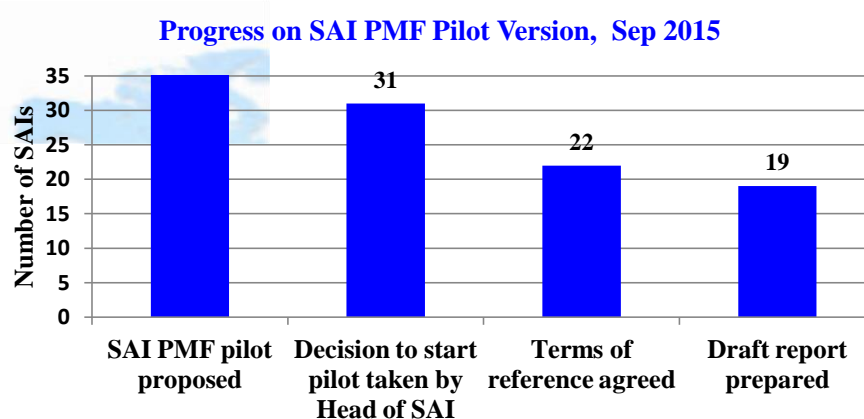


Fig. 2. The progress in using the pilot version of SAI PMF at international level.
(Source: IDI Presentation (INTOSAI Development Initiative) at EUROSAT YES 2.0 Conference {2015})

In 2015, from the 35 proposals submitted to the supreme audit institutions to use the pilot version of the SAI PMF, 32 proposals were accepted by the heads of the supreme audit institutions selected, with 22 agreements on terms of reference and 19 draft assessment reports prepared. The 32 countries are represented on the map below, grouped by the seven regions of INTOSAI: AFROSAI (Organization of the Supreme Audit Institutions from Africa), ARABOSAI (Organization of the Supreme Audit Institutions of Arab Countries), ASOSAI (Organization of the Supreme Institutions Audit Organization in Asia), CAROSAI (Organization of the Supreme Audit Institutions in the Caribbean), EUROSAT (European Organization of the Supreme Audit Institutions), OLACEFS (Organization of the Supreme Audit Institutions in Latin America and the Caribbean), PASAI (Organization of the Supreme Audit Institutions in Pacific Area) and CREFIAF - Regional Council of the Sub-Saharan African Sub-Saharan African Public Financial Control Institutions.

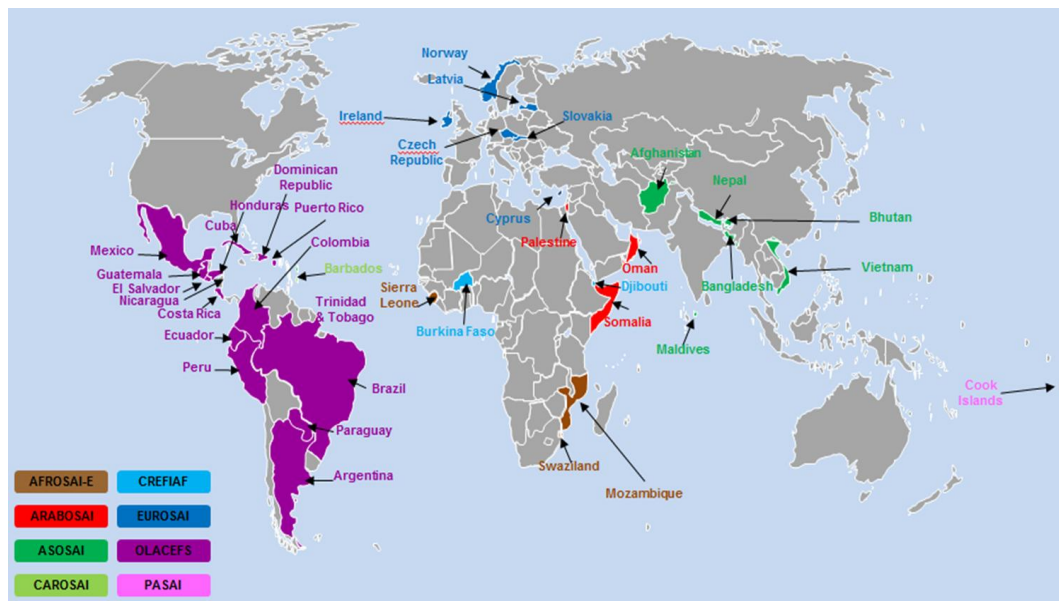


Fig. 3. Supreme audit institutions using SAI PMF.

(Source: IDI Presentation (INTOSAI Development Initiative) at EUROSAT YES 2.0 Conference {2015})

Analyzing the map above, we can easily see that most of the supreme audit institutions that applied the pilot version of SAI PMF are part of Latin America and the Caribbean area, followed by Europe and Asia. SAI PMF is not a mandatory tool for assessing the performance of a supreme audit institution, but provides a general framework for guidance on performance evaluation within these institutions.

Based on this general framework, the supreme audit institutions can develop their own performance measurement indicators to measure their performance. In addition to the SAI PMF, there are a number of another ways to assess the performance of the supreme audit institutions. One of the most commonly used is *peer review* assessment. This assessment is based on the ISSAI 5600 Standard (ISSAI – International Standards for the Supreme Audit Institutions), revised at the last INTOSAI Congress held in Abu Dhabi in December 2016.

A *peer-review* assessment can be described as a review, an external evaluation of the work of a supreme audit institution, carried out by one or more supreme audit institutions partners (similar institutions), in order to obtain the assurance that the assessed supreme audit institution carries out its work in accordance with applicable professional standards and national laws and regulations governing its audit work.

The *peer review* assessment is considered to be voluntary; no supreme audit institution is required to undergo such an assessment.

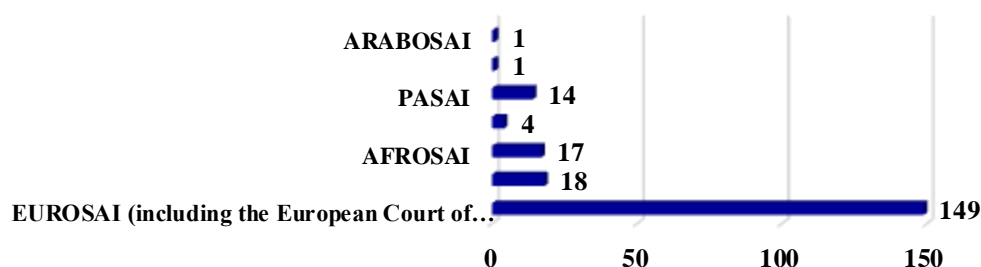


Fig. 4. The number of peer review assessments during the period 1999-2016.

(Source: *Peer review survey 2016 report*, by the Supreme Audit Office of the Slovak Republic)

From the chart above, it is noticed that EUROSAI's supreme audit institutions achieved the highest number of peer review assessments during this period. The purpose of the peer review and the framework for carrying out these assessments may be different, depending on the legal, professional and organizational context and also depending on the supreme audit institution analyzed, as well as the circumstances in which they operate.

The specific objectives and scope of each *peer review* are determined by the needs and desires of the assessed supreme audit institution. A peer review can cover a certain area, such as the strategic approach and the programming within the supreme audit institution, its approach and quality control system, reporting methods, human resources management, support and administrative functions management, compliance with international standards of supreme audit institutions, etc. Analyzing the using of SAI PMF and peer review internationally, we can see that the same regions of INTOSAI (EUROSAI and OLACEFS) occupy the first places, from which it can be concluded that in these areas there is a more prominent concern regarding the performance evaluation in the supreme audit institutions.

3. The national framework for measuring the performance of some supreme audit institutions members of INTOSAI

As mentioned above, the performance measurement is a necessity at the level of the supreme audit institutions, given that these institutions play a leading role in a rule of law.

Therefore, a number of supreme audit institutions have developed performance indicators. The French Court of Accounts presented at the AISCUF (International Association of Supreme Audit Institutions using French), organized in 2013 in Morocco, a series of performance indicators developed at the level of the institution. These indicators are presented in the table below:

Table 1. Performance indicators used by the French Court of Accounts

<i>No.</i>	<i>Objective</i>	<i>No.</i>	<i>Indicator</i>
1	Ensuring the quality of public accounts	1.1	The share of public accounts controlled
		1.2	Effect on accounts regarding their certification
2	The contribution to improving public management and public policy	2.1	Follow-up of the Court of Accounts and the Regional and Territorial Chambers of Accounts recommendations
		2.2	The timely examination of accounts
3	Assistance to public authorities	3.1	Tasks required by public authorities under timing aspect (%)
		3.2	Number of appearances in front of Parliament
4	Informing citizens	4.1	The number of appearances in mass-media
		4.2	Number of visits on internet webpage
5	Sanctioning irregularities and financial mismanagement	5.1	Trial time
6	Improving the functioning of financial jurisdictions	6.1	Human resources management efficiency

(Source: *The Presentation of the Court of Accounts of France on AISCUF Conference in 2013* {Rabat, Morocco})

For each type of non-jurisdictional control (financial audit, performance audit and compliance audit) the performance measurement framework of the French institution focuses on: volume of the controls and the reports produced; delays in the performing controls; dissemination of controls results; follow-up of recommendations. The supreme audit institution of France issues every year an Annual Performance Report (APR Annual Performance Report).

These reports measure the results for each of the indicators defined in Annual Performance Plan (APP) established. Regarding the performance indicators used by the supreme audit institution of the United States of America (GAO), they are presented in the table below, in evolution for 5 years, since 2013:

Table 2. Performance indicators used by GAO for 2016

<i>Performance measure</i>	<i>2013 actual</i>	<i>2014 actual</i>	<i>2015 actual</i>	<i>2016 Target Actual</i>		<i>Met/ Not met</i>	<i>Target 2017</i>
<i>Results</i>							
Financial benefits (dollars in billions)	\$51.5	\$54.4	\$74.7	\$50	\$63.4	Met	\$50.0
Other benefits	1,314	1,288	1,286	1,200	1,234	Met	1,200
Past recommendations implemented	79%	78%	79%	80%	73%	Not met	80%
New products with recommendations	63%	64%	66%	60%	68%	Met	60%
<i>Client</i>							
Testimonies	114	129	109	120	119	Not met	120
Timeliness	94%	95%	98%	90%	94%	Met	90%
<i>People</i>							
New hire rate	66%	88%	83%	80%	81%	Met	80%
Retention rate							
With retirements	93%	94%	94%	92%	93%	Met	92%
Without retirements	96%	97%	96%	96%	96%	Met	96%
Staff development	80%	83%	84%	80%	83%	Met	80%
Staff utilization	75%	77%	79%	76%	79%	Met	76%
Effective leadership by supervisors	83%	83%	83%	82%	85%	Met	82%
Organizational climate	77%	79%	80%	76%	81%	Met	76%
<i>Internal operations</i>							
Help get job done	82%	82%	80%	80%	N/A	N/A	80%
Quality of work life	78%	78%	78%	80%	N/A	N/A	80%
IT Tools	68%	65%	67%	80%	N/A	N/A	80%

(Source: GAO. / GAO-17-3SP)

As can be seen from the table above, the US Supreme Audit Institution (GAO), uses a range of indicators, divided into 4 main areas namely: results, client, people and internal operations. All four components are reviewed annually by the GAO

in order to obtain not only an overview of the performance of the institution but also to be able to easily track these indicators over time.

The Romanian Court of Accounts also uses *14 performance indicators for external use* (quantitative and qualitative) *and 26 performance indicators for internal use*. A big part from the 14 performance indicators for external use are found in the public reports of the Romanian Court of Accounts, which are produced annually and are presented to Parliament and other stakeholders. The information used for the calculation of these indicators is provided by the two computer systems used by the Romanian Court of Accounts, namely INFOPAC and INFOTEAM, but for more accuracy other sources (studies, reports, syntheses of the institution or data provided by other institutions) are used.

Conclusions

The current global economic environment and the contemporary society, through the tendency of the last twenty years of globalization and intense development of social systems, impose new performance standards to the entities. Taking these issues into account, it is necessary to integrate performance standards in the entity's development strategy, in order to ensure the sustainability of the activities carried out. Establishing an organization's performance is not an easy thing, and even more so for a public organization, as the public sector embraces a number of tasks that modern Western societies cannot just leave to market mechanisms. The supreme audit institutions, having the role of "*public finance guardians*", are some of the most important elements of a rule of law; therefore their work must be of high quality in order to support the principles of economy, economy and efficiency in the public sector. Therefore, most supreme audit institutions, in confronting the challenges posed by contemporary society, have developed different performance measurement tools, starting either from the general performance measurement framework of Supreme Audit Institutions (SAI PMF), or using other systems. The more developed the supreme audit institution is, the faster it responds to the challenges of the contemporary society, which is constantly evolving, thus contributing to the maintenance of a climate of stability.

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