

The Performance Audit – A Basic Attribute of the Romanian Court of Accounts and a Consolidation Solution for Sustainability in the Current Macroeconomic Environment

Florina-Maria BOBEȘ (TĂVALĂ)¹

Abstract

Through the findings and recommendations brought by the performance audit missions it is aimed to reduce costs, increase using the resources efficiency and achieving the objectives set at the level of the activity, program, and the audited process. So it is an audit of a good financial management but which is exercised at a rate too low in our country because it represents a research work that requires flexibility, imagination and analytical skills, knowledge and experience. We consider therefore that the audit approach can be justified by the fact that it increases the credibility of the information, providing a certain insurance degree for the people who rely on the audited information. Corroborating the Romanian legislation regarding auditing with the provisions of the international auditing standards and the practical issues which arise from their application, we could identify several types of public audit.

Keywords: *public external audit, performance audit, Court of Accounts of Romania, Performance audit*

JEL Classification: G29, M42

1. Introduction

In practice, the audit activity establishes a reasonable confidence between the financial accounting information producers and their users, the key to a successful audit resides in providing the information users that the financial statements give a true image and that the legal requirements and the entity's internal procedures have been met. We consider therefore that the audit approach can be justified by the fact that it increases the credibility of the information, providing a certain insurance degree for the people who rely on the audited information.

Corroborating the Romanian legislation regarding auditing with the provisions of the international auditing standards and the practical issues which arise from their application, we could identify several types of public audit. These blend closely with each other and act convergent, they complement each other and they

¹ Florina-Maria BOBEȘ (TĂVALĂ), “Lucian Blaga” University of Sibiu, Faculty of Economic Sciences, E-mail: florina11@yahoo.com

form together an integrated, general and with unitary character over all areas of economic, financial and social activity domains in which the public entities activate.

In terms of the objectives pursued, the main type of public audit which is carried out in our country is the financial audit. This aims to provide assurances that the examined financial statements are complete and accurately prepared and that the economic operations were conducted in accordance with the legal regulations.

In general, through the financial audit it is ensured the knowledge of the capacity of the leaders of entities that manage public financial resources to provide training and their use in conditions of legality.

However, the public entities, including the executive and legislature, need evaluative information in order to help them make decisions about the programs and activities developed. These can be obtained using the performance audit. This type of audit, also known as "the audit of the good financial management" or the "value for money audit" examines the economy, efficiency and effectiveness with which a public entity, a program, a project, a process or an activity uses the financial resources assigned for the objectives set. It is an audit that mainly focuses on the performance rather than legality.

Through the findings and recommendations brought by the performance audit missions it is aimed to reduce costs, increase using the resources efficiency and achieving the objectives set at the level of the activity, program, and the audited process. So it is an audit of a good financial management but which is exercised at a rate too low in our country because it represents a research work that requires flexibility, imagination and analytical skills, knowledge and experience.

2. Court of Accounts of Romania – the most important external public audit body state

Ensuring an increased reliability and creating a state of transparency of information contained in the financial statements requires, in addition to its audit of entities, an external public audit exercised by independent bodies outside the organizational structures of the entities that manage public funds.

The external public audit activity is essential for ensuring accountability regarding the management of the public funds. The responsibility for using under conditions of legality and performance of the public money lies, of course, in the hands of the authorizing credit officers of public budgets, but the public audit is the one who has the role to assess the financial management of the entities and to issue recommendations and measures underlying the grounding of the managerial decisions that aim at the good use of funds. By auditing the execution accounts of the budgetary funds and of other public funds it is intended that all the financial resources of the state and of the public sector were used in terms of efficiency for the intended goals and according to the destination established through budgetary laws.

Exerting the external public audit requires the existence and application of a methodology specific for this activity. The external public auditors cannot use methods and activity exerting techniques which differ from one to another or from a

professional organization to another. This would hinder the process of communication, collection and transmission, and also the use of the information obtained in the audit process.

Therefore, through the international standards the steps, methods and techniques that must be met by each audit mission are set. These have as many methodological steps for following so that the audit activity has value.

In Romania, as in most democratic states, the public external audit is conducted by specialized state bodies, but can also be exercised by independent professional bodies (The Chamber of Financial Auditors).

The external audit body of the state, which works next to the Parliament, is the Court of Accounts, which is organized and functions under the provisions of the Constitution and of the Law on the organization and operation no. 94/1992, modified and completed through Law 217/2008. The court of Accounts operates its activity autonomously and represents Romania in its capacity as supreme audit institution in the international profile organizations.

The foundation of a Court of Accounts, as an independent institution, was provided only by through the Constitution of 1991, so after the fall of communism. Therefore, in the summer of 1992, the Senate and Chamber of Deputies adopted the Law no. 94 regarding the organization and functioning of the Court of Accounts, which became operational in 1993.

It is a moment of cardinal importance in the process of institutional building and setting the position for the Court of Accounts. Gradually, the Court has managed to impose itself in the public space; its work has gained consistency, having an important role in contributing to a good public financial resource management.

The Court of Accounts operates autonomously and represents Romania in its capacity as supreme audit institution in the international organizations of such institutions.

3. Performance audit - a form of public external audit in the activity of the Court of Accounts

The Declaration from Lima states that, in addition to checking “the legality and correctness of the financial management and accounting”, which is the traditional function of the supreme audit institutions; there is another type of audit that is oriented towards achievements, effectiveness, economy and efficiency of the public administration. This audit covers not only the accurate financial transactions, but also the full range of activities of the state, including the organization and management systems. This type of audit is the audit of the public institutions performance. All the European ISA (except the European Court of Accounts of Greece) conducts the performance audit also called value-for-money or the audit of the good financial management.

The first president of the reinstated Accounts Court from Romania righteously signaled that: “traditionally, most SAIs have exercised their functions through controls that have focused on government spending, aiming at their

compliance with various laws and regulations. However in recent years, some SAIs have directed their controls over the economy and efficiency of the governmental operations, these also being known as performance control” (Bogdan, I., coordinator, Court of Accounts of Romania - *A Fundamental Institution of Rule of Law - Elements of comparative law*, Bucharest, 1997, p. 66).

Through the performance audit it is achieved an evaluation of the decisions of the actions and of the norms elaborated by the management of a public entity in order to manage its available resources, corresponding to the objectives that were set.

The economy audit

Economy is defined as being the minimization of the cost of the resources used for an activity, respecting the quality conditions scheduled. It requires the evaluation of a good management of the resources based on some criteria accepted and enacted.

Economy = Resources actually consumed / The actual obtained result or

Economy = The programmed result / Programmed resources

The situation is considered to be favorable when the result of the relation is sub-unitary, but achieving this condition is not sufficient, it is required at the same time that the results to be situated at an adequate quantitative and qualitative level.

This component of the performance audit examines the economy of the administrative activities in relation to the principles and practices of a performing management. Thus, in the economy audit it is intended to see if they have minimized the costs of the resources used for an activity in terms of obtaining an adequate quality, without affecting the smooth realization of the objectives set.

Some of the criteria that can be used to assess the economy may be:

- the existence of some adequate and comprehensive regulations regarding the organization and functioning of the audited entity;
- allocation of sufficient and timely funds for the organization and the smooth functioning of the public services;
- the existence of a price limit established in a certain internal policy;
- comparing the price charged by the audited entity with the price charged by the same entity, in a similar transaction;
- comparing the costs practiced by entities with similar activities.

The efficiency audit

Efficiency is understood as being a relationship between results, in the form of goods and services, and the resources used to produce them. It can be expressed as the ratio between the results (outputs) obtained and the effort used in the form of the resources consumed (inputs) using the following formula:

$$\text{Efficiency} = \text{Obtained results} / \text{Resources consumed}$$

The situation is considered favorable when the result is greater than or at least equal to one.

The efficiency audit examines the use of human resources, financial and other resources, including how to measure and track performance indicators, examining informational systems, and also the procedures followed by the audited entity in order to remedy the identified deficiencies.

The auditing the efficiency it is intended if:

- the financial, human and material resources have been used effectively;
- the activities of the entities or programs audited were consistent with the objectives and requirements established in the normative acts governing them;
- the activities of the audited entities or programs were organized, executed and evaluated effectively;
- the activities of the audited entities or programs were well done and on time.

Audit Efficacy

This component of the performance audit examines the fulfilling of the objectives of the audited entity and the actual impact of the entity's activity compared to its planned impact.

In the realization of the efficacy audit of an activity or program, the auditor is trying to find answers to issues such as:

- if the proposed objectives are achieved through the used means, in other words, if the results scheduled are obtained;
- if the means used and the results obtained are compatible with the objectives set;
- if the results obtained are the concrete result of the efforts entity and are not due to other circumstances.

So the main purpose of the performance audit of public entities is to provide information and recommendations on how these institutions use and justify public money and also regarding the ratio between the money allocated and the results obtained.

At the same time there are countries where the performance audit expanded its scope. We believe that it is necessary to also consider other criteria which define the performance of using the funds allocated for public entities. Thus, as well as controlling the "3E" (economy, efficiency, effectiveness), the performance audit should focus on another "2E":

- the efficacy of using the environmental resources, especially when in achieving economic activities are affected the environmental resources; here it should be taken into consideration the opinions of experts

according to which the concept of environment should be extended to the business environment, to the regulatory environment, etc .;

- the ethical use of the public money, through which it must be followed if the allocation of the funds is carried out for the needs of a larger group of citizens, avoiding the use of the public funds for the preferential interests of some small groups.

4. Conclusions

In general, the performance audit approach is important for our country as it is a relatively recent activity introduced in the work of the Supreme Audit Institutions.

The performance audit is not a usual audit with rigorous opinions, but it is an independent verification, it has a wide covering range opened to judgments and interpretations. It must have a wide range of methods of investigation and evaluation, as usually serves as the basis for future work decisions. The performance Audit conducts an assessment of the quality of management, meaning of the decisions, actions and rules developed by the management of an entity in order to manage the financial and other resources that are available to them, according to the targets set.

In this paper, we tried to emphasize that only through an external performance, flexible, dynamic and pragmatic audit over the formation and use of funds of the public entities it can be ensured the proper practice of the adopted laws in this area and the financial resources orientation towards effective programs.

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