

GUIDELINES FOR THE USE OF KEY NATIONAL INDICATORS IN PERFORMANCE AUDIT

1. The term of performance audit

Performance audit – comprehensive set of methods aimed to evaluate economy, efficiency and effectiveness of goals-oriented activities regarding the appropriate time period and quality.

During performance auditing one or more following aspects are evaluated:

- **Economy** - minimization of expenses used for an acquiring of necessary resources, regarding the appropriate time period, quality and quantity.
- **Efficiency** – Ratio of expended resources, time and achieved results, while ensuring adequate quality.

The main question is whether these resources have been put to optimal or satisfactory use or whether the same or similar results in terms of quality and turn-around time could have been achieved with fewer resources.

- **Effectiveness** – the degree of final goals achievement i.e. the ratio between actual and planned results.

The assessment of the extent to which the activity achieves its outcomes-oriented objectives (including assessment of adverse and unintended consequences).

2. Performance audit purposes

Performance audit purpose - to assess the economy, efficiency and effectiveness of economic activities, including an assessment of government

programs, projects and undertakings; to contribute to better government spending, better public services and better public management; to provide better public informing and government accountability.

3. Spheres of performance audit

- international commitments and projects;
- government undertakings, including public-private partnership;
- national, sectoral and regional programs;
- state and other organizations and institutions activity which are within SAI's competence;
- government and other organizations and institutions projects which are within SAI's competence;
- local authorities activity;
- executive branch activity.

4. Performance audit steps

1. Planning:
 - a. topic selection;
 - b. preliminary collection and analysis of information;
 - c. preparation of an economic-methodological basis of the audit;
 - d. audit plan preparation;
2. Main study:
 - a. collection and analysis of audit evidence;
 - b. preparation of preliminary conclusions and recommendations;
3. Preparation and distribution of the report on performance audit results;

4. Monitoring of recommendations realization.

For the most accurate structurization of work it is recommended to develop the plan and report of each step of audit.

5. Methods of collection and analysis of information

The analytical, evidence and regulatory methods that reflect the quantitative and qualitative aspects of an audit object are usually used. Thus a triangulation principle plays the important role, i.e. a combination of at least three-four various methods. The selection of methods depends on the purposes of performance audit.

Frequently used methods of performance audit are ¹:

Analytical:

- risk analysis;
- SWOT analysis;
- issue analysis (dinner Party);
- examination;
- field experiment;
- outcomes-oriented investigation;
- process-oriented investigation;
- impact investigation;
- cost benefit analysis;
- benchmarking;
- meta-evaluation;
- comparative investigation;

¹ Complete information on the methods of performance audit is presented in the Glossary.

- “before” and “after” investigation;
- sampling investigation;
- case study investigation;
- quasi-experimental investigation etc.

Evidence:

- questionnaires, checklists, inspections;
- survey;
- interviews;
- observation;
- focus group etc.

Regulatory:

- documentation review;
- gathering of descriptive statistics;
- studying of actual materials of an audit object (contracts, accounting reports, etc.) and others.

The most typical methods are:

- Survey, interview and other methods of inspection

Surveys used in performance audit (conducted like sociological polls) are postal, Internet, telephone and in-person interviews. The number of surveys, where, when and how they were conducted, what determined the sample, and what was the original purpose of survey are included in the methodological section of the audit report; the list of questions can be placed in the annex to the report or on an external website.

Interviews used in performance audit can be structured and unstructured. Structured interviews are conducted according to a predetermined certain scheme, all the interviewees are asked questions in the same manner; hints or leading questions, as well as deviations from the scenario are not allowed. In unstructured interviews pre-prepared instructions for the interview, which identify the main questions and possible hints are used. In the case of unstructured interview the interviewees are encouraged to express their own ideas and suggestions.

Structured interviews are used to expand the scope of the problem, for comparisons, as well as in the case when less complicated issues are studied.

Unstructured interviews are used when deeper analysis of a problem is needed, as well as in the case of more complex / delicate (confidential) themes.

- Focus group

The method, allowing to learn opinions of people (of certain social groups or random samples of the population) and to bring these views for discussion. It can be used to select an object or a scheme of audit investigation (i.e. during the preliminary study), as well as to obtain information during the main study. Focus groups are used to formulate hypotheses during the preliminary study; to understand, why certain decisions or undertakings are made; to formulate questions, answers to those should be received during the investigation; to test hypotheses during the main study of the audit, as well as to substantiate the obtained results and to work out practical recommendations. If during the focus groups survey it is expected to obtain audit evidences, it is necessary to receive other supporting evidences. The focus group method is very useful in audit investigations, which address quality of service, complex or delicate subjects, as well as estimating outcome / impact of new initiatives and programs.

The method is based on a special form of deep interview conducted in a

group. In the course of the study participants freely exchange opinions under the guidance of specially trained leader (facilitator / moderator). The task of focus group moderator is to create an atmosphere that encourages each participant to express his/her opinions, to manage group dynamics, to conduct discussion according to the scenario, and specification of participants' opinions. During the investigation participants can carry out various written tasks of a moderator.

- Risk analysis

Risk analysis is carried out at the beginning of the audit investigation by the team that conducts this investigation. During the process of risk analysis it is necessary to identify possible problems and to assess their probability for each stakeholder and each area of risk, as well as what (how serious) would be the consequences of these problems if they arise. Risk management includes activities related to planning, monitoring and control. Actions that should be taken to minimize the probability of these problems and undertakings that will be made in case of the occurrence to minimize the consequences should be determined at the planning stage. Then the risks are monitored and controlled. Risk management should be carried out actively throughout all period of performance audit.

- Issue analysis (Dinner Party)

This approach represents a set of logical and practical rules which in combination with project management methods allows logically and clearly in fixed terms to report on audit results and to establish working relations with audited body. «Issue Analysis» that allows to define what kind of information it's necessary to collect and how to perform information collection, is based on scrupulous and structured approach which allows to transfer questions of high hierarchic level to concrete audit tasks. During the preparation of audit investigation proposal usually 2 or 3 general questions are formulated (which should be answered "yes" or "not") to which this audit investigation can give

answers. Then team divides these questions in sub-questions (it means questions of second, third etc. order) which are formulated in order to provide the problem coverage and to be mutually exclusive (it means non cross-cut). Each sub-question of low level corresponds to the particular audit task (it can be answered with the help of the particular audit evidence). As a result of this method a general scheme of the audit investigation is formulated.

Method “Dinner Party” is used in order to formulate key conclusions on the basis of collected facts. Its main point is to formulate concise, comprehensive and interesting conclusions of the report, reading of which shouldn’t take more than 10-15 seconds during a dinner party. (This compares with the situation when for a specified period of time you have to informatively and interestingly represent the essence of you research to “a guest who sits next to you at a dinner party” and to awake his/her interest so much that he/she would like to learn more details. “Dinner Party” is organized after the collection and analysis of information and unlike the “Issues analysis” it is conducted “bottom-up”. It means that it is based on facts established during audit in order to formulate high level conclusions.

- Meta-evaluation

The variation of the regular review, allowing to summarize results of several program evaluations to be able to confirm with certainty, what is a total effect of the program. Combination of several investigations results can help exactly determine the outcomes. It is used when the total evaluation of program effectiveness is necessary.

- Benchmarking

The method of information analysis, consisting of comparison of any activity, activity results, methods used, etc. with existing standards (including the

process of these standards search), i.e. the most advanced and effective technologies, approaches and work methods, the most outstanding results, etc. Benchmarking is a tool that provides an opportunity to determine whether it is possible to do something better than it has been done before, by comparison with the highest levels of economy, efficiency and effectiveness achieved by others.

This method is used when it is necessary to learn whether there are additional opportunities to improve economy, efficiency and effectiveness of specific activities.

6. Preparation of an economic-methodological basis of the audit

During the preparation of an economic-methodological basis of the audit it is necessary:

- First, to determine:
 - expediency of investigation;
 - availability of appropriate conditions for investigation, including financial ones and others;
 - timeliness of investigation;
 - possibility of obtaining clear conclusions and recommendations;
 - probability of positive changes in the field.
- Secondly, to collect and analyze information.
- Thirdly, to define theme and purposes of audit, sphere of activity and methodology to achieve goals.
- Fourthly, to develop a plan for the main study.

Audit methods and criteria which will be used during investigation are usually defined at the planning stage of performance audit.

For the most precise structuring of work it is recommended to develop a plan for the preparation of an economic-methodological basis of the audit and a report on its realization.

7. Performance audit criteria determination

Audit criteria are attainable quantitative and qualitative standards of performance which are defined and established in accordance with the purposes of the audit.

Audit criteria vary depending on the purpose of the work and are determined at the planning stage. On the basis of the analysis of meeting or non-meeting the audit criteria, audit findings are made where the degree of economy, efficiency, and effectiveness of public resources use is assessed. Meeting or exceeding the criteria might indicate “best practice,” but failing to meet criteria would indicate that improvements could be made.

The basis for criteria determination may be:

- official regulations concerning matters on which control is assumed;
- professional standards that regulate the activity being audited (eg, technical standards for road construction, etc.);
- best practices;
- standards that are used by objects of control and that are recognized sufficient, complete and adequate.

During the performance auditing criteria fulfill the following functions:

- creating a common basis for communication within the audit team and with SAI management concerning the nature of the audit;

- establishing a basis for communication with the audited organization management;
- collection of information and audit evidence;
- obtaining and analyzing of the audit results, and systematization of observations.

To perform the above functions criteria should have the following characteristics:

- reliability;
- objectivity;
- independence;
- usefulness;
- understandability;
- comparability;
- completeness;
- acceptability;
- accountability.

In order to avoid the conflict of interests, it is necessary to present the prepared criteria to the experts of the object of audit and to take their opinion into consideration.

8. Methodology of indicators/key national indicators selection in Performance audit

Key national indicators are a system or set of indicators, allowing evaluate the level and rate of socio-economic development of a country in accordance with national values and strategic goals. Key national indicators (KNI) give qualitative, comprehensive and regulatory characteristic of a particular goal of society

development achievement and they are used to increase the effectiveness of national or other level decision-making management structures activity.

KNI can be considered as performance audit criteria by which outcomes of development strategies realization, government activity, socio-economic processes and society condition as a whole are evaluated.

The most important KNI characteristic is comprehension and interrelationships of goals, tasks and indicators chosen or developed for evaluation.

There are following groups of goals:

- goals according to which international commitments of states are developed;
- goals which are set during the determination of national priorities and coordination of particular development strategies of states;
- goals which are the results of society expectations including social and sectoral programs, particularly programs in the area of regional development.

Depending on development of methodic indicators/key national indicators can be classified as:

- subjective and objective;
- quantitative and qualitative;
- interval and moment;
- individual indicators which characterize singular key processes for goals achievement as well as more complicated, comprehensive and aggregated processes;
- descriptive or regulatory.

Development of key national indicator system assumes the selection of indicators with following characteristics:

- goals-orientation;

- place invariance;
- time invariance;
- methodological justification;
- instrumental validity (legality and validity of background information, reliability of collection methodic, data receiving, sensibility);
- minimization of description with completeness of representation;
- unambiguity and richness of interpretation.

All mentioned above requirements are as a rule correct for development of separate indicators as well as their systems. Depending on particular parameters and analysis goals some of mentioned above requirements can come in the foreground. Also some additional specific requirements can appear.

9. Development of key national indicators system

In accordance with international commitments of CIS member-states it is recommended to use indicators of Millennium development goals and sustainable development indicators as key national indicators for the evaluation of achieving of the development goals if they are pointed out in national development strategies (www.ach.gov.ru/ru/intosaikni).

It is also recommended to use in CIS SAIs activity a system of the public financial management (PFM) high-level performance indicator set developed by World Bank². This document consists of 28 following indicators:

9.1 PFM-OUT-TURNS: Credibility of the budget

- Aggregate expenditure out-turn compared to original approved budget;

² Public financial management, Performance measurement framework, June 2005, PEFA Secretariat, World Bank

- Composition of expenditure out-turn compared to original approved budget;
- Aggregate revenue out-turn compared to original approved budget;
- Stock and monitoring of expenditure payment arrears.

9.2 KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency

- Classification of the budget;
- Comprehensiveness of information included in budget documentation;
- Extent of unreported government operations;
- Transparency of inter-governmental fiscal relations;
- Oversight of aggregate fiscal risk from other public sector entities;
- Public access to key fiscal information.

9.3 BUDGET CYCLE

9.3.1 Policy-Based Budgeting

- Orderliness and participation in the annual budget process;
- Multi-year perspective in fiscal planning, expenditure policy and budgeting.

9.3.2 Predictability and Control in Budget Execution

- Transparency of taxpayer obligations and liabilities;
- Effectiveness of measures for taxpayer registration and tax assessment;
- Effectiveness in collection of tax payments;
- Predictability in the availability of funds for commitment of expenditures;
- Recording and management of cash balances, debt and guarantees;
- Effectiveness of payroll controls;
- Competition, value for money and controls in procurement;
- Effectiveness of internal controls for non-salary expenditure;
- Effectiveness of internal audit.

9.3.3 Accounting, Recording and Reporting

- Timeliness and regularity of accounts reconciliation;
- Availability of information on resources received by service delivery units;
- Quality and timeliness of in-year budget reports;
- Quality and timeliness of annual financial statements.

9.3.4 External Scrutiny and Audit

- Scope, nature and follow-up of external audit;
- Legislative scrutiny of the annual budget law;
- Legislative scrutiny of external audit reports.

Special significance is that Economic development strategy of member-states of the CIS till 2020 (14.11.2008, Kishinev) has a set of main economic development indicators of CIS member-states:

- Growth of real GDP - 2,4-2,7 times;
- Growth of mutual trade volumes - 2,5-3 times;
- Labor productivity growth –2,5-3 times;
- Decrease in power consumption of gross national product unit –70%;
- Expenses on a science on the end of the period, % of GDP - 3-4;
- Expenses for education on the end of the period, % of gross national product - 5-6;
- Expenses on public health services on the end of the period, % of gross national product - 5-6;
- Increase of the CIS member-states share in the world economy - 4,5-5 %;
- Growth of real incomes per capita - 3,3-3,7 times;
- Decile coefficient of incomes (a ratio of 10 % of the richest population to 10 % of poorest one) - 5 times.

In order to harmonize methods of development, sets and systems of key national indicators it is proposed to develop an indicator passport including:

- name of indicator;
- unit of measurement;
- periodicity of estimation;
- characteristic;
- calculation methods;
- source of information;
- level of disaggregation;
- variants of indicator;
- notes.

Sets and systems of key national indicators are developing in accordance with economic development strategies of CIS member-states. During joint control activity they can be coordinated among countries in the process of preparation of an economic-methodological basis of auditing.

10. Definition of audit evidence and received data analysis

Audit evidence is information collected and used to support audit findings.

The conclusions and recommendations in the audit report stand or fall on the basis of such evidence.

Characteristics of audit evidence:

- documented;
- reliable;
- relevant;
- sufficient.

Quality of conformance of audit evidence to these characteristics depends on the following aspects:

- independence of information sources;
- data analysis quality;
- accuracy and fullness of evidence collection;
- validity of objectives of evidence use.

Evidence can be categorized according to their types:

- physical evidence: the evidence in the form of photographs, charts, maps, graphs or other pictorial representations;
- oral evidence: oral evidence obtained in the form of statements that are usually made in response to inquiries or interviews with users or beneficiaries of a government initiative as well as experts, observers or members of a technical responsible group;
- documentary evidence: documentary evidence in physical or electronic form is the most common form of audit evidence;
- analytical evidence: analytical evidence stems from other evidences mostly by calculations, comparisons or synthesis.

Sources of audit evidence:

- policy statements and legislation;
- published program performance data;
- management reports and reviews;
- databases, including the SAIs ones;
- external sources.

Audit results and auditors conclusions should be confirmed by different kinds of evidence received from more than one source. Such conclusions are more valid, than results and conclusions which based on evidence, received from only one source.

11. Preparation and distribution of the report on Performance audit results

Report on performance audit results is a final product of auditing. In order to provide the proper quality of the report it is advised to prepare it by the use of a continuous report-writing process.

Report should have following characteristics:

- conciseness;
- validity;
- relevance;
- completeness;
- accuracy.

Besides these main rules, the good report should have following elements:

- logical structure, allowing a reader to orient easily in the report content;
- simple language, understandable even for an unprepared reader. It is better to avoid the use of technical terms and professional slang;
- pictures, tables, diagrams and photos to create visual impression and to illustrate separate arguments.

The report should be based on facts received during auditing that should be presented in detail but in short form in order to get a clear idea about the initial data that became a base for conclusions. Upon that the report on performance audit results should include not only identified deviations and defects, but

important achievements in the audited sphere of the public resources use. Such information can be used by other state bodies and organizations to increase the effectiveness of their activity.

On the basis of audit results and recommendations presented in the report, audit team should formulate its proposals and final recommendations.

It is recommended to provide decision makers of the audited body with a preliminary version of main audit conclusions in order to let them made some comments which they consider necessary for understanding issues which are pointed out in the report. It should be done by sending them the official document in order to receive the answer in accordance with the schedule of audit investigation. Received answer should be analyzed and incorporated to the appropriate chapter of the final report.

Taking into account all mentioned above the report on performance audit results should include following components:

- performance audit purposes with the set of indicators and audit criteria which were used for each of them;
- reason for performance auditing;
- the list of audit objects;
- audited period;
- period of auditing;
- evaluation methods;
- resources used;
- conclusions made on performance audit results;
- recommendations to eliminate identified deviations, defects and to solve problems.

In order to provide accurate and complete report content on performance

audit it's recommended to adhere to the following structure:

- content;
- introduction;
- main chapters;
- conclusion;
- appendix.

The report can be presented to an audited body, executive and legislative officials, media and other interested parties. Each SAI must decide on how to distribute the audit report in due time.

In order the society knew main ideas pointed out in the report it's not enough only to publish the report, but also to do the following:

- develop at performance audit pre-study the communication and information transfer strategy and update it when necessary during auditing;
- prepare press-release shortly before the report publication in order to attract media attention and to increase probability that the report will have wide coverage in media;
- publish the report on performance audit results at the SAI website, etc.

12. Monitoring of recommendations realization

In order to increase the effectiveness of the public resources management it is necessary to monitor implementation of recommendations which were carried out according to the results of performance audit. This will guarantee feedback between SAI and audit object.

Main tasks of monitoring of recommendations implementation are:

- to define how audited organizations implemented recommendations by the fixed time;
- to present audit results of recommendations implementation in the relevant documents in which the realization of events on the elimination of identified deviations and defects by audit object is fixed and evaluations of results implementation are produced. To report if necessary about the results to executive and legislature bodies as well;
- to find out reasons and examine the necessity in order to take additional measures to guarantee recommendations implementation if audited bodies don't implement recommendations or don't implement them fully;
- to present to the public approved reports on performance audit results to provide principle of transparency of the state financial control.

Glossary

Term

Definition

Audit

The review, analysis and evaluation of the organization activity in order to make sure that it is carried out in accordance with approved goals, budget, rules and standards

Audit purpose

Statement that clearly identifies the reason of the audit

Audit criteria

Attainable quantitative and qualitative standards of performance which are defined and established in accordance with the purposes of the audit (control)

Performance audit

Comprehensive set of methods aimed to evaluate economy, efficiency and effectiveness of goals-oriented activities regarding the appropriate time period and quality.

Economy

Minimization of expenses used for an acquiring of necessary resources regarding the appropriate time period, quality and quantity

Efficiency

Ratio of expended resources, time and achieved results, while ensuring adequate quality

Comments:

The main question is whether these resources have been put to optimal or satisfactory use or whether the same or similar results in terms of quality and turn-around time could have been achieved with fewer resources.

E_f = Productivity

EC = Effectiveness

CP = Planned Cost

CR = Real Cost

TP = Time Planned to Obtain MP

TR = Real Time used to Obtain MR

MP = Planned Goal

MR = Goal Reached

$$E_f = \frac{M_R / T_R \cdot C_R}{M_P / T_P \cdot C_P} = \frac{M_R \cdot T_P \cdot C_P}{M_P \cdot T_R \cdot C_R} = E_c \cdot \frac{C_P}{C_R}$$

If $E_f > 1$, efficiency is better, than expected;

If $E_f = 1$, efficient;

If $E_f < 1$, inefficient.

Effectiveness

Degree of final goals achievement i.e. the ratio between actual and planned results

Comments:

The assessment of the extent to which the program achieves its outcomes-oriented goals (including

assessment of adverse and unintended consequences).

E_f = Productivity

EC = Effectiveness

TP = Time Planned to Obtain MP

TR = Real Time used to Obtain MR

MP = Planned Goal

MR = Goal Reached

$$E_c = \frac{M_R / T_R}{M_P / T_P} = \frac{M_R \cdot T_P}{M_P \cdot T_R}$$

If $E_c > 1$, effectiveness better than expected;

If $E_c = 1$, effectiveness identical to that expected;

If $E_c < 1$, effectiveness below than expected.

Performance audit methodologies System of principals, criteria and methods of comprehensive evaluation of economy, efficiency and effectiveness of goals-oriented activity

Comments:

The selection of methodology depends on the specific subject area of the audit.

Qualitative methods in performance audit Methods of work with verbal and visual information and information obtained from interviews, and / or observation, or directly from written sources

**Quantitative methods
in performance audit**

Numerical methods of analysis

Data

Obtained in the course of information collecting, specific quantitative and qualitative facts and figures

Baseline data

Data characterizing a particular condition, activity, program or project, and serve as a starting point for measuring the economy, efficiency and effectiveness of this condition, activity, program or project

Outcomes

Results or consequences of actions, aimed to achieve the final goals

Comments:

This term reflects goals-oriented results of public bodies actions and is a justification for public spending.

Indicator

Characteristics reflecting the progress (or lack of progress) towards the goal; a tool of measuring what actually happens compared to what has been planned in terms of quantity, quality and timeliness

**Performance
indicator**

Quantitative or qualitative characteristics of the socio-economic processes in society. The qualitative aspect of indicator reflects the essence of the phenomenon or

process in the specific circumstances of time and place, and quantitative one - its size, the absolute or relative magnitude

Key indicators Indicators, allowing to assess system condition and development in accordance with strategic goals

Key national indicators System or set of indicators, allowing to evaluate the level and rate of socio-economic development of a country in accordance with national values and strategic goals. Key national indicators give qualitative, comprehensive and regulatory characteristic of a particular goal of society development achievement and they are used to increase the effectiveness of national or other level decision-making management structures activity

Capability Ability to reach successfully the set goals at functioning

Progress Successful, from the point of view of dominating actors of a given historical period, process of social and economic systems transformation in relation to final goals.

Validity The degree of accuracy and reliability of indicators and system of their measuring. Valid estimates take into account all influencing factors, considering a context of

the assessment in its completeness, and assign them appropriate weight in the course of conclusions and recommendations

Benchmarking

The method of information analysis, consisting of in comparison of any activity, activity results, methods used, etc. with existing standards (including the process of these standards search), i.e. the most advanced and effective technologies, approaches and work methods, the most outstanding results, etc.

Triangulation

At least three different methods of data collection and analysis, confirming the same fact are used to ensure the reliability and validity of information on any subject, for example, focus - groups, benchmarking and survey

SWOT

Analysis of Strengths, Weaknesses, Opportunities and Threats

Quasi-Experimental Design

The essential feature of true experiments is the random assignment of subjects to treated and untreated groups constituting the experimental and control groups, respectively. A control group is a group of untreated subjects that is compared with experimental groups in terms of outcomes. An experimental group is a group of subjects to whom an intervention is delivered and whose

outcome measures are compared with those of control groups

Meta-evaluation

Method used for receiving of total evaluation based on qualitative and quantitative results of analysis