



Handling Audit Criteria in Performance Auditing

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Belgian Court of Audit

Outline

- Belgian Court of Audit
- Audit model
- Choice of audit criteria
- Use of audit criteria in the audit process



Belgian Court of Audit general information

- Court consisting of 12 members/ councillors
 - ◆ Elected by the federal legislature for 6 years (+reappointed)
 - ◆ 2 chambers 6D and 6F
 - ◆ Employs 530 FTE (2007)
 - ◆ Budget about 46 Million € (2008)
- Authority to audit the federal government and the governments of the regions, communities and provinces (rather complex institutional context)
- Results of audit activities are reported to the legislative bodies
- Traditional tasks: Financial and compliance auditing, jurisdictional task (not much importance anymore)



Belgian Court of Audit

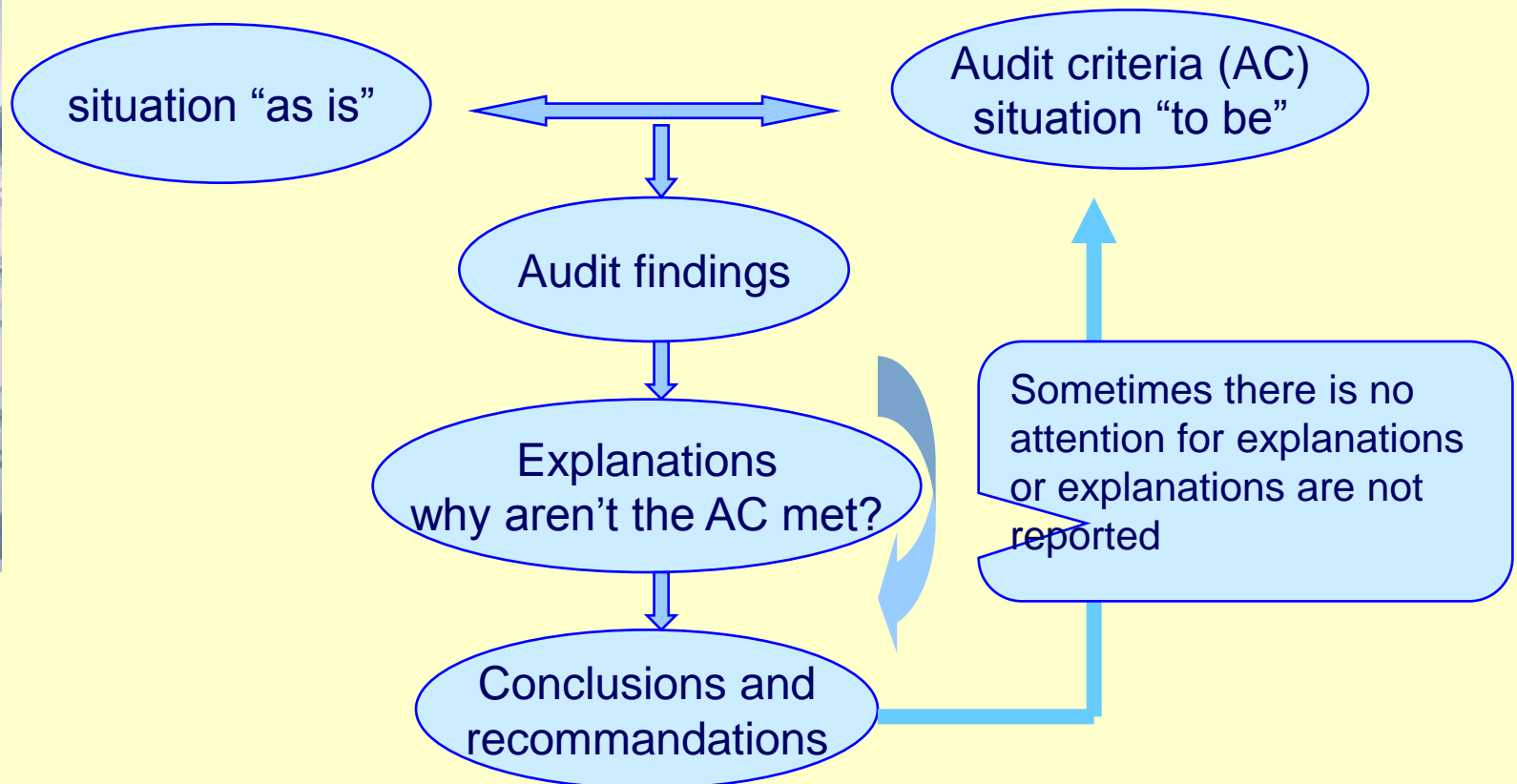
Performance auditing

- The Court has the power to carry out PA since 1998
- PA (sound use of public funds): refers to three of the principal criteria of good governance: economy, efficiency and effectiveness
- Share in workload varies from 8% to 10%: most attention is still going to the more traditional audit tasks
- We have published 10-15 PA-reports per year (also available on the website)
- Audits are selected and performed on our own initiative (with a possibility for the legislatures to commission an audit : happens occasionally)

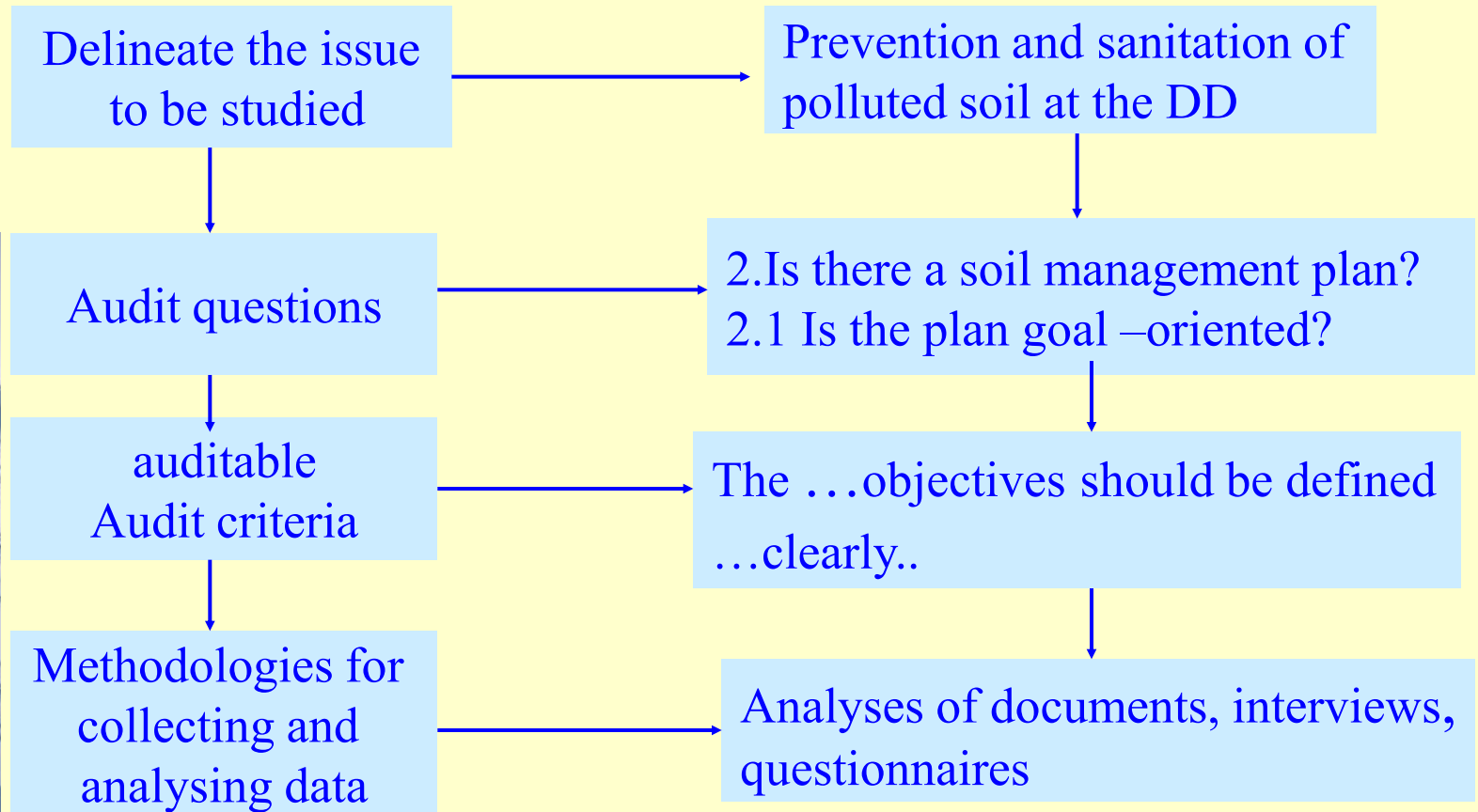


The audit model

The Court wishes to contribute to a better functioning government by means of auditing (Mission Statement 2004)



Audit criteria in the audit design



This is an iterative process - lack of valid or reliable data compels to reconsider the audit criteria or the audit questions; e.g. no audit of the achievement of objectives if the objectives are not measurable

The choice of audit criteria

- Choice of audit questions/criteria depends on:
 - ◆ legal mandate SAI,
 - ◆ selection tools (risk – analyses) and selection criteria,
 - ◆ available expertise in the SAI and,
 - ◆ the audit environment (available data, auditable objectives, ...) – (for consequences see the example in annex of the presentation)



The choice of audit criteria: conflicting criteria?

- Good governance: governmental actions have to score on different kinds of criteria:
 - ◆ Results oriented criteria: economy, efficiency and effectiveness
 - ◆ Constitutional criteria: legitimacy, legal certainty, equality of rights
 - ◆ Democratic criteria: accountability, participation, leadership and integrity
- PA is restricted to the first criteria (3 E's). Achievement of an E can go at the expense of the achievement of other criteria
- Between the three 3E's tensions are also possible:
 - ◆ Increasing effectiveness can result in decreasing efficiency
 - ◆ Increasing efficiency can cause loss of quality
 - ◆ Recommendations of SAI's often tend to stimulate new or more elaborated procedures (to be more in control versus efficiency)
- The choice of audit criteria, conclusions about the 3E's and recommendations to increase the 3 E's must have an eye for possible side-effects on other criteria of good governance.



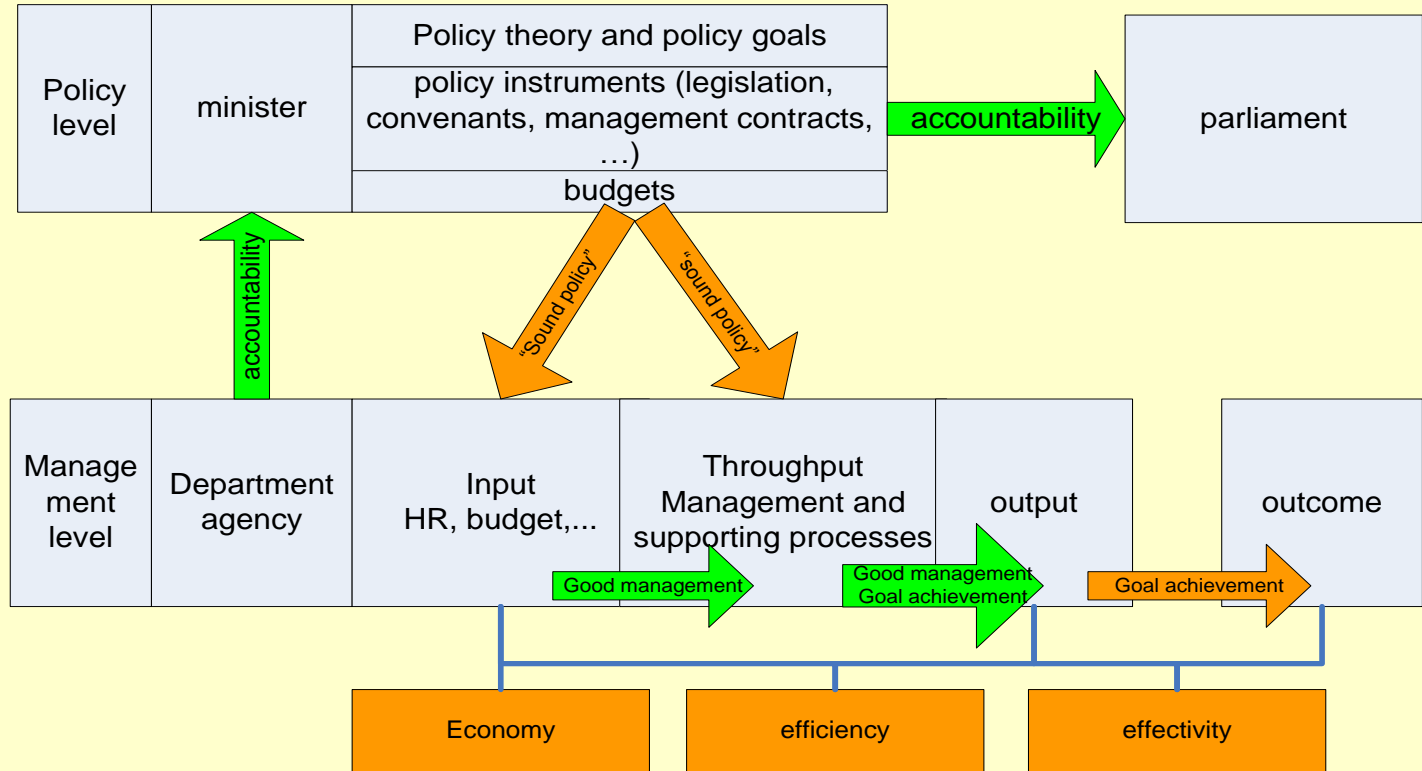
The audit criteria used by the Court

- Direct measuring of efficiency and effectiveness is rather rare: 1 out of 10 audits.
 - ◆ Shortcomings in the audit environment: no cost allocation systems, lack of measurable goals...
 - ◆ Technical problems: quality of benchmarks, external factors influencing the effectiveness of policy
 - ◆ Lack of expertise in the Court (no tradition of external input of expertise)
 - ◆ Shortcomings in the legal mandate: no follow the money mandate
- Criteria about good management practices (strategic planning, HRM, internal control criteria,...) in every audit
- Criteria about sound policy (a good policy theory, SMART formulated goals, underpinned choice of policy instrument,...) in 1/3 of the audits
- Accountability: very often, but never as the main subject of the audit – in combination with other criteria
- Quantity and quality of output (timeliness, sufficient supply of services,...) in 1/5 of the audits



The audit criteria used by the Court

green: used in a majority of audits
orange: used in a minority of audits



Audit criteria not used by the Court

- Criteria in order to evaluate the organisational culture or the functioning of individual civil servants - “the human factor” important for the performance of an organisation:
 - ◆ which criteria?
 - ◆ objectivity of findings (robust audit evidence?)
 - ◆ delicate in a public report
- Criteria about the attribution of powers to the regions, communities and federal government - segmentation of powers can hamper efficiency and effectiveness:
 - ◆ too (politically) sensitive



Sources of the audit criteria

Basic principles: undisputed and auditable

- Preference for “official” sources - criteria imposed by the auditees themselves
 - ◆ Is the auditee efficient or effective when respecting his own criteria/ norms?
- Generally accepted criteria from professional literature including audits from other SAI's
 - ◆ Adaptation to the specific context of the audit
- Criteria used in previous audits of the Court
- Increasing use of benchmarks (compare services/ practices with comparable services/ practices abroad or in other Belgian regions): being aware of the problems with comparing services, costs,... (see slide 9)

More disputable



Using audit criteria in the audit process

- Planning the audit: preliminary study (annex 1)
 - ◆ Transform the audit questions into audit criteria (see slide 6)
 - ◆ Questions:
 - ☞ Do the criteria allow the team to answer the audit questions; coverage of the question?
 - ☞ Are the audit criteria underpinned and robust?
 - ☞ Are the audit criteria auditable?
 - ☞ What are the constraints of the audit criteria?
 - ◆ Dialogue with the auditee about the planned audit, specially about the audit criteria:
auditing is a process of social interaction
 - ☞ Does the auditee understand the criteria and does he agree to them?
 - ☞ Open and constructive communication creates support for the audit and, eventually, for the audit conclusions and recommendations.



Using audit criteria in the audit process

- The main audit process
 - ◆ The preliminary study cannot be perfect – there are always unforeseen problems (flaws in available data, incomplete files): AC should be adapted if necessary
 - ◆ Constructive dialogue with the auditee about the interim audit results: confronted with the results the auditee often shows a different attitude towards the audit criteria compared with the attitude at the start of the audit

- Reporting of the results
 - ◆ Audit criteria are mentioned in the report – sometimes as a model or a good practice in annex of the report.
 - ◆ Formulating recommendations to meet the audit criteria: relevant, cost- effective, no (undesirable) side-effects
 - ◆ Formal, written, communication with the auditee and the competent minister before the publication of the report.



Using audit criteria in the audit process

- Self-evaluation of the audit (-process) (annex 2)
 - ◆ Was the audit successful (have the recommendations been accepted, has a public debate about the audit taken place,..)?
 - ◆ Evaluation of the audit process (timeliness, cost, appropriate methodology, appropriate audit criteria, available expertise,....)
 - ◆ Which lessons can be drawn for the future?
 - ◆ An evaluation report is requested for every audit, about six months after publishing the audit (since 2006)

- Every year a meta- evaluation of the evaluation reports (lessons learned on Court level – e.g. improve procedures, organise training,...first meta-evaluation is almost finished)



Thank you

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