

PERFORMANCE AUDITING – A COMPLEX CONCEPT

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***Abstract.** The paper analyses the complex concept and tools of performance audit. It explains the way companies or public institutions appraise their programs, functions, operations or the management systems in order to achieve economy, efficiency and effectiveness in the employment of existing resources. The case study refers to the recent efforts of Romania to implement the INTOSAI standards, striving to comply also with the procedures of the European Court of Auditors.*

***Keywords:** performance audit, INTOSAI, 3 E's, efficiency, effectiveness.*

1. Introduction

In the last decades, the internal audit has become one of the most important tools of companies, public institutions and other types of organizations to discover malfunctions of their operations, to minimize risks, to develop their systems and, above all, to achieve their goals.

Personally, I have always been interested in such a complex area and profession, that offers not only a great exposure to virtually all operating areas within an organization, but also the chance to help it with useful recommendations, that can add value, quality, and improve its processes, procedures, management style. In the late nineties, as a Senior Auditor of PricewaterhouseCoopers ABAS department in Bucharest, me, together with my colleagues, have provided consulting and financial auditing services for various multinational companies, as well as for small and medium enterprises and this experience has opened me the eyes over such an interesting domain and to learn enormously from the achievements and failures of our clients, the auditees.

But, in those days, the term of internal audit was a mystery, completely unknown in Romania... it was also unlegislated. Adopting a special law for regulating the internal audit happened only several years

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later, in 2002, as part of the Aquis communautaire accepted by the country in the pre-adhesion to EU period.

After 2005, I have been directly involved in this captivating area, working as an internal auditor for the Romanian Ombudsman, a public institution introduced in Romania for the first time in 1991, by the new Constitution. The Ombudsman has as purpose the defence of individuals' rights and freedoms in their relationship with the public authorities; it is a forefront runner for democracy, and internal audit is a key function for overseeing the achievement of its goals.

Performance audit is a new concept in Romania, as in many other European countries, and not many people fully understand what it is, after all. In this research I try to explain what role it plays as a tool to implement a sound financial management.

2. What is performance audit?

The etymology of the word “audit” comes from early 15c., also from the Latin word *auditus*¹ “a hearing”, pp. of *audire* “hear”, denoting an official examination of accounts, which initially was an oral procedure. The audit is not a modern activity; the term developed after the XVIth century.

On the whole, the commonly use of the word “audit” is in finance and it means the examination by an outside party of the accounts of an individual or corporation. But the general sense is broader and refers to an evaluation of a person, organization, system, process, enterprise, project or product; the concept of audit covers many areas, such as quality management (according to ISO standards), IT audit, environmental audit, similar concepts also existing in project management, water management, and energy conservation.

The term most frequently refers to audits in accounting/finance field. The financial audit (which is an external audit) is defined as an independent professional review of annual financial statements of an organization. In Europe, the Auditor and/or the firm is registered as a statutory auditor in the public register of a public oversight body in an EU member state in accordance with the principles of public oversight set out in Directive 2006/43/EC of the European Parliament and of the Council (this applies to auditors and audit firms based in an EU member state)².

¹ *Online Etymology Dictionary*, © 2010 Douglas Harper

² Directive 2006/43 of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253 EEC.

The services provided by auditors are appreciated by investors, managers and creditors, since they confer an increased confidence in the financial statements. The best known international audit firms are so-called Big Four, consulting giants: PricewaterhouseCoopers, KMPG, Deloitte & Touche and Ernst & Young.

Auditors can be classified into two categories:

a) External auditors / statutory auditors – independent persons or firms engaged by the client subject to the audit, to express an opinion on whether the company's financial statements are free of material misstatements, whether due to fraud or error.

b) Internal auditors, who are employed by the organization they audit. They perform various audit procedures, mainly related to procedures over the effectiveness of the company's internal controls over financial reporting.

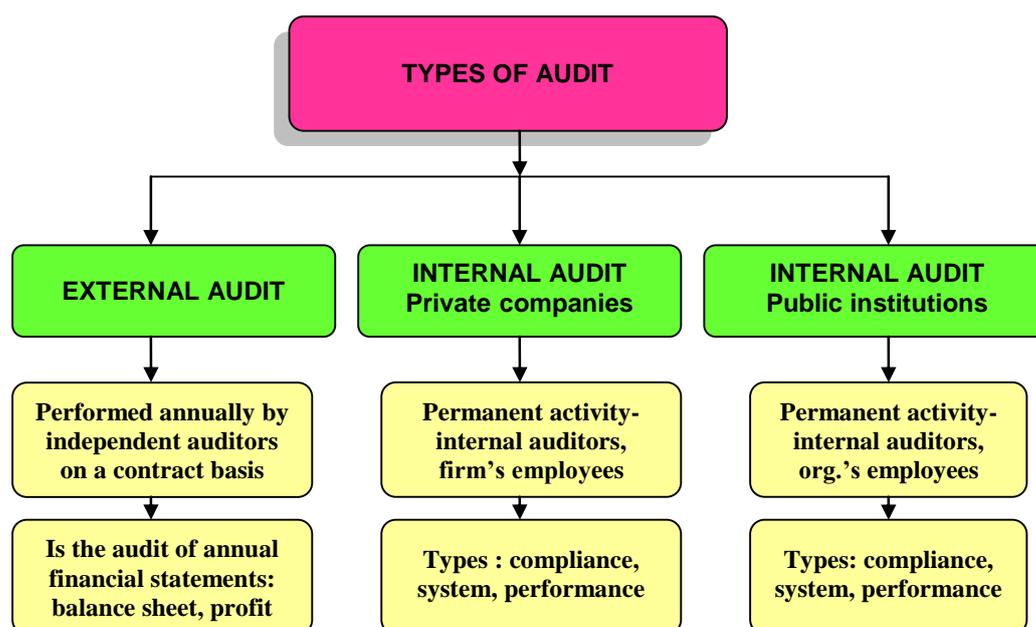


Figure 1. Types of audit.

Source: Anda Gheorghiu, <http://www.id-hyperion.ro>, Course of internal audit, e-learning platform, 2012, p. 14.

Financial audit is regulated by the International Auditing and Assurance Standards Board (IAASB)³, which is an independent standard-setting body,

³ <http://www.ifac.org/auditing-assurance/about-iaasb>

founded in 1978, that serves the public interest by setting high-quality international standards for auditing, assurance, and other related standards, and by facilitating the convergence of international and national auditing and assurance standards. It focuses on three areas: object and scope of audits of financial statements, engagement letters, and general auditing guidelines. In 1991, the IAPC's guidelines were recodified as International Standards on Auditing (ISAs).

The most important professional body in the field of internal audit is The Institute of Internal Auditors (IIA) Founded in 1941, which is an international professional association with global headquarters in Altamonte Springs, Florida, USA. The IIA is the internal audit profession's international voice, renowned authority, acknowledged leader, chief activist, and main educationalist. Members work in many fields, such as: internal auditing, risk management, governance, internal control, information technology audit, education, and security.

The three types of internal audit are: compliance audit, systems audit and performance audit. What does these terms stand for?

1. A compliance audit is an ample review of an organization's adherence to regulatory guidelines;

2. A systems audit means to assess the internal control system of an organization, for example it is possible to assess the quality of the accounting system;

3. Performance audit basically deals with the efficiency and effectiveness of an organization. The performance audit is a relatively new field in audit theory as compared to other types of audits. This new type of audit 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 the executive. The scope of performance audits may comprise the uncovering of fraud, waste and abuse, even though habitually these are not included in the scope.

A performance audit of public organizations is a systematic, focused, organized and objective examination of government activities. Its scope includes the examination of economy, efficiency, cost-effectiveness and environmental effects of government activities; procedures to measure effectiveness, accountability relationships, protection of public assets, and compliance with authorities. The subject of the audit can be a government entity or activity, or a government-wide functional area.

The International Organization of Supreme Audit Institutions, INTOSAI, issues The International Standards of Supreme Audit

Institutions, ISSAI. According to ISSAI 3000, a performance audit is “the independent examination of the efficiency and effectiveness of government organisations, operations, or policies, with due regard to economy”⁴ .

Private firms have their own systems to assess whether activities are carried out efficiently; managers supervise the results of their activities on a monthly basis. Performance audits may be conducted by Internal Auditors who are employees of the entity being audited. Much more difficult is to proclaim if public funds are spent efficiently or not, given that defining performance and assessing it in an objective manner is more complicated than in the case of private firms. In most countries, performance audits of governmental activities are carried out by the external audit bodies at federal or state level. Performance audits may also be conducted by Internal Auditors who are employees of the entity being audited.

Performance audit and financial audit have a number of similarities. While the internal auditors first and foremost focus on effectiveness, the financial auditors focus on the correctness and fairness of the accounts. Financial and performance auditors have the same mandate to carry out the audit, the same responsibility to the client.

Performance audits can facilitate to improve financial and economic management by making available information needed to come to a decision to carry on, adjust or put an end to a measure, improve planning in potential analogous measures, inform stakeholders through feedback on the success or failure (achievement of goal, effect and economy) of measures they plan and implement.

The auditors should select and designs the audit tasks to be of highest impact; when selecting topics, they have to consider: the risks to performance or compliance for the particular area of revenue or expenditure, the level of income or spending involved, the time elapsed since any previous audit, forthcoming developments in the regulatory frameworks, political and public interest.

The department which is very much involved in periodically assessing the threats that can affect the organization’s well functioning is the risk management department; it monitors and classifies a wide range of risks, as shown in Figure 2.

⁴ INTOSAI, *Implementation guidelines for performance audit: Standards and guidelines for performance audit based on INTOSAI’s Auditing Standards and practical experience*, International Standards of Supreme Audit Institutions 3000 (2010), p. 11.

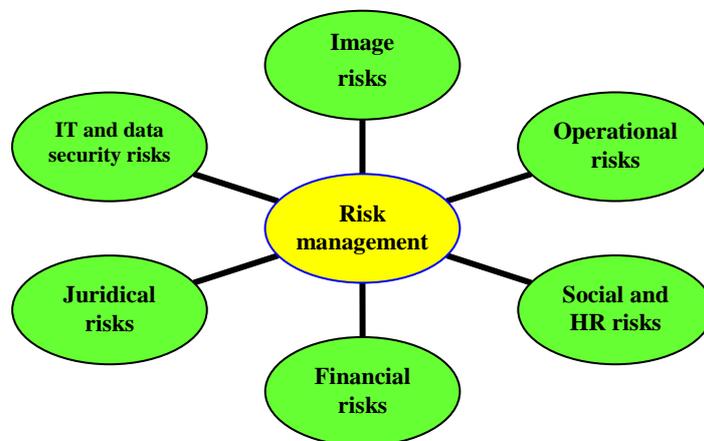


Figure 2. The department of risk management within an organization.

Source: M. Ghita, Ct. Iațco, C. O. Brezuleanu, M. Vorniceanu, *Corporate governance and internal audit*, Tipo Moldova Publishing, Iasi, 2009, p. 127.

External auditors are sometimes much more focused on performance audit comparing to internal auditors. The responsibility of such institutions to check how public money is spent requires a high awareness over a good management of public funds. Countries long and well-established democracies are more advanced in performance audit. For instance, the Belgian Court of Audit, which carries out audits at the federal level as well as the regional and provincial level, covers, among others, the following topics in its performance assignments: the organization working of the Special Tax Inspectorate, the knowledge and conservation collections by the Royal Museum of Fine Arts, the implementation of Kyoto Protocol, the use of scientific knowledge in healthcare policy, public-private partnership, support for people with difficulties integrating into the labour market, staff planning in government, rational use of energy in buildings etc.⁵.

1. External audit organizations implicated in performance audit assignments.

Standards of performance auditing

There are various organizations that regulate the external audit performed over public funds, the most prominent being: The International Organization of Supreme Audit Institutions (INTOSAI), European Organisation of Supreme Audit Institutions (EUROSAI), USA Government

⁵ De Jeremy Lonsdale, Peter Wilkins, Tom Ling, *Performance Auditing: Contributing to Accountability in Democratic Government*, Edward Elgar Publishing, 2011, p. 10.

Accountability Office (GAO), European Court of Auditors (ECA). Their logos are displayed in figure 3.

The International Organization of Supreme Audit Institutions (**INTOSAI**) activates as an umbrella organization for the external government audit community. It offers an institutionalized framework for supreme audit institutions to support improvement and transfer of knowledge, best practices, develop government auditing worldwide and increase professional competences. INTOSAI is an autonomous, independent and non-political, non-governmental organization with special consultative status with the Economic and Social Council (ECOSOC) of the United Nations. It was founded almost 60 years ago, in 1953, in Havana, Cuba, at the initiative of Dr. Emilio Fernandez Camus. INTOSAI groups together the Supreme Audit Institution (SAIs) of 190 countries, full members, and four associate members, and it is listed as a support organisation of the United Nations. The INTOSAI Regional Groups are EUROSAI, OLACEFS, AFROSAI, ARABOSAI, ASOSAI, PASAI and CAROSAI. **EUROSAI** (the European Organisation of Supreme Audit Institutions) is one of the Regional Groups of the International Organisation of Supreme Audit Institutions (INTOSAI).

The U.S. Government Accountability Office (**GAO**) is known the congressional investigative arm or “watchdog”; GAO supports the Congress in meeting its constitutional responsibilities and helps improve the performance and accountability of the federal government for the benefit of the American people.

The European Court of Auditors (**ECA**) is an institution of the European Union (EU), which audits the accounts of EU institutions and is composed of one member from each EU member state. The main role of the Court is to externally verify if the budget of the European Union has been implemented correctly, if EU funds have been spent lawfully and with sound management. The mission of the Court is to carry out audit of accounts, and to examine the legality and regularity of transactions, as well as the sound financial management (performance audit). Consequently, the Court must check the legality and regularity of transactions, verifying the compliance of budgetary operations with the treaties and regulations and with generally applicable accounting norms. It must also audit the budget management, examining to what extent the budgetary intervention meet established objectives and analysing the costs⁶.

⁶ , Milagros, *Public Expenditure Control In Europe: Coordinating Audit Functions In The European Union*, Edward Elgar Publishing, 2005, p. 135

All these organizations have their own standards that are accepted by their members. INTOSAI has published generally accepted principles of performance auditing in its implementation guidelines. The ISSAIs, International Standards of Supreme Audit Institutions are a benchmark for all auditing public entities (External Audit Standards for public entities). In the United States, the federal Government Accountability Office (GAO) has issued the “yellow book”, the collection of the Generally Accepted Government Auditing Standards (GAGAS). Similarly, In E.U. the European Court of Auditors (ECA) has developed a “performance audit manual” for its audits of the sound financial management of the European Commission and the programmes funded through the EU budget.

			
<p>The International Organization of Supreme Audit Institutions (INTOSAI)</p>	<p>European Organisation of Supreme Audit Institutions (EUROSAI)</p>	<p>USA Government Accountability Office (GAO)</p>	<p>European Court of Auditors (ECA)</p>

Figure 3. The system of the most prominent external audit organizations.

3. The famous “Three E’s” of the performance audit

Most organizations pursue certain missions, certain objectives; they can be clearly stated in a formal document, or just implicit, understood goals. For instance, a municipality office can have as mission a cutting-edge management, reflected in accomplishing public tasks set out in legal provisions, ensuring professional customer service, creating an encouraging climate and favourable conditions for realization of the collective needs of the community, formulating the manner for execution of fundamental tasks in the form of established procedures and instructions, making use of implemented management processes to effective accomplishment of all tasks facilitating buoyant development of the municipality, and thus increased quality of life for

local community, and creating the image of the municipality premised on building relationships with varied interest groups⁷.

“The three Es” are important notions that help out the auditor when formulating objectives of his mission and outlining the general direction of the audit. With the help of these notions, the auditor can describe processes, organise judgments and observations, and to measure and clarify. The model is based on the postulation that it is possible to set up activities in chains and to identify how these activities influence each other as causes and effects. Another postulation is that organisations have established goals that they want to reach. In the model inputs are used to produce outputs that will have an effect on the achievement of the goals. Economy is concerned with the inputs, efficiency with how these inputs are transformed into outputs and effectiveness with the effects generated by the outputs.

Performance auditing comprises:

a) audit of the economy of administrative activities in accordance with sound administrative principles, practices, and management policies. What does it mean **Economical**? It means to purchase appropriate resources (inputs) at least cost, i.e. spending less. *Example*: Whether construction of a public building is completed on time, at least cost.

b) audit of the efficiency of utilisation of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies; What does it mean **Efficient**? It means to maximize the output for any given input and/or to minimize the input for any given level of output, i.e. spending well. *Example*: Number of patients treated per dental chair/dentist.

c) audit of the effectiveness of performance in relation to attainment of the objectives of the audited entity and audit of the actual impact of activities compared with the intended impact. What does it mean **Effective**? It means to attain objectives or other anticipated outcomes of programs, operations or activities. *Example*: Whether treatments provided by a community medical service improves population’s healthiness.

The three Es cannot nevertheless be assessed separately from each other. When assessing the effects it is compulsory to take into

⁷ Wereda Wioletta, Raczkowski Konrad, *Contemporary challenges in the process of management in organization of the future*, Studio Emka 2012, Poland, p. 195.

consideration the cost of the inputs used to create the effects and, likewise, when assessing economy the utility of the inputs for generating the outputs has to be considered.

Some organizations are integrating now also environmental/ecological considerations in the Performance Audit Work. We suggest integrating into the input-output model the fourth factor, which is **Environmental Sustainability. So, the 3 E's become 4 E's.** Integrating Environmental considerations into ongoing organizational activities means to maintain the factors and practices that contribute to the quality of environment on a long-term basis. According to Robert Goodland⁸, a strong Environmental Sustainability requires maintaining separate kinds of capital. Thus, for natural capital, receipts from depleting oil should be invested in ensuring that energy will be available to future generations at least as plentifully as that enjoyed by the beneficiaries of today's oil consumption. This assumes that natural and human-made capitals are not perfect substitutes. On the contrary, they are complements at least to some extent in most production functions.

Performance audit is not excessively subject to specific requirements and expectations, being more flexible in its choice of subjects, audit objects, methods, and opinions, comparing to financial audit that apply relatively fixed standards. Performance audit is not a regular audit with formalized opinions, and it does not have its roots in private sector auditing. It is by nature comprehensive and open to judgments and interpretations and uses many investigative and evaluative methods.

The purpose of performance auditing can be: audit of achievement of objective, audit of effects, measuring economy audit, focusing mainly on the goals of the organisation/programme. As academic base, auditors should master many fields, like: Economics, finance, accounting, political science, sociology, law, engineering, IT etc.

For predominantly operating and economic measures, the basic financial mathematical techniques should be known, such as capitalised-value method, annuity method, and internal interest rate method. In normal project management assessment, practical methods are used, such as cost comparisons, amortization calculations, or cost/benefit analyses. When dealing with big national/multinational projects involving a substantial amount of funds auditors may apply methods which evaluate especially the costs and benefits.

⁸ Goodland Robert, *The concept of Environmental Sustainability*, Annual Review of Ecology and Systematics, Volume 26, 1995, p. 15.

The steps made for carrying out a performance audit can be:

a) Audit of achievement of goal – assessing the degree to which actions have achieved projected goals;

b) Audit of effects – settling on whether and to what extent the measures were “effective” and therefore appropriate for achieving the goal;

c) Economy audit examines whether the measures were implemented with budgeted resources – implementation economy audit (e. g. highway construction) and whether the measures, taken as a whole, were economical with respect to the definition of goal (e. g. to improve income in a certain region by building a highway – the highway construction alone is not decisive) – measure economy audit.

4. Performance audit in the European Union

Europeans are pioneers and developers of the field of audit. The term of “audit” developed during the reign of Queen Elizabeth I of England, who, in 1559, attached to the post of Exchequer the title of Auditor, who controlled the public expenditure.

In 1807, Napoleon Bonaparte created the Courts of Accounts (*fr. Cours des comptes*), as external auditor of the public funds. The crypt of French Empereur from “Dôme des Invalides”, in Paris, is surrounded by a covered gallery with ten bas-reliefs in white marble of 4 m by 2 m, underlining the major creations of imperial rule; among them one can admire “*fr. La Légion d’honneur, Les grands travaux publics, Le Code Napoléon; L’Université*” and “*fr. La Cour des comptes*”, recognizing the role of this institution to the progress of France. In the XXth century, many countries have copied standards of the prestigious bodies-National Audit Office (United Kingdom) or *Cour des Comptes* (France).

State audit long preceded the emergence of the modern democratic states, but performance audit is a recent development, as a large scale, self-conscious distinct practice dates back since the late 1970’s. Responsibility for the use of public funds is of crucial importance to any democratic government. At the national level this generally involves the executive government accounting to elected representatives in Parliament for its oversight of taxpayers’ money. State audit institutions have a vital contribution to provide independent and objective information, assurance and advice to Parliament about the accounts presented by the Executive.

The most prominent organization involved in performance audit is the **European Court of Auditors (ECA)**; although it has no judicial function,

Court's decision is the basis for the European Commission decisions. The European Court of Auditors is the EU Institution established by the Treaty to carry out the audit of the EU finances. As the EU's external auditor it contributes to improving EU financial management, promotes accountability and transparency, and acts as the independent guardian of the financial interests of the citizens of the Union.

In 2011, the ECA began to methodically examine the implementation of recommendations by auditees. Starting from 2012 the ECA will be able to report on the degree to which recommendations are implemented in practice and lead to improvements. In its audit strategy for 2009-2012, The Court aims to: maximise the overall impact from audits; and increase efficiency by making best use of resources.

With a budget of 144 million euro in 2012, the European Court of Auditors has three main outputs:

- annual reports, comprising mainly the results of financial and compliance audit work on the European union budget and European Development Funds (EDFs);
- special reports, published throughout the year, presenting the results of selected audits of specific budgetary areas or management topics. These are mainly performance audits;
- opinions on draft legislation with an impact on financial management, and position papers on other issues at the ECA's own initiative.

Table 1.
Synthesis of ECA's activity in 2011

Number of reports and opinions	2007	2008	2009	2010	2011
Annual reports on EU budget and EDFs	2	2	2	2	2
Specific annual reports on EU agencies and decentralised bodies	29	29	37	40	42
Special reports	9	12	18	14	16
Opinions and other output	9	5	1	6	8

Source: European Court of Auditors-*Annual Activity Report 2011*, p. 10.

In 2011, ECA carried out 16 special reports throughout the year, covering performance and compliance audits of specific budgetary areas or management topics of its choice. In 2011 the ECA adopted 16 special reports on a range of topics. For instance, one of the performance audits performed last year has had as a purpose the appraisal of the effectiveness of the school milk and school fruit schemes (10/2011), which assessed whether the EU subsidies have a direct impact on the beneficiaries' consumption and if the schemes are likely to meet their educational objectives and influence future eating habits. These EU schemes aim to encourage children to eat healthily by consuming dairy products and fruit and vegetables, and to contribute to improving the market for these products.

Since 2008, the ECA has developed gradually a set of key performance indicators (KPI s) aiming to assess key elements of the quality and impact of the ECA's work, paying special attention to the opinion of key stakeholders, and the efficiency and effectiveness of its use of resources.

The European Union's administration is not in short of criticisers, who accuse it of lack of transparency. For instance, in 2008, Tim King⁹, from European Voice, underlined that ECA has, for the 14th year running, refused to give a clean bill of health to the EU's spending. The auditors of ECA estimated that, in 2007, at least 11% of the €42 billion spent on cohesion should not have been paid out because the EU's rules were not complied with. Spending on cohesion, which accounts for 37% of the budget, had an error rate of more than 5%. The Commission urged the member states to do more prevent and correct errors in the management of EU money.

5. Case study: Implementation of the performance audit function in Romania

The implementation of performance auditing in the public sector has been one of the more important new additions to the traditional auditing role (financial audit).

The need for development originates from the status of 'EU candidate country'. In addition to the adoption of the *acquis communautaire*

⁹ King Tim, *EU fails its spending audit, again*, European Voice, 10.11.2008.

preparations had to be made to ensure that the legislation is applied in the same way as in the Member States.

Until the year 1999 in Romania there was no regulations on internal audit; with the application of International Accounting Standards, internal audit has been implemented for the first time since 1989, by Order no. 1267/2000, approving the minimum standards of internal auditing. Internal audit was required from fiscal year 2001 onward for the entities whose financial statements were financially audited, such as: national companies, banks, insurance and reinsurance firms, brokerage firms, etc.

With all the shortcomings inherent in any beginning, entities have complied gradually with the new auditing rules, and organized internal audit departments. Another legislative initiative was the Ordinance no. 75/1999, regulating the financial audit, amended by Law no. 133/19.03.2002 and Government Ordinance no. 67/29.08.2002. According to three acts, internal audit activity is objective examination of the whole of the economic entity in order to provide an independent assessment of risk management, control and management processes it. The Chamber of Financial Auditors of Romania (CAFR) has fully assimilated the International Standards on Internal Audit.

The Law no. 672/2002 on public internal audit¹⁰, defined in Article 2, the internal audit activity as “an activity functionally independent and objective assurance and advice designed to add value and improve operations of the public, the public entity to help meet their targets through a systematic and methodical approach, evaluates and improves the efficiency and effectiveness of risk management, control and governance processes”. The Law no. 191/2011 has amended the Law no. 672/2002 on the public internal auditing.

The amending deals with the definition of several specific terms, with the recruitment of the internal auditors, the domains they shall cover, the recognition of their professional competencies and the issuance of their attesting certificate, with the attestation of the existing internal auditors and with several other aspects specific to the amended matter.

One of the types of audit performed by public auditors is the performance audit, which, in the vision of art. 14 of the law no. 672/2002,

¹⁰ *Law no. 672/2002 on public internal audit in Romania amended by the Law no. 191/2011*, published in Official Monitor of Romania.

is: an assessment of depth of management and internal control systems, in order to determine whether they operate economically, effectively and efficiently, to identify deficiencies and make recommendations for their correction.

The Court of Accounts is the external public auditor of Romania. It has the role to examine the actions of the people responsible for the public management, informing the taxpayers on how the authorities used the public funds. The Court of Accounts exercises control over the formation, administration and use of the state and public sector financial resources. The Court of Accounts establishes and submits each year, to the Parliament, a report on the nominal accounts of the consolidated general budget of the expired budgetary exercise, also including the found irregularities.

The Court of Accounts carries out its activity autonomously and performs three types of audit: financial audit, performance audit and compliance audit (thematic control). They tackle the following issues:

1. whether the accounts accurately present, in all material respects and in accordance with the applicable financial reporting framework, the financial statements, the results and cash flow for the given exercise – the financial audit;
2. whether a good financial management is being provided – in other words, the performance audit, focused on:
 - a. economy – whether the funds allocated to an activity have been used economically;
 - b. efficiency – whether the results of the activity were obtained with the lowest amount of allocated resources;
 - c. effectiveness – whether the designated objectives were met;
3. whether the operations comply, in all material respects, with the applicable legal and regularity framework – the compliance audit.

According to the 2011 activity program, the Court of Accounts' central and regional structures have conducted a number of 3218 actions, including financial and performance audit missions, control actions, actions to check the carrying out of the measures ordered by decisions, as well as research actions.

Synthetically, the Court of Accounts for 2011 activity results are as follows:

- 2,449 verification actions, out of which: financial audit missions: 1,534, performance audit missions: 302, control actions: 613

– 585 actions to check the implementation of the measures ordered by decisions, out of which: research actions: 184.

Only 9 percents of the activities performed by the Court of Accounts' represented performance audit in 2011, which is a rather small percentage, that should be increased in the following years.

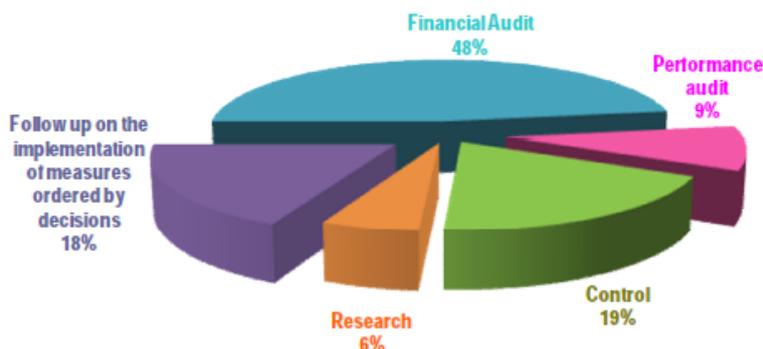


Figure 4. The graphic of the actions carried out by the Romanian Court of Accounts in 2011.

Source: Romanian Court of Accounts – *Annual Activity Report 2011*, p. 13.

The audit missions and control actions carried out by the Court of Accounts in 2010 at the 2751 entities have identified cases of non – compliance with the legal regulations, deviations and irregularities that have resulted in the failure to monitor and collect certain budgetary revenues or have generated damages. The evaluation of the deviations found is as follows:

Table 2.

Actions carried out by the Romanian Court of Accounts in 2010.

Explanations	m.u.	The evaluation of the deviations found					
		-the estimated amount	subsidiary income	TOTAL	of which:		
A	B	1	2	3=(1+2)-(4+5+6)	4	5	6
Additional incomes	mil. lei	1,779.43	632.37	2,411.80	492.48	249.50	1,669.82
	mil. euro*	422.68	150.21	572.89	116.98	59.27	396.64
Damages	mil. lei	736.89	19.13	756.02	464.40	59.35	232.27
	mil. euro*	175.04	4.54	179.58	110.31	14.10	55.17
TOTAL	mil. lei	2,516.32	651.50	3,167.82	956.88	308.85	1,902.09
	mil. euro*	597.72	154.75	752.47	227.29	73.37	451.81

* The average exchange rate leu/euro in 2010, 4.2099, was used.

Source: The National Bank of Romania

Source: Romanian Court of Accounts-*Annual Activity Report 2010*.

From the data presented above, we can see that the damages caused by deviations found with the help of performance audit assignments in 2010 amounted at 14 million euro, which is not a very big sum, but it is a novelty for the Romania's auditors. The total of measures ordered in 2010, was 14,866, out of which 11254 as a result of financial audit missions, 291 as a consequence of the performance audit missions and 3321 as a result of compliance audit missions.

In 2005, the Romanian Finance Ministry has adopted 25 standards of internal control, in fact principles generally accepted by the European Commission, concentrated on five domains: control, performance and risk management, information and communication, control activities, auditing and evaluation.

6. Conclusions

Generally, performance audit is a new function of the management, helping stakeholders to take the right decisions on an objective basis; it plays as a tool to implement a sound financial management of the organizations, no matter if they are private companies or public ones, such as those activating under the umbrella of the United Nations or of the European Union. It is not just a instrument like financial audit that can be easily standardized, it is a useful tool that grants information and feedback for organization development. Implementing the performance audit of public funds is a matter of respect for tax payers and should be extensively introduced in all the institutions on public budget. For a country like Romania, relaunching an appropriate auditing practice has been an essential step towards a better public management.

In the future years, developing the institutional framework, and boosting up the role of performance audit is a key for progress, transparency of public expenditure, bettering the perception over the macroeconomic environment and consolidating the democratic values.

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