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ASSESSMENT OF THE COURT OF ACOUNTS' ACTIVITY PERFORMANCE

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Abstract:

I have drafted this work from the standpoint of the head of a financial audit competences structure, being persuaded that, as a general rule, performance should not be acknowledged only subsequent to the completion of a human activity. Performance should be conceived, programmed, followed up and implemented, while the acknowledgement of its level would be just the end of a complex human enterprise, unfolded in various economic domains. In this context, we approached both a series of theoretical elements relating to performance measurement and to quantitative indicators, and the risks system associated to activities, the dimension of which, if not properly assessed or erroneously appreciated, significantly impacts on performance. We chose the Court of Accounts for this undertaking because it is one of the representative institutions of the democratic rule of law, the financial audit activity of which is especially focussed on the budgetary domain. In the framework of public funds fraudulent acts multiplication, we reckoned it is necessary to introduce a series of theoretical issues related to financial control/audit actions performance, so as to diminish, if not eradicate, this disaster currently confronting the Romanian society.

Keywords: Court of Accounts Romania, performance measurement, quantitative indicators.

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He who overlooks a mistake,
welcomes lawlessness in!
Publilius SYRUS,
1st century, B.C.

The activity conducted by the Court of Accounts, as any other human activity, needs to be analysed and assessed in order to establish its contribution to the performing development of the economic, social and even political processes which society undergoes within a certain time frame.

The Court of Accounts belongs to the category of State public institutions which conducts in this capacity two categories of activities:

- **financial control/audit of the establishment and use of public funds:**
- **own organisation, operation and maintenance activities.**

Both categories of activities are conducted in keeping with its organisation and operation law, which materialise, as mentioned above, in the contribution of the Court of Accounts to the fulfilment of the country's general development objectives. The assessment of the activities conducted by the Court of Accounts to establish their performance level can and should be measured through the effects these bring about, both in the material and especially in the quality plan of the economic and social process. The assessment of the way the financial control/audit activity has been conducted in relation to the programmed objectives and conditions, as well as to the costs engaged in this complex economic process are expressed through the indicator known under the generic name of the "4 Es" System – Economy, Efficiency, Effectiveness and Equity. The system has generated, in the economists' community and not only, strong controversies in point of definition and range of the four component parts.

We shall further introduce our own theory in this matter, highlighting that the economy, efficiency and effectiveness associated to any human activity, previously programmed, including those unfolded by the Court of Accounts' structures, can only be assessed after they have been completed. Only in the Equity stage can one assess whether the activities conceptually programmed within the framework of the "3 Es" – economy, efficiency and effectiveness – have been fulfilled according to plan. If, at a theoretical level, there are no strongly divergent opinions on economy, however the efficiency and effectiveness notions continue to generate controversies among theoreticians in the field, some of them would even consider that "economic

efficiency is synonymous to effectiveness", which is erroneous, in our opinion, as we are going to further demonstrate. A general definition of economic efficiency would be that it is the quantified expression of the effects obtained from an economic activity, assessed from the point of view resources used to fulfil it.

I. Romanu and I. Vasilescu, authors of "Eficienta economica a investitiilor si a capitalului fix" (*Economic Efficiency of Investments and Capital Assets*), published by Didactica si Pedagogica Publishing House of Bucharest, in 1993, define efficiency as follows: "Economic efficiency builds a bridge between the volume and the quality of efforts, as an effects generating factor on the one hand, and the results obtained within a certain period, as a consequence of the respective efforts implementation, on the other." However, the authors do not also tackle the effectiveness notion, though there are differences between the two categories, both in point of nuance, generated by the different economic content, and an etymological one.

Thus, if the notion of efficiency [Re] is generally defined as the ratio between costs [C] and the effects obtained [Te], quantified with the same measurement unit, effectiveness [Ref] is defined as the ratio between the same costs[C] and only the programmed effects [Tef] obtained in their total [1].

Mathematically, the ratio between efforts and effects resulting following these efforts is expressed through the following relation:

$$\mathbf{Re} = \frac{\mathbf{C}}{\mathbf{Te}}$$ where:

Re – Efficiency of the analysed activity;
C - Overall engaged costs;
Te - Overall resulting effects.

Defined as such, the efficiency of the analysed activity is maximum when the ratio Re is unitary or as close to the unit as possible. Efficiency may also be expressed through the reverse ratio R1e = 1/ Re in which case the efficiency of the analysed activity is maximum when the indicator R1e defined as ratio between effects and costs expressed in the same measurement unit, is minimum.

The total [Te] of the effects resulting from the unfolding of an economic activity is synthetically expressed by the mathematical relation:

$$Te = \sum_{i=1}^{n} E(i)$$, where:

Ei = Effects (i) obtained;
n = total number of resulting effects.

In real life, it is possible to attain the ideal situation where the overall resulting effects equal the overall programmed effects; in this instance, the efficiency of the activity is equal to the effectiveness. Most of the times though, due to factors intervening in activities unfolding, known under the generic name of risk factors, the overall programmed effects, for various reasons, are altered by other effects, which are collateral, adverse or possibly belong to the programmed effects category. The ratio between the overall programmed costs and the overall resulting effects from which the overall adverse effects is deducted, and possibly it is added to the overall effects belonging to the programmed ones category, offers the genuine dimension of the efficacy notion [Ref] which, mathematically, may be expressed through the relation:

$$\mathbf{Ref} = \frac{\mathbf{C}}{\mathbf{Tef}}$$

The resulting [Tef] is sized by the relation:

$$Tef = \sum_{i,a,n,p=1}^{n,m,p} \left[\sum_{i=1}^{n} E(i) - \sum_{a=1}^{m} E(a) + \sum_{np=1}^{p} E(np) \right]$$ **, where:**

Ei - Effects (i) obtained;
Ea - Adverse (a) effects;
Enp - Effects (np) falling under the category of programmed ones
n - Overall number of resulting effects
m - Overall number of adverse effects;
p - Overall number of effects falling under the category of programmed ones.

In this context, the performance of a human activity conducted in the economic framework, but not exclusively there, is given by the relation between efficiency and effectiveness and it is maximum for the ratio:

$$\mathbf{Rr} = \frac{\mathbf{Re}}{\mathbf{Ref}} = 1$$ **, where:**

Rr - the actual resultant of the effects obtained.

Considering the nature of the activities conducted by the Court of Accounts, the assessment of their performance based on the above-mentioned theoretical elements is done in practice by setting up and calculating specific efficiency indicators, which

are derived from the general performance indicators, but which are adapted to these activities.

1. The overall number of programmed economic structures for control/audit missions [Nt]

$$\mathbf{Nt} = \sum_{i=1}^{n} \mathbf{Nat(i)}\text{ ,where:}$$

Nat – The overall number of economic structures in a given economic sector;
n - The overall number of the structures programmed for control.

The economic structure notion defines the ensemble of entities established by law to conduct economic activities - public institutions, commercial companies, self-managed entities and other.

2. Coverage of economic structures by control/audit missions [Gc].

$$\mathbf{Gc} = \frac{\mathbf{Nat}}{\mathbf{Nt}} \mathrm{x}100\text{ , where:}$$

Nt – The overall number of economic structures in an economic sector;
Nat – The overall number of economic structures programmed to be covered by control/audit missions.

3. Implementation degree of programmed control/audit missions [Gr].

$$\mathbf{Gr} = \frac{\mathbf{Nac}}{\mathbf{Nat}} \mathrm{x}100\text{ , where:}$$

Nac – The overall number of controlled/audited economic structures.

4. Overall amounts owed by the economic structures, as found during control/audit missions [Sd].

$$\mathbf{Sd} = \mathbf{Sta} + \mathbf{Stp} + \mathbf{Sas}\text{ , where:}$$

Sta – The overall amounts owed resulting from fines;
Stp – The overall amounts owed resulting from damages found and calculated;
Sas - The overall amounts owed resulting from other deviations found.

5. Collection of the amounts found and owed [Gi].

$$\mathbf{Gi} = \frac{\mathbf{Si}}{\mathbf{Sd}} \mathbf{x}100$$

, where

Si – the overall amounts owed and collected

6. Weight of the expenses made to conduct a control/audit mission in overall amounts found and collected [Pch].

$$\mathbf{Pch} = \frac{\mathbf{Cht}}{\mathbf{Si}} \mathbf{x}100$$

, where:

Cht = The overall expenses (material and payroll) incurred to conduct a control/audit mission

7. Use of time allotted to complete a control/audit mission [Gut].

$$\mathbf{Gut} = \frac{\mathbf{Vef}}{\mathbf{Vd}} \mathbf{x}100$$

, where:

Vef – Time worked proper
Vd - Time allocated to the mission

The domain of the performance assessment indicators is not limited to the above mentioned ones. Currently, the structures of the European Union competent in this field drafted standards establishing indicators specific to this objective, but which fall into the category of general theoretical concepts. It is mandatory to mention that the above listed indicators only offer a quantitative image of the performance of the Court of Accounts' activities; the quality ones are equally important, but do not always have a commensurable expression. Together, they generate an important indication of the general quality of the institution's activities. The explanation is that

human activity performance assessment – and that of the institution's activities - cannot be made only based on theoretical elements, disregarding risks which, inherently or apparently, may significantly impact the conduct of activities at the programmed quality level.

As mentioned in the preamble, performance level needs to be conceived, programmed and implemented, and not only theoretically acknowledged, without having been taken through the managerial process [2].

The practice of the control/audit activity showed in a defining way, that the performance assessment of any activity conducted by the Court of Accounts, including the own ones, is not relevant if it is concentrated outside the risks action impacting them, a process mainly related to the managerial act.

The main risk, in most of the cases, impacting the performing conduct of the institution's activity is the control/audit risk, a category defined as the possibility that a situation may emerge which is generated by the influence of elements which could make the financial controller/auditor establish an erroneous situation of an analysed economic activity, a situation which would not reflect reality, as the latter was recorded in the financial and accounting documents.

Ignoring control/audit activity associated risk may generate effects, some of them discreet in character, which may turn into as many sources altering the information captured and used by the financial controller/auditor to ground the decision relating to the analysed activity situation.

Whenever, for various objective or subjective reasons, the information alteration reaches a critical threshold which may trigger a significant alteration of the decision made by financial controllers/auditors – the most serious of which being establishing liabilities in the absence of a legal basis – it can be inferred that risk discreet effect has taken the form of a destructive effect, partially or totally compromising performance.

As a general rule, assessing risks associated to any human activity, especially the financial control/audit associated one is a difficult operation, considering its being dependent on many influential issues, the most significant ones being identified in the sphere of control/audit missions organisation and conducting management.

Among these elements, the most important factors altering performance are:

- **erroneous, sometimes even abusive, perception and/or interpretation of legal norms regulating the analysed activity;**
- **incorrect enforcement or failure to enforce control/audit procedures and techniques to get financial information;**
- **insufficient or subjective assessment of internal financial control systems and of their results.**

Under the category of general control/audit risks, the main derived risks, associated to the control/audit activity are:

1. Inherent risks falling under the category of risks associated to the conduct of any human activity and consist in the possibility that there exist or do not exist elements which could make an authorised person, in this instance the financial controller/auditor, to erroneously establish the situation, at a given moment, of the phenomenon, activity or operation under analysis.

The assessment of the control/audit missions' inherent risks is conducted by passing judgment on the value and compliance, based on the analysis of internal and external influencing factors relating to the activity to be controlled/audited, among which the management quality of the analysed entity is the most important, but not the only one.

Management quality results from the analysis of the main general elements directly establishing the management act, namely:

- **the nature and object of the activity conducted by the economic entity;**
- **the conditions in which the main material, financial and accounting activities, as well as investments, services and others are carried out;**
- **other influencing factors, among which the staff managerial experience, changes frequency at the level of its structure, but also the reaction of managers to various conjunctural situations which could make them order perturbing actions.**

2. Examination and analysis risks associated to financial control/audit activity may be defined as representing the possibility to use elements which could trigger grounding an erroneous opinion, based on false information obtained as a result of the failure to observe or of the inadequate use of control/audit norms and standards. Assessing the examination and analysis risk is conducted in two steps, as follows:

- primary assessment during which a first level of the examination and analysis risk is established based on the judgment of a number of factors which could generate risk, among which:

a. **efficiency of accounting and internal control systems in the erroneous information prevention and detection activity;**
b. **the capacity of the financial controller/auditor to internalise the accounting and internal control standards used by the examined economic entity;**
c. **the availability of the financial controller/auditor to also conduct additional examination actions, the results of which would ground the risk level as assessed in the first step.**

- the final assessment of the examination and analysis risk level associated to control/audit activities is conducted based on the comparison of primary risk established level with other evidence obtained by enforcing general control procedures and techniques, especially with the ones obtained by using accounting documentary and factual control procedures.

3. The risk involving failure to detect deviations is defined as being the possibility that financial controllers/auditors use, during the opinion grounding process, false information resulting from the defective examination and analysis of documents.

The quality of the information grounding the opinion on the situation, at a given time, of an analysed activity depends on several factors, among which mention shall be made of the following:

a. the way financial and accounting records are organised and the way specialised structures apply standards regulating the analysed activities' financial results recording;
b. professional capacity of the staff conduction control/audit activity and the latter's availability to enforce all standards and norms provisions;
c. receptivity of the staff in charge of the economic entity's management to the internal control structures proposals on ruling out of the deviations found.

But the most significant challenge of the control/audit activity risks remains the major risk involving non detection of risks, a subject matter to be analysed separately, given the special implications it brings to any system.

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