

Building up Strength in Performance Auditing & Challenging Examination of Cross-sectional Topics

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I. Building up Strength in Performance Auditing

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- The essential stages of performance auditing (3 colour scheme)
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II. Challenging Examination of Cross-sectional Topics

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Building up Strength in Performance Auditing

Brief introduction to the power of the Czech SAO regarding performance audit

- Act No. 166/1993 Coll., concerning the Supreme Audit Office, in its Section 4 paragraph 1 says:

„When carrying out audits, the Office shall examine whether the audited operations conform to legal regulations, shall review whether they are substantively and formally correct, and shall judge whether they meet economy and effectiveness“.

The essential legal regulations concerned with economy, efficiency and effectiveness:

- Act No. 218/2000 Coll., concerning budgetary regulations ...
- Act No. 219/2000 Coll., concerning assets of the Czech Republic...
- Act No. 320/2001 Coll., concerning the financial inspections in the public administration...



Building up Strength in Performance Auditing

Brief introduction to the organisational structure of the Czech SAO regarding performance auditing

- **Until 2006** PAs were carried out by all audit departments without support of PA methodical team
- **Since 2007** Performance Audit Unit has been providing systematic methodological support through the whole audit section and has been carrying out PAs focusing especially high-profile and cross-sectional topics

Current effects on performance auditing

- Better quality of performance auditing
- Cross-sectional topics examined widely and more often
- Comprehensive topics examined in more detail

Emerging issues

- Insufficient team involvement of other audit departments
- Identification of opportunities to rationalise audit processes
- Introduction of performance indicators for efficiency gains
- Encouragement of cooperation in performance auditing between the SAO and audited bodies



Building up Strength in Performance Auditing

The essential stages of performance auditing

Output/Stage	Responsible
One sheet (Preliminary observation and analysis)	Auditor
Preliminary study	Audit team
Audit suggestion	Director/Chief of Audit Section
Approved audit suggestion	President of the SAO
Approved audit within the plan of auditing activities	Board of the SAO
Audit programme (initial field work)	Designated auditor
Audit protocol (field work)*	Designated auditor
Audit report*	Member of the Board of the SAO

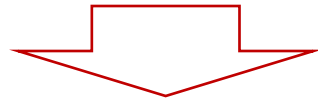
* These outputs are not covered by the presentation



Building up Strength in Performance Auditing

Blue (planning) stage - issues regarding audit criteria

- Takes place approximately from 6 to 12 months before the field work starts
- General understanding of the area to be audited can not be comprehensive because of following reasons:
 - Frequent changes in policy targets of the audited body
 - Transformation processes are ongoing
 - Budgetary instability (high number of budgetary provisions)



Development of the main audit question (audit objective) and audit criteria



- How should the goals and objectives best be interpreted and measured?
- What is the best-known comparable practice?



Building up Strength in Performance Auditing

Blue (planning) stage - issues regarding audit criteria

Examples of preliminary studies – Shall we proceed - or not?:

- Outsourcing of non-military services at the Ministry of Defence (MoD)
- PPP project of a court house in Ústí nad Labem
- Central government organizations' use of consultants
- PPP project of a hotel-type lodging house and a parking site at Military Hospital
- Official Development Aid Projects provided by the Czech Republic

- Programs supporting socially challenged groups (minorities) in their inclusion
- Implementation of Intelligent Transportation Systems (ITS) on motorways
- eGovernment projects managed by central government organizations



Building up Strength in Performance Auditing

Blue (planning) stage - issues regarding audit criteria

Outsourcing of non-military services at MoD

What criteria were adopted?

Criteria related to

- Strategic aim and objectives of MoD
- Outsourcing project performance targets
 - hard performance data
 - soft performance data
- Good practice
 - International experience
 - Domestic experience
 - Cross-cutting good practice (applicable in all decision making phases)
 - Good practice related to particular phase of outsourcing implementation



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Blue (planning) stage issues regarding audit criteria

Outsourcing of non-military services at MoD

Why these criteria were adopted?

- Outsourcing supports the MoD to achieve better performance in military tasks
 - high-profile aim (Source: MoD's Logistic Strategy)
- Outsourcing project's objectives - need to identify performance targets



Where to find templates of performance criteria?

- Outsourcing projects in defence from other NATO members
- International experience with outsourcing in private sector
- Domestic experience with outsourcing in both sectors
- Literature on outsourcing implementation
- Expert from the University of Defence in Brno was consulted



agreed
criteria



Building up Strength in Performance Auditing

Green (initial field work) stage - issues regarding audit criteria

Audit programme - Developed (MECE) audit questions were piloted ...,i.e.:

Outsourcing of non-military services at the MoD

2.1 Did the implementation of outsourcing reach the set goals?

2.1.1 Did the implementation of outsourcing result in better quality of support services?

2.1.2 Did the implementation of outsourcing result in financial savings?

3.1 Were the risks of outsourcing minimised?

3.1.1 Did the MOD create a functional mechanism for solving requirements “immediately provide for!”?

3.2.2 Did the MOD succeed in preventing the risk of the “outsourcing trap” (i.e. that the outsourcing will not result in the decrease of personnel)?

4.1 Did the MOD create an environment in which the principles of 3E could be attained?

4.1.1 Has the MOD already compared the data on outsourcing performance with the previous situation (in-house delivery) and among various army units as beneficiaries of support services?



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Green (initial field work) stage - issues regarding audit criteria

Audit programme – Illustration below summarises the relationship between 3E

Ministry's objectives: ... <i>Better service for less money</i>	Did the implementation of outsourcing result in better quality of support services?
Inputs – Staff or physical resources required to deliver an output	Trained staff to administer procurement, contractors to make bids
Output – The immediate result of the activities of Ministry and its contractors	Outsourced services to deliver (catering, cleaning/road maintenance, guarding)
Outcomes – The ultimate results the Ministry seeks to achieve from its activities, and the activities of those it influences, in order to meet its objectives	The entire staff has possibility to get hot food in specified amount and compound. Roads in military areas are passable in winter, MoD does not need maintenance vehicles any more...



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Green (initial field work) stage - issues regarding audit criteria

Audit programme – Illustration of designing PA Matrix

Audit questions Level 2	Level 3	Level 4
Did the implementation of outsourcing reach the set goals?	Did the implementation of outsourcing result in better quality of support services?	Did outsourced cleaning/maintenance service reach the expected quality of service?
Criteria	Quality to meet MoD project standards & good practice	Quality to meet requirements stipulated in contracts
Evidence	Facts - Numerical evidence (Complaints, Contractual fines) Descriptive evidence (on-site audit, photographs), Qualitative information (assessment from MoD staff)	
Information source	MoD Staff, MoD reporting,	Signed contracts, MoD Staff, Suppliers reporting
Data collection method	Observations, examination of documents, in person survey of MoD staff, benchmark against comparable contracts	
Data analysis method	Quantitative (comparisons, ratios, flowcharts, case studies) Qualitative evidence analysis	



Building up Strength in Performance Auditing

Example

Input data

- Outsourcing target: Reach the expected quality of security guards service for the most competitive contract price reflecting the market price
- Key performance indicator: Costs - hourly rate for security guard?; Effectiveness - number of violations in secured area and caused damages
- Benchmark: Price of one particular contract (benchmark against comparable contracts)

Issues

- The different standards of security service were adopted in individual cases
- The different contracting practice was used through procurement units
- The lack of accountability for targets and measure of key performance indicators



Challenging Examination of Cross-sectional Topics

What common ground is among these audit topics?

- **Outsourcing** of non-military services at the Ministry of Defence (MoD)
- **PPP project** of a court house in Ústí nad Labem
- Central government organizations' **use of consultants**
- **PPP project** of a hotel-type lodging house and a parking site at Military Hospital
- Official **Development Aid Projects** provided by the Czech Republic



Challenging Examination of Cross-sectional Topics

Learning from Experience

How to develop robust audit criteria?

SMART targets



SMART criteria

We need to consider priorities and select those aspects of performance which are of particular performance.

Performance standard
Performance indicator
Benchmark
Good practice

We encountered a number of challenges in measures relating to these criteria



Challenging Examination of Cross-sectional Topics

Learning of Experience

There is need to ensure an existence of sufficient performance information at the planning (blue) stage,

therefore within the preliminary examination of audited subject we try to verify particularly if ...

- standard output definitions were developed
- performance data aligns with project aims and objectives
- systematic check by a project management was completed
- consultancy reviewed and appraised a project
- monitoring and evaluations procedures are applied



Thank you

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