

What influences disclosure choice in EU Supreme Audit Institutions' performance audit annual reports?

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Introduction

The importance of governmental political and economic decisions has increased following the 2007 financial crisis. Stakeholders need information that confirms whether government funds have been spent correctly and in accordance with regulations. They want to know the extent to which public organizations have achieved their performance objectives. This is a task of potentially great significance at a practical level for citizens, and at a more abstract level for the health and vitality of democratic governance (Pollitt, 1999). The Performance Audit (PA) is one of a number of public reform tools introduced with the objective of increasing the credibility and accountability of the public sector.

PA in public sector is carried out by national Supreme Audit Institutions (SAIs), and involves an independent examination of the efficiency and effectiveness of government undertakings, programs or organizations, with due regard to economy, and the aim of leading to improvements. PA enables governments to demonstrate to the public whether they have fulfilled their responsibilities and been accountable with regard to resources. In order to assess efficiency it is necessary for economic, efficient and effective gains to be measurable (Stroobants & Bouckaert, 2012).

This article gives an overview of the EU SAIs' disclosure of their PA activity as a tool to increase SAI's transparency and accountability. It examines Annual Activity Reports (AARs) that are publicly available on websites, in either English or French, from November 2014 to May 2018. This period begins with the 2013 AAR, the year when ISSAI 300: Fundamental Principles of Performance Auditing was approved.

Since all the 28 member states of the EU are members of the international organization of the world's SAIs, (INTOSAI¹), it is expected that, according to the Principle of transparency and accountability (ISSAI 20) approved in 2010, the SAIs should:

- Report publicly on the results of their audits and on their conclusions regarding overall government activities (principle 7); and
- Communicate widely and in a timely manner on their activities and audit results through the media, websites and by other means (principle 8).

The ISSAI standards represent the "best practice" to be applied by the SAIs, taking into account the constitutional, juridical and social specificities of each SAI (ISSAI 100).

¹The International Organisation of Supreme Audit Institutions (INTOSAI) operates as an umbrella organisation for the external government audit community. For more than 50 years it has provided an institutionalised framework for supreme audit institutions to promote development and transfer of knowledge, improve government auditing worldwide and enhance professional capacities, standing and influence of member SAIs in their respective countries.

Moreover, the SAIs Performance Measurement Framework (SAI PMF) was launched in 2016. This provides SAIs with a framework for making voluntary assessments of their performance against the ISSAIs and other established international good practices for external public auditing.

At EU level, the European Court of Auditors (ECA) underlines the idea of “being transparent”. This means disclosing information about management and activities, and publishing the results of audit work. In this way, SAIs can help citizens gain a better understanding of how SAIs fulfill their role and promote robust financial governance.

In this context, our first research question is related to SAIs’ PA disclosure: **Do SAIs disclose performance audit issues in their AAR?**

The second issue is related to the factors that might influence SAIs’ PA disclosure. There is limited literature covering PA done by the SAIs in the EU. Moreover, the question was raised on the potential links between the country level governance and PA. The literature referred several times to the relationships between PA and the governance indicators as defined by the World Bank (accountability, political stability, government effectiveness, regulatory quality, rule of law and control of corruption), and these are summarized below.

Relationship between PA and accountability

Audit reports can assist politicians and other officials who are not actively involved in the management of the public sector organizations to discharge their accountability functions. In addition, through audit reports, politicians and other officials could hold executives accountable and reduce the information gap between them (Roberts & Pollitt, 1994). In consequence, audit reports have the potential to strengthen the accountability relationship between public sector entities and citizens (Lonsdale, 2008).

But, the link between external auditing and accountability is very complex (Glynn, 1996; Everett, 2003; Pallot, 2003;) because the information produced by audit is too specialized for non-executives, such as politicians, to understand, thus, the ability of politicians and the general public to hold executives accountable through external audit is low.

Relationship between PA and governance effectiveness

Performance audit is used by the public sector to provide independent validation of the savings they have achieved. It also helps to ensure that public and other third parties have confidence that government effectiveness is enhanced as announced. The link can also work the other way around: with audit functioning as a general progress control for assessing what progress has been made against the final program objectives. It can therefore encourage government effectiveness by ensuring that resources are used economically and efficiently in order to obtain the desired goods and services and the planned effects and impact. As Bartlett (2009) states the most urgent public policy question continues to be: how can public services achieve more for less, providing services that meet people’s needs (i.e. effectiveness), while costing less (i.e. economy and efficiency)?

Relationship between performance audit and regulation quality

The SAIs’ structure, organization, activities and responsibilities show considerable variation across countries. Some central bodies are linked primarily to executive government (even being contained within it), others are linked primarily to the legislature, and still others are independent power centers sustained by the law and executive legislative political coalitions. Building the concept of

"audit independence" into the definition of performance auditing is essential for the SAI. Regulation quality is essential for ensuring that the performance audit role is achieved.

Although different countries have different definitions and legislation (Burrowes&Persson,2000), based on the literature review, it was noted that the legal framework for the performance audit, and the independence of the institutions performing it, plays a crucial role in the impact and role of the performance audit (Simon et all, 2008).

Relationship between PA and the rule of law

PA may contribute to the respect of the rule of law to a certain extent. PA is designed to compare operational performance against norms and predetermined criteria. PA can therefore be designed to include some references to laws and regulations and to assist in identifying the respect of laws and regulations.

Relationship between PA and control of corruption

Corruption erodes public confidence in political institutions and leads to contempt for the rule of law, it distorts the allocation of resources and undermines competition in the marketplace, and it has a devastating effect on investment, growth, and development There is an increasing desire among legislators to take the initiative in controlling bribery, fraud, and corruption. The SAIs cannot stay indifferent. They have a role in deterrence and prevention of corruption in the public sector. PA emphasizes preventive measures such as promotion of accountability through annual financial reports and evaluation of internal control structures (Dye &Stapenhurst, 1998). Still SAIs appears to take little direct responsibility for detection of corruption (Kayrak, 2008) and there is a gap between stakeholder expectations and audit mandates for SAIs. Traditionally, the SAIs' primary responsibility is to detect irregularities and not to investigate fraud. However, PA may contribute to the detection of corruption and the respect of the rule of law to a certain extent. Because PA focuses on operational issues, especially in high-risk areas, it is not uncommon for auditors to notice some activities that are not in accordance with rules and regulations.

Relationship between PA and political stability

One of the SAIs' most important tasks is to provide assurance that the systems in a country work in a just and professional way and that people who abuse the system are held to account. Parliament relies on PA for assurances about the accuracy and regularity of government accounts (Reichborn-Kjinnerudet all, 2015). SAIs emphasizes preventive measures such as promotion of accountability through annual financial reports and evaluation of internal control structures (Dye & Stapenhurst, 1998). There is nevertheless a tacit expectation from the general public that SAIs take a central role in political stability, through the audits.

In consequence, our second research question is the following:

Is the level of disclosure of performance audit done by EU SAIs' influenced by governance indicators?

1. Methodology

To respond to the first question related to PA issues disclosed in AAR on the SAIs' websites, in the period November 2014-May 2018, all the websites of the SAIs in the 28 countries of the European Union have been analyzed. We have collected all the Annual Activity Reports (AAR) in English and

French found on the websites, for each country for the period 2013-2017. The analysis of the AARs was done in 4 rounds: November-December 2014, January-June 2015, August –December 2016, January- May 2018. After each round of analysis, emails were sent to the SAIs for the missing AARs in English /French. However, in the majority of cases, we were informed that no translation into English of the AAR existed for the missing ones.

To measure the quantity of disclosure, a disclosure index was used. Although there were some studies done on the PA on SAIs (Pollitt, 2003), no disclosure index exists in the literature. Therefore, we created our own disclosure index. The index is composed by 4 elements assigned equal importance (as described in the table below), and a score between 0 and 1 was given for each item, where 0 is no disclosure and 1 is full disclosure (possible scores: 0, 0.25, 0.5, 0.75, 1). The sum of all the items divided by the sum to the total number of indices provides the disclosure index value.

Table 1: Indices defined for the Disclosure Index

No	Indices for PA
1	PA is defined in the AAR
2	PA performed is quantified in the AAR
3	The PA performed is explained in the AAR
4	The PA follow up are presented in the AAR

To exemplify the arguments and how the values (0, 0,25, 0.50, 0,75 and 1) were allocated the first index is presented below. According to the literature, performance audit can be found under several names, such as value for money audit, operational audit (Burrowes, 2000) and comprehensive audit. Several definitions are given: some consider it as some kind of evaluation, which has already been done for a long time. Different countries have different definitions and legislation. Whatever the type of auditing is called (value for money, efficiency, effectiveness or comprehensive) its function is to hold government activities and programs to account not only for the extent to which their spending and actions were authorized but whether they were appropriate in a managerial sense (Athmay, 2008). The definition of PA as presented in the AAR will help to understand what exactly the SAI calls PA in the specific country and to make a comparative study within the SAIs.

The scoring for the index: "PA defined in the AAR 2013" is described below in Table 2.

Table 2: PA defined in the AAR 2013

Score	Reasoning
0	The PA is not defined in the AAR
0.25	The PA is not defined in the AAR as such, but some performance aspects are included in the other types of audit performed (financial, compliance)/ not clear definition
0.5	In the definition of the PA only one of the 3Es (economy, efficiency, effectiveness) is mentioned in the AAR
0.75	In the definition of the PA two of the 3Es (economy, efficiency, effectiveness) are mentioned in the AAR
1	The PA (3Es) is defined in the AAR.

In order to answer the second question, as to whether the level of PA disclosure in AAR done by EU SAIs is influenced by governance indicators, the calculated disclosure index and the governance indicators published by the World Bank for the year 2013 (Annex 1) were analyzed using statistical tools to detect a relation between them.

2. Results

2.1. PA issues disclosed on the SAIs' AAR

Table 3 presents whether an AAR in English or French exists (Y-Yes, N-No) exists for each EU SAI for the period 2013-2017

Table 3: Existence of Annual Activity Report (AAR) for the years 2013-2017

Country/AAR per year	2013	2014	2015	2016	2017
Austria	Y	N	N	N	N
Belgium	Y	Y	Y	Y	Y
Czech Republic	Y	Y	Y	Y	Y
Cyprus	Y	Y	N	N	N
Denmark	Y	Y	Y	Y	Y
Finland	Y	Y	Y	Y	Y
France	Y	Y	Y	Y	Y
Germany	Y	Y	Y	Y	N
Hungary	Y	Y	Y	Y	Y
Latvia	Y	Y	Y	Y	Y
Lithuania	Y	Y	Y	Y	Y
Luxembourg	Y	Y	Y	Y	Y
Malta	Y	Y	Y	Y	Y
Netherlands	Y	N	Y	N	N
Poland	Y	N	N	N	N
Romania	Y	Y	Y	Y	Y
Slovakia	Y	N	N	N	N
Slovenia	Y	Y	Y	Y	N
United Kingdom	Y	Y	Y	Y	Y
Total	19	15	15	14	12

The highest number of AARs was recorded in 2013 and for the period 2014-2017 the number of AAR decreased. For this reason, year 2013 is used for our next research issue.

A possible explanation for the AAR disclosure evolution in the period analyzed might be the fact that the reports for 2013, prepared and published in 2014 were the first, after the ISSAI 300:

Fundamental Principles of Performance Auditing was published in 2013, and being a new issue, the AAR preparers were more focused on it.

The countries where on the SAIs website where not founded 2013 AAR, are presented below:

Table 4: Countries without a 2013 AAR in English/French

No	Country	AAR 2013 in national language	Other information
1	Bulgaria	No AAR on the site	
2	Croatia	AAR only in Croatian	
3	Estonia	No AAR in the site	AAR in English only until 2010
4	Greece	No AAR on the site	
5	Ireland	No AAR on the site	
6	Italy	AAR only in Italian	
7	Portugal	AAR only in Portuguese	AAR in English for 2017
8	Spain	No AAR on the site	
9	Sweden	No AAR on the site 2004	AAR in English only until

Three EU SAI (Croatia, Portugal and Italy) published their 2013 in their national language, rather than in an international language, which takes the total number of EU SAI publishing in any language up to 22.

Analyzing the 9 SAIs website from Table 3, there is an English version of the website in the case of Bulgaria, Estonia, Portugal and Sweden that contains many PA reports for specific topics. The Portuguese website also contains the AAR 2017. The Croatian and Spanish websites contain some relevant reports and the Italian website has one webpage entitled ‘English Corner’.

In conclusion, for the year 2013, 79 % of the EU SAIs publish their AAR on their website, and 68% are also available in an international language. Unfortunately, the results show that there has been a decrease in the number of AARs available in an international language on the SAIs’ websites over the period 2013-2017.

Table 5: Evolution of AAR in E/F on the SAIs’ websites

	2013	2014	2015	2016	2017
Percentage of AAR in E/F on the SAIs site	68%	54%	54%	50%	46%*

*12+ Portugal

The data collected for the disclosure index of each of the 19 EU countries are presented in Annex 2. The results show that Lithuania, Slovenia, Finland and Denmark have the highest PA disclosure index whilst Latvia and Poland have the lowest.

Moreover, based on the analysis of the AAR for the 19 countries, the following observations are worth mentioning:

- *PA is defined in the AAR by all the 19 SAIs analyzed*

At least the first steps towards reporting issues related to performance auditing were done in all the 19 countries analyzed. The definition and the mandate of performance audit were found in all the reports read, and the majority of them received the maximum score of 1, and for this reason this index has the highest average value (0.91) for the whole group. (Annex 1).

- *The PA performed was quantified in the AAR*

The number of PAs performed was disclosed in the majority of AAR. Moreover, in 7 countries, the number of PAs as a percentage of the total number of audits performed was clearly mentioned. The average value for this index for the whole group is 0.79.

From the analytical analysis based on the AAR disclosures we observed that Denmark has the highest percentage of PAs out of total audits in 2013. However the format in which the data is given means that we cannot tell whether Denmark is carrying out a large number of PAs compared to other countries, or whether it is simply that Denmark is carrying out very few audits in total compared to other countries. The data is presented in the table below:

Table 6: Percentage of PAs as percentage of total audits

Country	Percentage of PA to total audits
Denmark	71%
Finland	21%
Lithuania	37%
Malta	18%
Romania	11%
Slovakia	33%
Slovenia	18%

- *The PA performed are explained in the AAR*

In the AAR the SAIs explained in summary or in a detailed manner the PA performed during the year. Checking the SAIs' websites, we realize that many SAIs publish the PA reports separately, also they publish English language versions. The average value of the disclosure index for the whole group is 0.54.

- *Follow-up actions presented in the AAR*

In order to assess if the PA had a positive impact, we wanted to see, if the follow up actions of the recommendations was disclosed, and more specifically the implementation of the performance audit recommendations. Only four countries: Denmark, Lithuania, Finland, and Slovenia mentioned the level of implementation of performance audit recommendations. However, we noted that most of the AAR gave a short description of the findings and recommendations related to PA.

2.2. The level of disclosure of PA in AAR done by SAIs is influenced by the governance indicators

In order to answer the second question, the disclosure index and the governance data (World Bank Governance Indicators for 2013) were analyzed using statistical tools to detect a relation between them. Our findings (details available from the authors) show a possible correlation between the disclosure index of set up of PA and the follow governance indicators: voice and accountability, government effectiveness, regulatory quality, rule of law and control of corruption, as well as with the (GGI) global governance indicator.

Governance consists of the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them. In countries with high governance indices (Annex 1) we found the calculated disclosure index value is also high (Annex 2).

Based on our data for the year 2013, we can draw the conclusion that SAIs provide more information about PA in their AAR in countries with the following governance characteristics:

- citizens are able to participate in selecting their government, there is freedom of expression, freedom of association, and a free media.(governance indicator: voice and accountability index),
- there are quality public services, quality civil service and government is credible and independent from political pressures (governance indicator: government effectiveness) ,
- the government formulate and implement sound policies and regulations that permit and promote private sector development(governance indicator: regulatory quality) ,
- agents have confidence in and abide by the rules of society, and in particular with the governance indicator "the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. (governance indicator: rule of law) ,
- public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.(governance indicator: control of corruption)

Concerning the Political Stability and absence of Violence/Terrorism there is no correlation with the DI. The explanation may be the fact that all 19 countries are very similar.

3. Conclusion

For all SAIs transparency and accountability represent fundamental pillars of their activity, given their role in the society. SAIs should explore the opportunity to use their websites as a tool to increase their transparency and accountability. They can enhance citizens' trust by making their AAR publicly available on their website, and for an increased international audience also in an international language. PA information in particular should be made publicly available because performance auditing is seen as a tool to improving government effectiveness, enhancing the accountability of the government, and helping public management.

This study contributes to our knowledge about EU SAIs PA activity by providing evidence on PA disclosure in the AAR. Our results show there is room for improvement concerning the reports' publicly availability, format and content clarity.

In line with this idea, starting in 2016, INTOSAI issued a Performance Measurement Framework where there are clear indicators that measure the PA Reporting (Domain C) and two new standards for PA (ISSAI 3100 -Guidelines on Central Concepts for PA and ISSAI 3200 -Guidelines for the PA process.) The European Court of Auditors has also developed a Report –writing guideline that supplements the guidance available in the Performance Audit Manual. Writing good quality audit reports is not easy because the subjects covered in the reports are often complex and technical. But, SAIs needs to produce reports that readers can understand and that are likely to have an impact on politicians and EU citizens.

In this context, further research on the topic is needed in order to identify the progress done in the implementation of PA and in the disclosure of PA activity, results, recommendations and follows up by the SAI.

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Annex 1: Governance indicators for 2013

Countries	Accountability	Political Stability	Government effectiveness	Regulatory Quality	Rule of Law	Control of corruption	Global Governance Indicator
Finland	0.97	0.97	1.00	0.99	0.99	0.98	0.98
Luxembourg	0.97	0.95	0.94	0.96	0.96	0.97	0.96
Denmark	1.00	0.78	0.99	0.98	0.99	1.00	0.96
Netherlands	0.97	0.90	0.97	0.97	0.97	0.96	0.96
Austria	0.96	0.97	0.93	0.91	0.98	0.90	0.94
Germany	0.94	0.77	0.91	0.93	0.92	0.94	0.90
Belgium	0.93	0.75	0.93	0.88	0.89	0.92	0.88
United Kingdom	0.92	0.63	0.90	0.96	0.93	0.93	0.88
Malta	0.86	0.82	0.87	0.87	0.87	0.81	0.85
France	0.89	0.62	0.89	0.85	0.88	0.88	0.84
Cyprus	0.78	0.65	0.89	0.78	0.82	0.84	0.79
Czech Republic	0.77	0.84	0.75	0.82	0.82	0.63	0.77
Slovenia	0.79	0.73	0.79	0.72	0.81	0.74	0.76
Poland	0.78	0.79	0.71	0.81	0.73	0.71	0.76
Lithuania	0.75	0.76	0.74	0.84	0.74	0.67	0.75
Slovakia	0.76	0.89	0.73	0.78	0.64	0.60	0.73
Latvia	0.70	0.65	0.76	0.80	0.73	0.64	0.71
Hungary	0.70	0.70	0.70	0.78	0.67	0.65	0.70
Romania	0.57	0.53	0.53	0.69	0.56	0.53	0.57

Source: (WBI, 2013)

Annex 2: Disclosure index for 2013

Country	PA defined in the AAR 2013	The PA performed are quantified in the AAR	The PA rec. status presented in the AAR	Follow-up actions for PA in the AAR2013	DI
Lithuania	1.00	1.00	1.00	1.00	1.00
Slovenia	1.00	1.00	1.00	1.00	1.00
Denmark	1.00	1.00	1.00	0.75	0.94
Finland	1.00	1.00	1.00	0.75	0.94
United Kindgdom	1.00	1.00	1.00	0.50	0.88
Netherlands	1.00	1.00	0.75	0.50	0.81
Belgium	1.00	1.00	0.50	0.50	0.75
Cipru	1.00	0.75	0.75	0.25	0.69
Germany	1.00	1.00	0.50	0.25	0.69
Malta	1.00	0.75	0.75	0.25	0.69
Austria	1.00	0.50	0.50	0.50	0.63
CzechRepublic	1.00	1.00	0.50	0.00	0.63
France	1.00	1.00	0.50	0.00	0.63
Luxembourg	0.75	0.75	0.50	0.50	0.63
Slovakia	1.00	0.75	0.25	0.25	0.56
Hungary	1.00	0.50	0.50	0.00	0.50
Romania	1.00	1.00	0.00	0.00	0.50
Poland	0.75	0.50	0.25	0.25	0.44
Latvia	0.75	0.50	0.00	0.00	0.31
Total average	0.47	0.46	0.39	0.29	0.40