

The Role of Performance Audit in Public Administration

Jesrene Susan Job, Kalsang lhamo, Teresa Rose Tommy, Sagaya Swetha N Joseph, Monica A C, Tharika Tojo, Sobi George, M S Nishitha, Lisa Mary Kurian – Research Scholar's, CHRIST (Deemed to be University)
Guided by : Dr. Kavitha Jayakumar, Associate Professor, CHRIST (Deemed to be University)

Abstract: *Performance auditing is a process of examining and evaluating the functioning of management so as to assess the achievement of the goals in an efficient, effective and economic manner. This is a conceptual paper aiming to bring insights about role of performance auditing and to review the performance audit reports (conducted under the purview of CAG) of different activities of the Government of Karnataka. Observations and findings of various authors with regards to performance audit are discussed. The performance audit reports of the Government of Karnataka released in the year 2018 are being studied to identify the role of performance auditing in public governance. Discussions reveal that performance audit is very useful and essential for public administration as performance audit reports indicates the short comings and recommendations thereon. Thus, performance audit furnishes a constructive assessment that constitutes an ambit for improvisation.*

Key words: *Economic, Effectiveness, Efficiency, Performance Audit*

Introduction

Performance auditing is an examination of the functions and the operations of the management, so as to assess whether the entity is achieving efficiency and effectiveness in the allocation and utilization of resources. This type of auditing is sufficiently new in the historical backdrop of auditing. It advances the goal of performance improvement and accountability; it evaluates aspects of programs and organizations. In most of the countries performance auditing is conducted by the external audit bodies. INTOSAI, the International Association of Supreme Audit Institutions, has published generally accepted principles of performance auditing in its implementation guidelines. Performance audit is mainly conducted to examine the functioning of government entities and for that they use Generally Accepted Government Auditing Standards (GAGAS) to guide the audit. Performance audit will help to gain the trust of public and it also helps the entity to identify their flaw in the overall performance. Better analysis regarding the utilization of resources and its impact over the entity can be identified.

Objectives

- To bring insights about the role of performance auditing.
- To review the performance audit reports (conducted under the purview of CAG) of different activities of the Government of Karnataka.

Insight on Performance Audit

Performance auditing differs from traditional auditing which is typically part of central audit bodies. It advances the goal of performance improvement and accountability; it evaluates aspects of programs and organizations. Performance auditors exercise the judgment whether it is aligned with goals and constraints. It results from a contingent strategic choice to reach conclusions about organization management. It also helps in raising questions which the audit bodies have not extended their product lines. Auditees submit performance information to the government to validate accuracy (Barzelay, 1996). A study was conducted to analyze whether there is any effect on the audit performance due to both time constrain and the change in structure. The results regarding the effects of one's time pressure support the survey results suggesting that increasing time pressure reduces audit effectiveness. The research conjointly provides initial empirical proof on the joint effects of time constrain and programmed structure on overall effectiveness of auditors and potency, further as on their parts. The study also shows that the structure enhances the consistency of auditors but also states that it does not always generate increase in consistency. There is an increase in efficiency, enhancement in consistency and effectiveness of auditors when the time constrain is less and a better program is structured. If there is increase of both program structure in audit and time constrain, then there is more of efficiency but less of effectiveness. Overall, the results indirect that the audit performances are basically affected due to the task detail. (McDaniel, 1990). Performance auditing is a zone sufficiently new in the historical backdrop of auditing. Its development parallels the advancement of legislative issues and open organization from one-dimensional spotlight on control of inputs (resource) towards broader attention to accountability for outputs and outcomes. The transformation of auditing from a book keeping associated function towards a management associated profession has increased the importance of performance audit in the managing companies (Daujotaitė & Mačerinskienė, 2008). The process of performance audit helps in determining effectiveness and efficiency of public funds and also success rate of public services meeting its objectives. Performance audit can also be called as self analysis process which assists the government and also act as a base for circulating knowledge to public and act as a justification for various decision making. During certain circumstances a significant role is assigned for conducting performance audit by different institutions (Tudor, 2007). Performance audit helps in evaluating whether the government policies, programs and institution are well managed and being run carefully, efficiently and effectively that leads to decision making and analyzing its roles in relation to budgeting and auditing. It shows how auditing can increase the people's trust towards the government. Accountability has always been a central to the practice of public administration in any democratic system. Auditors have succeeded in forming the policy agenda due to their sufficient credibility. Performance audits have no familiarity with audit standards or tools of the job of the performance auditor (Lonsdale, Wilkins, & Ling, 2011).

Importance of financial management can be analyzed through performance audit considering the main three elements of the performance of the company; economy, efficiency and effectiveness. Reviews have helped in realizing that a comparative study need to be conducted between the eastern European countries with respect to their performance audit as the countries can be differentiated on basis of the reforms formulated by the countries. Numbers of studies have been conducted for finding the significance of new performance audit in specified eastern European nations with the help of cross-country comparative study, and also identifying the external audit institutions prevailing in Romania. Most of the countries in European Union are giving significance to performance audit. For instance, it revealed that Turkey considers performance audit as a 'perfect normal' function (Tudor, 2007). Research was conducted for assessing the

improvement of performance audit in a country like Australia. Recent studies associated with respect to expansion of performance auditing have used certain time span for defining the growth of performance auditing in Australia. Many other researchers in their previous observations have focused on keeping time frame in order to illustrate about the growth of performance auditing in Australia. However, while considering the recent studies conducted on the same component- the growth of performance auditing in Australia, which is almost contradicting the previous studies about significance of time span in the growth of performance auditing. The studies reveals that there are various other factors which affecting the growth which is rising demand for performance audit by various stakeholders such as government, policy maker, management and end users of the information of various entities. Performance audit is the mixture of four main components which includes economy, efficiency and effectiveness and finally the comprehensive of audit, it mainly focuses on enhancing the performance of the entire organization. There is a constant increase in the total count of performance audit report in the recent time. According to the yearly reports from 1995 to 2005 many changes have occurred in performance audit, considering 1995-1996 performance audit report was 31 whereas there is a moderate rise is occurring every year in the performance audit report. During 2004-2005 performance audit report has increased to 48 indicating the growth is occurring every year from 1995 to 2005 while comparing the years. Growth of performance audit in 'Australian national audit office (ANAO)' was significantly due to various alterations occurring in the functioning of the government, alterations happening in various government policies and also their responsibility to people (Hossain, 2010). A study conducted to investigate about different views of public sector auditors on the performance audit executed in some public sector enterprises in Malaysia. Data was collected from the auditors with the help of structured questionnaire focusing on certain specified components related to performance audit which included; importance of auditor in policy making, appointment of professionals for conducting performance audit, barriers for performance audit and significance of performance audit in public administration and its improvement. The study conducted discloses that effectiveness element is one of the important element required in performance audit as indicated by the auditor through their responses. It is also observed that an opportunity must be provided to public enterprises for taking control in decisions related to discharge of certain policies by obtaining opinion from external experts or through a group of experts (Loke, Ismail, & Fatima, 2016). Another study states that even though there is no significant change in the practices and the policies of an organization, the audit performance is useful for the organization. This article talks about the impact of audit performance from the perspective of auditees in Estonia by viewing at the effectiveness of audit performance and by analyzing till what level audit performance can bring changes in the organization of audit. The test was conducted to identify whether there is any difference or balance between the accountability of audit performance and improvement in its functions. It was resulted that there is no balance in the context of Estonian. The study also shows that in order to examine the performance audit effects on the organizations' audits, it is better to analyze both of the impacts that are if any changes are implied and if the perceived usefulness changed as its scope might vary. In this case only 21% has concurred that it brings the changes in audited organizations and 40% of the auditees have shown that performance audit is useful (Raudla, Taro, Agu, & Douglas, 2016). An analysis determines the impact of performance audit which was implemented in Norway. The study revealed that the auditees had an optimistic perception about the performance audit reports as these reports aided them to enhance their control functions whereas the civil servants had a pessimistic perception about the reports. The conclusion also suggested that no much clarity have been generated from the contributions of performance audit when compared with the first review

and it also revealed that the responses of the civil servants can be influenced by various political and personal elements (Reichborn-Kjennerud & Vabo, 2017).

Review of Performance Audit Conducted in Different Sectors in Karnataka

Performance auditing is a process of examining and evaluating the functioning of management so as to achieve the goals in an efficient, effective and economic manner. In India, all the performance audits undertaken for the government activities will be under the purview of the Comptroller and Auditor General of India (CAG). For the purpose of the study, performance audit reports released by CAG in the year 2018 of different sectors of the Government of Karnataka are being considered. Following are the performance audit report conducted in different sectors:

(i) Performance audit on Modernization of Police Force (MPF):

The Government of India realized the effective requirement for facing the emerging challenges to internal security. The Government launched the MPF Scheme to support the efforts of the State Government. The performance audit on this scheme had aimed to analyze whether the funds provided or the equipments created are used optimally as well as used for the intended purposes. It also aimed to monitor and evaluate the impact of the scheme. The criteria referred to conduct the audit include Norms prescribed by Bureau of Police Research and Development (BPR&D); Karnataka Transparency in Public Procurement Act (KTPP), 1999; Scheme guidelines and instructions issued by GOI; and Karnataka Police Manual, 1988. The audit revealed that all Annual Action Plans (AAP) submissions to the Department to the Ministry of Home Affairs (MHA) were delayed by at least four months, an expenditure of Rs.10.26 were incurred which was to not permissible under this scheme, lack of adoption of modern technology for communication, no much improvement in the number of vehicles provided under the scheme and the idea of providing CCTV surveillance and upgraded Dial 100 Systems was delayed for more than two years. The recommendations by the Government were that State Government should prepare AAP with proper gap analysis and the amount spent should be monitored so that inadmissible items can be ignored. (Report of the Comptroller and Auditor General of India on General and Social Sector, 2018)

(ii) Performance Audit on The Performance of Raichur Thermal Power Station Unit-8 of Karnataka Power Corporation Limited:

In Karnataka, the yearly demand for power was increasing. It showed a 12% increase from 9%. To meet such increased demand, the 210 Mega Watt had to be expanded. For this a new establishment of 210 MW was approved in June by Govt. of Karnataka. The cost that was estimated was 673.49 cr. Later, the BOD of the Company decided to go in for an efficient upgraded version with a 250 MW plant. Then the cost that was estimated was revised to 925 cr. This project was given to Bharat Heavy Electricals Ltd. with the Government's approval. The Unit had to start operations by September 2009. But it commissioned in December with a delay of 15 months. The objectives of this audit were to check whether the operational efficiency was achieved by the unit with optimal output and also if the unit was environmental friendly with the usage of appropriate remedial measures. In the audit findings it is seen that the performance was less than the highest standard/ quality during the first four years. The management could have easily avoided loss due to failure of the required equipment. Heavy Fuel Oil recorded very high consumption which resulted in repeated failure of the equipment in the beginning four years. Coal consumption was a big concern as the consumption

was very high and also concerns about coal consumption recording system which was found to be not accurate. Another important finding was that the consumption which was beyond limit not only resulted in loss financially but also harmed the environment. (Report of the Comptroller and Auditor General of India on Public Sector Undertakings, 2018)

(iii) Performance Audit on Implementation of Projects by Cauvery Neeravari Nigama Limited:

The Cauvery water-sharing dispute existed amongst the States of Karnataka, Kerala, Tamil Nadu and Pondicherry since 19th century. The Inter-State Water Disputes Tribunal allocated 270 tmc to Karnataka in February and specified the quantum of water to be utilized to each project. It gave specifications on the area to be cultivated as well. This came up to a total of 18.85 lakhs acres. The states were not satisfied with the tribunal's judgment and hence filed an appeal before the Supreme Court of India. The judgment from the Supreme Court was scheduled in November (Report of the Comptroller and Auditor General of India on Public Sector Undertakings, 2018) of 2017. The Karnataka Government formulated the State Water Policy, 2002 (SWP), for the creation of irrigation potential by the year 05' which was the target. The Cauvery Neeravari Nigama Ltd (CNNL) was incorporated in the month of June 2003 under the Companies Act, 1956, to complete the work. The audit objectives were to assess if proper planning was had been undertaken while taking up the project. The second objective was to check if the work was completed within the stipulated time and if the work completed was efficient or not. Three projects were successfully completed and seven of them were delayed but completed later and one of the projects was yet to be taken up. It is seen in this report that the company did not have a proper database for selecting the projects. There was lack of priority in planning works that require potential which resulted in delay of completion of projects. The estimates were not according to or in compliance with PWD, Karnataka. It was found that there were problems with acquisition of land and such other related problems. Not much focus was given to quality control and management which was drawback and also the monitoring and reporting systems were not that efficient enough. It is suggested in this report that the company should take action towards land acquisition and related problems, problems with granting of the approvals and also the reporting systems. (Report of the Comptroller and Auditor General of India on Public Sector Undertakings, 2018)

iv) Performance Audit of 'Grant, Lease, Eviction of Encroachment and Regularization of Unauthorized Occupation of Government Lands:

The objectives of this audit were to evaluate whether the available Government land transferred through lease or grant for the public or private undertaken in transparent, clear and judicious manner; the pricing system is appropriate; the land is utilized for the intended purposes and regularizing the unauthorized occupation of Government land. The audit criteria include sources from various acts and rules such as Karnataka Land Reforms Act, 1961; Karnataka Land Revenue (KLR) Act, 1964; Karnataka Land Revenue Rules, 1966; Karnataka Land Grant (KLG) Rules, 1969; Karnataka Government (Transaction of Business) Rules, 1977 etc. The report stated that lands that were prohibited under the KLR Rules for the purpose of lease or grant were permitted under the KLG Rules, no systematic compilation of application of grant or lease and unverifiable processing of some applications. A weak inventory management and non-transparent transfer of land were being reported. There was no uniformity in the grant of concessions. It was also found that the monitoring of these leases or grants were unsatisfactory as the land was not used for the intended purposes and there was default in the collection of lease rent and retrieval of land after the lease period. No system was established to cross-verify the accuracy of claims made by the applicants for regularization of land for dwelling purposes. (Report

of the Comptroller and Auditor General of India on Grant, Lease, Eviction of Encroachment and Regularisation of Unauthorised Occupation of the Government Lands, 2018)

Conclusion

The main objective of performance audit is to determine the effectiveness and the efficiency of the utilization of the inputs in order to obtain the estimated outputs. The estimated outputs can be targets or objectives of a project or an organization. A performance audit provides a detailed report to the management which in turn provides a scope for improvement or advancement. Most of the countries consider performance audits as a 'perfect normal' function and finds it useful for the organization. Through the review it is understood that performance audit plays a significant role in examination and evaluation of government projects as these reports identifies the defects and indicates the adequate recommendations for further operations. Thus, performance audit furnishes a constructive assessment constituting an ambit for improvisation.

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