THE NECESITY AND THE ROLE OF PERFORMANCE AUDIT IN ENSURING ENTERPRISE'S COMPETITIVITY

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***Abstract**:*
By definition of the INTOSAI, performance audit is an audit of economies, efficiency and effectiveness with which the audited entity uses its resources to fulfill its own responsibilities. The performance audit examines whether the established criteria for the implementation of objectives and tasks of the audited entity are correct for the evaluation of the results and appreciate if the results are accordingly with the objectives. The ultimate objective of the audit is to improve the use of information by communicating the results to interested users.

***Key words**: audit performance, economy, effectiveness, efficiency.*

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INTRODUCTION

Audit practice has a length of more than a millennium. In different periods, different terms have been used, with a similar content, such as inspection, monitoring, review, verification, accounting expertise, supervision, and others.

The term audit generally comes from the Latin word "audire", which means to listen and to inform others. In the Anglo - Saxon countries from today, this has the meaning of a ***review of accounting information*** and other premises, operated by an independent professional in order to express an opinion on regularity and honesty of the audited information[1].

The audit can be defined as a process carried out by competent persons legally authorized, called auditors, which analyzes and evaluates information of a specific entity, using specific *techniques and processes*, to obtain audit evidence on which to prepare the *audit report*, which represents a *responsible and independent* opinion upon the accounting-financial activity held by the audited entity[2].

Audit means the examination by a competent and independent person of the accuracy of the accounting and financial representations, of the evidences and credibility of the economic transactions[3].

Specialty literature classifies audit after 2 criteria[4]:

- after the followed purpose:
  - financial audit (financial standing's audit);
  - operational audits;

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[1] Marin Toma - Start audit the financial statements of an entity, Ed CECCAR Bucharest, 2005, p. 14.
[2] Boulescu M., Ghita M., Mares V. - Fundamentals of auditing, and Ed Didactica Pedagogical, Bucharest, 2001, p. 11.
[3] Boulescu M., Barna C. - Financial Audit ed. A III, Ed tomorrow Romania Foundation, Bucharest, 2007, p 13.
[4] Laurentiu Dobroțeanu, Camelia L. Dobroțeanu - Auditing concepts and practices, Economic Ed, Bucharest 2002, pg 34-38

    - compliance audit.
- after affiliation by financial auditors:
    - Internal audit
    - External audit
    - Government audit

Operational audit - is also known as ***performance audit*** or managerial audit .

PERFORMANCE AUDIT

In some countries, the audit of performance activity has some suggestive names, such as *Manager and performance audit* in France and in UK *Value for money*.

In literature there are controversy regarding the concept of operational audits, meaning that some authors use the name of management audit or administrative audit or performance audit, while others use all those names considering that they have the same meaning.

After the definition of the INTOSAI *performance audit* is an economies audit, efficiency and effectiveness with which the audited entity uses its resources to fulfill the responsibilities which it has.

The performance audit represent, after the INTOSAI international auditing standards, an evaluation or an independent examination of how an activity, program or institution operates efficiently and effectively respecting economies.

The internal performance audit is performed most often at the initiative of management, in order to receive recommendations for improving operational activities, and its conclusions are intended for it. Its added *value is evaluated*, essentially, based on the quality of information they offer (the audit can confirm or refute a viewpoint already adopted by the Board or may suggest solutions that the Board didn't think about). In all these cases, management is the one that decides whether and what action to take based on audit findings.

The external performance audit is conducted by an independent and exterior authority outside the management of the audited entity and is destined not only to the management, but also to the body to which it responds, namely the Parliament.

External auditor decides:

- areas audited,
- retained control issues,
- the methods used,
- the volume of collected information.

External audit should be conducted in an atmosphere of professional dialogue and training must be based on facts, so that the arising conclusions and recommendations to have the chance of being implemented.

Performance audit attest the application of the principle of good practice and the following of competitive and performance management principles in the use of funds.

The performance audit examines whether the criteria for the implementation of objectives and tasks of the audited entity are properly used to evaluate results and assess whether the results are consistent with the objectives.

Performance audit analyses whether „the public money was well spent", mainly examining the measures undertaken by the audited entities, regarding the obedience of economies, efficiency and effectiveness principles, being known as the" 3 E ".

In general, performance auditing seeks to answer two basic questions, namely:

- Was the work accomplished fare?
- Has the right thing been done?

In practice, the achievement activity of performance audit is being done by using the definitions of "3 E" internationally recognized, as follows:

Economies represent the measure through which it’s ensured a minimum cost of the resources used in an activity, without compromising the realization in good conditions of the declared objectives in this activity (its quality).

In conducting the performance audit, a central issue is whether resources are allocated, managed and used with economy. ***Economies*** relates to public money administration, which may be a "good administration" or a "waste."

Efficiency is the ratio between results and resources used to obtain them.

In the case of an efficiency audit, the main problem is the optimal use of resources or, if the results of activities, which correspond in terms of quantity and quality, could be achieved with fewer resources.

Efficacy lies in the degree of fulfillment of goals reported of an activity and the relationship between the desired impact and the actual impact achieved.

Audit effectiveness seeks answers to the following questions:

- Are the managerial policies objectives achieved with the used means, respectively are the programmed results obtained?
- Are the means used and results obtained consistent with management policy objectives?
- Does the programmed impact represent a direct result of the managerial policy and not a result of other circumstances?

The conducted performance audit steps are:

1. Strategic planning - is the choice of subjects that will be examined.
2. Mission planning audit performance - is to draw up a preliminary report to confirm whether an entity is justified to be audited.
3. Auditing itself - This stage aims to answer questions set in the preliminary report and includes the collection and analysis of audit evidence.
4. Writing the report of performance audit.
5. Classification and the agreement upon the report of performance audit.
6. Publication of the report of audit performance.
7. Transmitting the report of performance audit by the legislative power
8. The response of governmental factors - the recommendations of the parliamentary structures involve actions and interventions that must be implemented in the work of auditors.
9. Tracking the impact of performance audit.

In order to achieve "best practice" in performance audit, auditors' work is guided, in addition to general principles, which must be followed, by a series of specific principles[5]:

- responsibility - requires auditors to work out with objectivity, assuming responsibilities for their own work.
- integrity - according to this principle, the work of auditors is carried out with honesty, fairness, sincerity.
- objectivity and independence - are 2 principles according to which in their activities, auditors maintain their independence from government, political parties.
- *added value (improved performance)* - performance audit provides audited entities with information and solutions that lead to cost reduction.
- competence - auditors require a great professionalism.
- rigor - performance audit examinations deals in depth;
- persistence - require that the auditor not to deviate from obtaining and analyzing samples of the audit findings for substantiation;

[5] Performance Audit Guidelines, the project financed by the EU Court of Auditors of Romania

* transparency of communication - according to this principle, the audit reports must be objective, balanced, clear and persuasive.

The primary objective of performance audit is to add value and credibility to the opinion expressed in the audit reports.

Subjects of performance audit are policies and programs from specific programs of government, organization and management policies of entities that are conducting such programs or that are administering public funds.

Recipients of an audit report are: audited entity, the Ministry of Finance, Official Gazette, Parliament, Executive, interested third parties (public institutions).

NEED FOR AUDIT

With the commercial development of the nineteenth century, when the leadership and management of business was increasingly taken over by managers, owners have felt the need to know how the managers and other persons in positions of leadership managing business entrusted.

At first, owners personally checked the work of managers, and subsequently began to use the services of independent professionals - **auditors.**

Internal and external audit was organized under *public pressure*, in particular shareholders and other users of accounting information, which showed a certain lack of trust in the fairness and competence of managers. At the same time, **managers** have felt the need to organize themselves compartments of internal audit, particularly wanting to increase the complexity of management, diversification of activities and increased competition in the conditions of business globalization.

Currently, auditors have aimed to provide a guarantee, a reasonable assurance of ***information fidelity***. The auditors do not usually aim to detect fraud and error, but analyze the ***effectiveness of internal control*** and make recommendations designed to increase its contribution to preventing and detecting fraud and errors.

In Romania, the Court of Auditors is the supreme institution of external financial control, and conducts *an examination* of the financial resources of the state and the public sector and how to administrate public and private state and territorial-administrative units.

Performance audit is made available to the manager and has the task to identify best practices in the field and that are recommended.

The audit is the most convenient method by which users can obtain reliable information (useful for a period of time and reliable compared with objectives).

Auditors provide a guarantee regarding the fact that information is complete (exhaustive), is real (verifiable and justifiable) and that it's accurate and non- parting.

The auditor's role is to assess the work objectively and independently reported to the requirements already established (a good practice, the existing rate until the audited entity operates with the economy, effectiveness and efficiency).

The ultimate objective of the audit is to improve the use of information by communicating the results to interested users, as well proposals for improving the activity.

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