

## DEVELOPMENT OF PERFORMANCE AUDIT METHODOLOGY IN PUBLIC FINANCIAL CONTROL SYSTEM

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### **ABSTRACT**

*The formation of new approaches of the state in the effective management of existing resources, ultimately requires the improvement of means of controlling the use of these resources. Naturally, in such conditions, there is a need to introduce and develop a performance audit in the public financial control system as a means of evaluating the effective use of existing resources.*

*This article describes what aspects should be paid attention to in the formation of performance audit methodology in the public financial control system of our country, that is, in the preparatory (planning) stage, in the main (conducting) stage, in the final and post-control event stages. In order to achieve the goal of writing the article, a number of legal and scientific-practical sources were studied, the experiences of foreign countries were compared and analyzed. As a result, based on the main principles of performance audit, recommendations are given for formulating the goals and questions of the performance audit, developing the main assessment criteria of the performance audit, determining the available resources and direct and final results, forming conclusions on the results of the control event, and preparing proposals (recommendations).*

**KEYWORDS:** *Audit, Public Audit, Public Financial Control, Internal Audit, Financial Audit, Compliance Audit, Control, Performance Audit, External Audit*

### **INTRODUCTION**

The issue of rational and efficient use of budget funds, and not only the effective use of financial resources, but also the effective use of all existing resources, be it natural resources, labor resources, time resources, or all other resources, is one of the most urgent issues in today's difficult times.

President Shavkat Mirziyoyev also mentioned this issue that there is a lot of duplication in the government apparatus, there are unnecessary states, there is a high degree of centralization, as a result of which excessive time, energy and resources are being spent to find the right solution to today's complex issues<sup>1</sup>.

At the time of the rapid socio-economic development of the world economy and the complex geopolitical situation in the world, and at a time when natural resources are limited, in the process of building New Uzbekistan, the ongoing reforms require the rational use of existing resources based on the principles of economy and efficiency.

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<sup>1</sup> Address of the President of the Republic of Uzbekistan dated December 20, 2022, edition #259(781) of the social and political newspaper of New Uzbekistan, December 21, 2022. (<https://yuz.uz/uz/newspaper>)

Naturally, in such a situation, in order to evaluate the activity of effective state administration, it was necessary to improve the means of controlling the use of state resources. As a result, there was a question of introducing and developing a new type of control, performance audit, into the public financial control system of our country.

As a result of the ongoing reforms, with the Decree of the President of the Republic of Uzbekistan dated August 27, 2021 No. 6300 "On measures to further improve the public financial control system", a performance audit was introduced into the public financial control practice of our country.

As performance audit is widely used in foreign experience, this type of control is new in the public financial control system of our country. In order to ensure the execution of the tasks given in the decree, on December 30, 2021, taking into account our national legislation, the "Performance audit" standard was developed and approved by the Accounts Chamber of the Republic of Uzbekistan.

This standard mainly clarifies the general requirements for the performance audit, but does not dwell on the issue of its implementation in detail. At the same time, we think that the lack of experience in applying this type of audit in the practice of public financial control of our country creates a number of problems in its quality. Today, by conducting scientific research and research, the issue of forming the performance audit methodology in the public financial control system of our country, that is, developing a manual for its conduct, is arising.

## LITERATURE REVIEW

Researches on creating and improving the theoretical and methodological foundations of the methodology of planning and conducting performance audits in the public financial control system were mainly carried out by foreign economists. They include A.N. Saunin, E.E. Smirnov, S.V. Stepashin, V.A. Zhukov, V.G. Panskov, E.N. Sineva, S.N. Ryabukhin, Yu.M. Voronin, N. E. Kondaurova, T. R. Khabibullin, S. Kells, L. Palmer, J. Mayne, K. Politt, M. Dian can be included.

Today, performance audit is considered a new type of control in the theory and practice of public financial control of Uzbekistan and is in the early stages of development, so there is no unified and generally accepted concept that reveals the theoretical and methodological foundations of performance audit in the economic science of our country.

However, it is possible to cite the developments of a number of scientists, which are theoretically and methodologically typical of auditing and financial control in the public sector and the private sector. For example, in the works of B.J. Jumamuratov, A.K. Ibragimov, S.U. Mekhmonov, B.B. Sugirbaev, the problems of developing the theoretical aspects of the internal audit service in the public sector were studied.

Research by K. Pollitt (1997) showed that the use of performance audit in the public sector leads to the improvement of public management practices. From the results of this study, it is clear that performance audit is an indispensable tool of effective public administration.

M. Dian (1996) research showed that there is a direct relationship between performance audit and internal control. Also, research conducted in 2006 showed that the most important issue in performance audit is to be able to choose the appropriate evaluation criteria. The results of this study show how important the evaluation criteria are in the formation of the performance audit methodology.

Economists have raised various problems of performance audit in their scientific works, but it is necessary to consider this type of audit together with the rules of regulatory and legal documents regulating in our country, to raise related problems and to determine ways to solve them.

## **RESEARCH METHODOLOGY**

In the course of the research, in the scientific research of foreign economists, the state audit and its types today, as well as foreign experiences, were deeply studied and analyzed. Abstract logical reasoning, induction, deduction, observation, analysis, grouping, and comparison methods were widely used during the preparation of the article.

## **ANALYSIS AND RESULTS**

As a result of the intensification of the globalization process in the world, opportunities for sharing experience in the field of public financial control between the countries of the world and the expansion of country offices in the International Organization of Supreme Audit Institutions (INTOSAI), new types and methods of audit which have been introduced in the field of state audit became widely used.

In 1977, at the IX Congress of the International Organization of Supreme Audit Institutions (INTOSAI) held in Lima, Peru, in the document entitled "Lima Declaration of Principles of Audit Management" (hereinafter referred to as the Lima Declaration), another type of control was put into practice along with financial audit, in turn its task was to verify that the audited organization used resources based on the principles of economy, efficiency and effectiveness in performing the tasks assigned to it. This type of audit was a performance audit. In accordance with this document, the evaluation of the final result of the expenditures made by the state, including administrative and organizational systems, was defined as the main task of the performance audit.

Performance audit is considered in the standards of the supreme audit bodies of Europe (European Organization of Supreme Audit Institutions-EUROSAI) and Asia (Asian Organization of Supreme Audit Institutions-ASOSAI).

Today, according to the current international standard of the Supreme Audit Institutions (The International Standards of Supreme Audit Institutions - ISSAI 3000: Performance audit standard - Performance audit standard), performance audit is a tool that conducts an independent examination of the efficiency and effectiveness of the activities of state enterprises, programs or organizations, and the efficient use of resources. and its purpose is to improve the activity of the audit object.

Improvement of the system of public financial control over the effective management of public financial resources and targeted and rational use of budget funds, as well as the implementation of the Strategy of Actions on the five priority directions of the development of the Republic of Uzbekistan in 2017-2021 in the "Year of supporting youth and strengthening the health of the population" in order to ensure the execution of tasks specified in the program, according to the Decree of the President of the Republic of Uzbekistan dated August 27, 2021 No. 6300 "On measures to further improve the public financial control system", financial audit, compliance audit and performance audit will be carried out by the Accounts Chamber of the Republic of Uzbekistan starting from January 1, 2022. audits were put into practice.

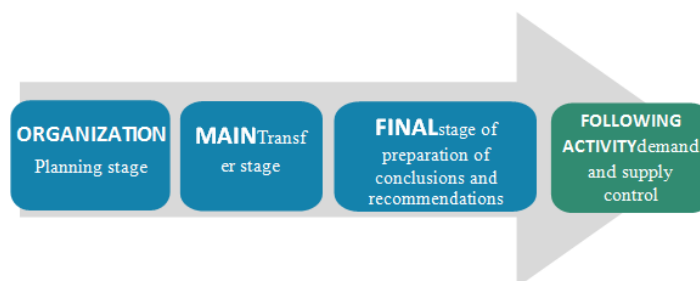
In order to ensure the performance of the tasks specified in the decree, the Audit Chamber of the Republic of Uzbekistan developed and approved the performance audit standard based on the Law "On the Audit Chamber of the

Republic of Uzbekistan" and the International Standards of Supreme Audit Institutions (ISSAI). and a performance audit event was held in the Ministries of Water Management.

This standard mainly clarifies the general requirements for performance audit, but does not address the issue of its implementation in detail. In addition, we think that the lack of sufficient experience in applying this type of audit in the practice of public financial control of our country creates a number of problems in ensuring its quality in practice. Today, by conducting scientific studies and researches, there is a question of forming the performance audit methodology in the public financial control system of our country, or more precisely, developing a guide on conducting a performance audit.

The manual for performance audit (hereinafter referred to as the manual) is based on the national legislation of our country, the Law "On the Accounts Chamber of the Republic of Uzbekistan", the "Performance Audit Standard" approved by order of the Accounts Chamber of the Republic of Uzbekistan (hereinafter - the Accounts Chamber), international standards of the Supreme Audit Institutions (ISSAI) and we believe that the Account should be developed by the chamber taking into account the experience of conducting performance audits.

In accordance with the International Standard of Supreme Auditing Bodies (ISSAI), conducting control and expert-analytical activities in the form of performance audits consists of three main stages: preparatory (planning), main (conducting) and final stages. It is known that after the completion of each control event, a number of tasks related to the elimination of identified errors and deficiencies, that is, control work on their elimination, are also carried out. Therefore, even after the completion of the control and expert-analytical event in the form of a performance audit, a number of activities are carried out, that is, the fulfillment of the requirements set for the object of control and the implementation of the given suggestions and recommendations are monitored. We can see the process and sequence of performance audit in the following picture.



**Figure 1: Performance Audit Process<sup>2</sup>**

Before conducting a performance audit, the approach to conducting a performance audit should be chosen in accordance with the international standard of Supreme Auditing Bodies (ISSAI 3000: Standard of Performance audit - ISSAI 3000 standard in the following texts). Three approaches are used within the scope of the performance audit according to the ISSAI 3000 standard. These are:

<sup>2</sup> The Performance auditing process. GUID 3920. INTOSAI Guidances are issued by the International Organisation of Supreme Audit Institutions, INTOSAI, as part of the INTOSAI Framework of Professional Pronouncements. For more information visit [www.issai.org](http://www.issai.org).

- A result-oriented approach;
- A system-oriented approach;
- A problem-oriented approach.

Within the result-oriented approach, the specific results of the activity of the performance audit object are evaluated in relation to the effectiveness of the available resources spent to achieve them.

In the framework of the system evaluation approach, from the point of view of improving the efficiency of the use of existing resources, the correct functioning of management systems, including the set of measures that make up the resource management system in a certain area, and separate processes that ensure the transformation of resources into results as part of a single management system (system elements) is evaluated.

In this audit approach, individual processes (system elements) within the scope of performance audit are carried out only in conjunction with the assessment of the results achieved and resources spent, that is, it is not appropriate to evaluate individual processes that are not related to the results achieved and resources spent.

It is recommended to evaluate the management system established and implemented in a certain state body and organization by comparing it with the management systems of other state bodies and organizations. All the processes of the management system can lead to the achievement of the planned results only if they function properly, and it is recommended to focus on the process of internal control (element of the system). When evaluating the internal control (audit) process, it should be taken into account that the main purpose of internal control is to ensure that the audit object achieves certain results. The effectiveness of internal control is inextricably linked with the overall activity of the control object on effective use of resources.

As part of the problem-oriented approach, the existence of problems related to the effective use of existing resources is analyzed, the causes of their occurrence are determined, checked and studied, proposals (recommendations) are developed to eliminate the causes of the ineffectiveness of the measures for spending resources. In summary, a results-oriented approach uses audit criteria that are based on good practice and required regulatory standards. A problem-focused approach focuses on analyzing problems without reference to audit criteria.

The three approaches of performance audit can be implemented from above, that is, at the request of the legislative body. In this approach, the main objective of the audit is to determine the actual results as required. Or it can be done from below, with the demands of citizens. In this approach, it is checked to what extent the demands of citizens are being met. In this approach, the audit activity is focused on the subject of the public authority.

A performance audit uses the concession of effective management. As part of the performance audit, the auditor should try to put himself in the place of the manager and ask himself the main question "... what would a competent manager do in this situation?" that Finding an answer to this question allows the auditor to have a friendly, not hostile, relationship with the management of the audited entity. The auditor should look at any issue from an objective point of view and report on the achievements of the audited entity's management. In fact, we believe that performance audit reports should begin with the achievements, not the failures, of the audited entity's management.

The main activity of the performance audit is not only related to the improvement of the management of state resources, but also involves increasing the responsibility of officials, in this case, it is necessary to hold the officials responsible who failed to achieve the specified results. From this point of view, performance audit is more effective as a separate tool of effective public administration than financial audit.

It should be noted that an auditor conducting a performance audit should not directly question government policy. However, when he finds that the reason for the malpractice is that the policy of the program or project being implemented is on the wrong track, in such cases he must ensure that the implementation of the project or program is in accordance with the policy adopted by the government.

The auditor, within the framework of the performance audit, should make it clear that the audit object has taken all the necessary measures for the effective use of available resources, that is:

- That it is possible to achieve the results obtained at the expense of less use of available resources;
- That the best (highest) results can be achieved due to the available resources spent;
- It is recommended to specify (if necessary) that he has taken the necessary measures to achieve the best (higher) results at the expense of additional allocated resources.

Performance audit is not only the identification of errors and shortcomings related to the lack of results and (or) increased resource consumption, but also, as we noted above, performance audit - by using various methods of data collection and analysis, by conducting a large number of audit activities, the missed opportunities and identifying alternatives. In this case, the occurrence of missed opportunities and alternatives may actually be related to the existence of problems (systemic and individual) in the field, legislation and organization of activities.

At this point, we found it necessary to present below the performance audit scheme so that the Accounts Chamber employee or auditor conducting the performance audit can visualize the performance audit process. (Figure 2)

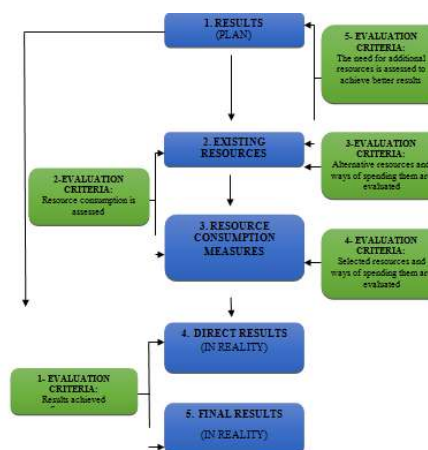


Figure 2: Performance Audit Scheme<sup>3</sup>

<sup>3</sup> The Performance auditing process. GUID 3920. INTOSAI Guidances are issued by the International Organisation of Supreme Audit Institutions, INTOSAI, as part of the INTOSAI Framework of Professional Pronouncements. For more information visit [www.issai.org](http://www.issai.org).

<sup>3</sup>Compiled by the author

After determining the subject of the audit, the employee of the scoreboard should set specific goals and objectives based on the principles of economy, efficiency and effectiveness in order to have a clear idea of the topic to be covered during the performance audit, the questions and issues that need to be answered.

If it is planned to use other types of audit (control) (financial audit, compliance audit, and other types of control) along with the performance audit during the control or expert-analytical event, it is appropriate to form separate independent goal(s) for the performance audit in the audit program.

For each performance audit objective, performance audit questions are formulated and performance audit criteria are developed for each question. It is recommended that the questions cover the following four key aspects of performance. These are:

- That the planned results have been achieved;
- The use of available resources according to the plan;
- Mutual ratio of available resources and results (from the point of view of achieved results and spent available resources, missed opportunities and alternatives are determined);
- Adequacy of available resources.

The questions aimed at assessing the achievement of the planned results and the use of the planned available resources are the first and second aspects of efficiency, and based on these questions, the main evaluation criteria, defined as a sample (standard), used to evaluate the subject of the audit, were developed. These are

- **The 1st Main Evaluation Criterion:** The achievement of the planned results is assessed;
- **The 2nd Main Evaluation Criterion:** the use of available resources is evaluated.

The questions developed on the basis of these criteria are aimed at determining deviations (differences) from the audit criteria of actual situations identified within the scope of the audit and can be noted as follows:

The planned results are not achieved, including the results of the required quality are not available;

Results were not achieved on time;

The amount of spent budget funds has exceeded (initially planned indicators);

Errors and omissions, including those affecting the achievement of planned results and (or) an increase in the number of resources spent.

- **The 3rd main evaluation criterion:** It Is evaluated whether it was possible to achieve better (higher) results (in terms of quantity and (or) quality; fundamentally different results) due to the resources spent or similar resources (when evaluating performance);
- **The 4th main evaluation criterion:** It Is estimated that it was possible to spend less resources to achieve the achieved result (when evaluating savings).

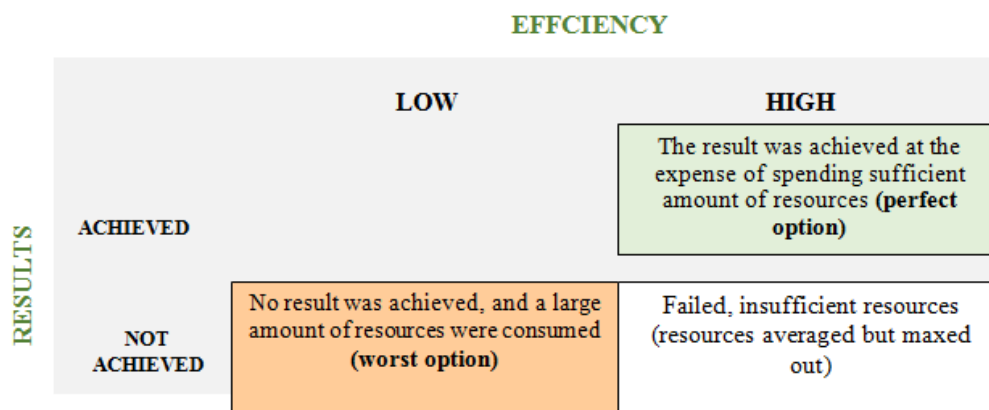
The third and fourth key evaluation criteria are important for performance audits. The reason is that these criteria make it possible to determine whether the planned results are low (less) or wrongly defined in the activity of the performance audit object, for example, it can be proven that the planned results were achieved in the object, but due to the resources spent, it was possible to achieve better (higher) results.

Questions related to the assessment of the adequacy of available resources to achieve the planned results are the fourth aspect of efficiency. Based on these questions, the following main evaluation criterion, defined as a sample (benchmark), was developed to be used to evaluate the subject of the audit:

**The 5th main evaluation criterion** is the need for additional resources to achieve planned or better (higher) results (in terms of quantity and (or) quality; radically different results) than planned.

The basic evaluation criteria defined above are the basis for the development of modified (changeable) performance audit criteria, which are reflected in the program of control and expert analysis activities carried out as part of the performance audit. According to the standard, when developing the evaluation criteria of the performance audit, it is necessary to first of all determine the available resources, as well as the direct and (or) final results that are planned to be achieved.

When comparing the cases identified in the framework of the performance audit with the evaluation criteria of the performance audit, it is necessary to consider these mean the effectiveness of the resources spent. In particular, even when results are achieved, inefficiencies in the use of resources may be allowed, and vice versa We can see this interpretation in the picture below.



**Figure 3: Variants of the Ratio of the Fact of Achieving the Result with the Conclusion About the Efficiency of the Use of Resources.**<sup>4</sup>

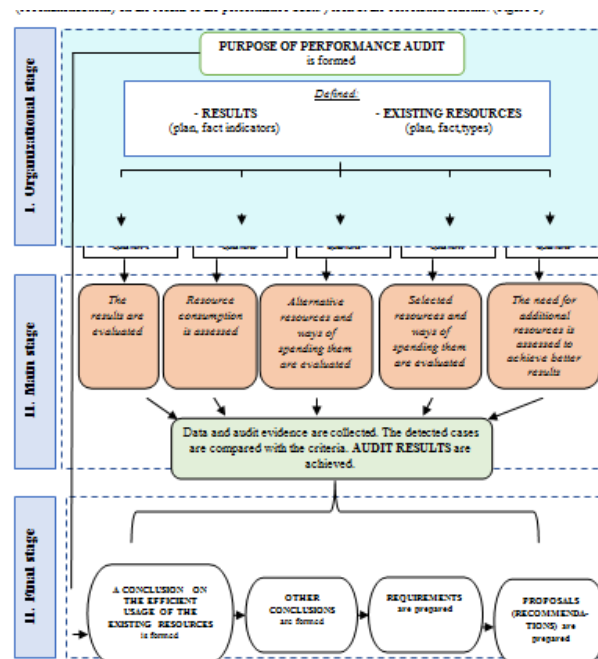
At the final stage of the control activity conducted as part of the performance audit, a conclusion and other conclusions are formed about the inefficient use of available resources for each purpose, in which the reasons for the inefficient use of resources are clarified (if there is an appropriate conclusion), relevant requirements, recommendations and draft documents are prepared, and the audit object or sent to other interested bodies that use the audit results.

<sup>4</sup>Compiled by the author.



At the next stage, the auditor should monitor the implementation of the results and recommendations of the audit he participated in. Also, it should be controlled by the auditor that the parties responsible for the results of the audit have implemented changes that lead to the improvement of the quantitative and qualitative indicators of efficiency based on the results of the audit. This process demonstrates the position of the control body, serves to increase the effectiveness and influence of the audit, and also encourages the users of the control object and audit results to take the results of the audit seriously.

In order for the auditor to have a general idea of the information presented in the article and the performance audit process, we have presented below the purpose (objectives) of the performance audit, questions, evaluation criteria, specific activities of the performance audit, results, conclusions, requirements and suggestions (recommendations) on the results of the performance audit. ) look at the correlation scheme. (Figure 4)



**Figure 4: The Purpose (Goals) of the Performance Audit, Questions, Evaluation Criteria, Individual Activities of the Performance Audit, Results, Conclusions, Requirements and Proposals (Recommendations) on the Results of the Performance Audit<sup>5</sup>**

World experience shows that the introduction and use of performance audits in the public financial control system has a significant impact on the quality of decision-making and execution by executive authorities in the budget and financial sphere, and also helps to increase responsibility, transparency and accountability in their activities.

## CONCLUSIONS AND SUGGESTIONS

A number of efforts are being made to reform the effective public administration system in the socio-economic policy of building a new Uzbekistan. In particular, in the Development Strategy of the Republic of Uzbekistan for 2022-2026, further increasing the efficiency of state budget expenditures and improving the activities of public financial control bodies are defined as one of the priority tasks. Taking into account all the information generated as a result of scientific research

<sup>5</sup>Compiled by the author.

and research and the study of foreign experience and covered in this article, including suggestions and recommendations, develop guidelines for conducting an performance audit within the framework of an external audit or for conducting an activity to assess the effectiveness and efficiency of budget expenditures within the framework of an internal audit we consider it necessary and appropriate to reflect the following in the manual. Including:

- Specific features of organizing and conducting a performance audit and the concept of efficiency;
- Clearly defining the purpose of performance audit and formulating audit questions based on it;
- The process of developing other evaluation criteria based on the main evaluation criteria of the proposed performance audit;
- To determine available resources and direct and final results;
- It is necessary to reflect the formation of conclusions on the results of the performance audit and the preparation of proposals (recommendations) to the object of the performance audit and other interested bodies or organizations.

In conclusion, we believe that the development of the proposed performance audit guide will ultimately help the auditor to determine the correct approach to the performance audit in practice and bring positive changes in its quality performance, and the formation of the performance audit in accordance with world standards, bringing it to a new level in terms of quality. We believe that it contributes to the economic development of our republic and the benefit of our people.

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