

# **ROLE AND PERSPECTIVES OF IT DEVELOPMENT OF NON-FINANCIAL AUDIT FOR SUPREME AUDIT INSTITUTIONS**

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Introduction of new techniques and IT-related project management of national resources into practice of governments assumes adequate response of supreme audit institutions (SAI).

Illustrative examples of transition from object management to project management of resources are BOR (Resulsorted Budget)-technology of the Russian government and BEA (Business Enterprise Architecture)-technology in the USA which are currently the best of PPBS (Planning-Programming-Budgeting System).

Under transition of Russian government to 3-year cycle in budget planning financial audit as an evaluation of legality is no longer sufficient. Performance audit and strategic audit of current economic processes are what we need now.

Today requirements to planning activities of SAI are radically changing: from planning objects of control to planning an audit of projects and programs including a budget as a whole. The vector of planning itself should also change, i.e. not from financial audit to performance audit and strategic audit, but vice versa.

In fact supreme audit institutions face a challenging task of arranging system of audit for project management of resources. The task assumes developing common metalanguage, logic of description and investment analysis in regards to defining objectives, architecture and technology of resource management.

Successful government management of national resources depends directly on the proper choice of strategy for national economic development and effective use of methods and technologies. With this in view governments of many countries introduce IT-related methods of project management into their activities. Introduction of these methods provides target-based resource planning including the format of long-term programs, target-based, result-based and resource-based process management as well as monitoring of targets being achieved and the final results.

Some examples of transition from object management to project management of resources include introduction of result-oriented methods and technologies for budgeting (BOR – result-oriented budgeting) into the sphere of government control in the Russian Federation and BEA technology (Business Enterprise Architecture) in the USA, which represent currently the top of PPBS (Planning – Programming – Budgeting System).

Introduction of the IT-related methods and technologies for project management into government control over the national resources assumes an adequate response of Supreme Audit Institutions (SAI).

The Government of the Russian Federation, within the framework of a medium-term planning, extended horizon for financial planning to a three-year cycle, which consequently extended subsequent control period to three years.

Long-term, medium-term targeted programs and national projects represent the basic forms of result-oriented and target-based budgeting. These forms aim at implementing the national goals formulated by the higher political authorities, which are classified as strategic and branch aims and specified annually by the Government of the Russian Federation in the following fundamental spheres of the state and budget policy:

- provision of life quality;
- realization of economic growth;
- provision of defensive capability and public safety
- formation of potential for development.

To evaluate how effectively allocated budget funding is used for achieving strategic aims the Government of the Russian Federation established more than 300 indicators

The majority of these indicators are not financial, and a certain number of them are hardly measurable and detectable.

What makes the situation aggravating is the lack of proper coordination between:

- system of objectives and budget classification, accounting standards and accountability, national billing system as well as the state statistics under conditions of project-based budgeting and funding.
- strategic, operative, and tactical national goals and branch and regional ones.

It is evident that principles of non-financial audit including project audit should correspond adequately to principles of project management while the quality of audit

information technologies should, at least, be not inferior to management information technologies.

It is assumed that external audit bodies should respond adequately to the introduction into government practice of methods and information technologies for project management of national resources, which comprise uniform structured project methodology, standardization of data, regulations, processes and capacities complying with the state and industrial standards, centralized information system, etc.

It is also evident that meeting adequacy requirements under the circumstances of a huge disparity between government resources and those of external audit bodies is extremely difficult. Today SAI possibilities for conducting IT-based audit have given up the place to possibilities of a large-scale business, and in the nearest future of government control bodies. Without cooperation and coordination of SAI efforts they may soon lose their competitive advantage.

With this in view the thesaurus of the key national indicators for measuring progress in achieving national goals should act as systemizer along with developing common semantics, coordinated logic and common indicators and criteria of external audit in accordance with distributed competences in national resources management.

Under conditions of introduction and application of IT-related methods and project management, financial audit as evaluation of legality is no longer sufficient. Performance audit and strategic audit of economic processes with a 6 to 7-year cycle are required.

In fact SAI face a task of developing a uniform methodology for organization and undertaking of systematic audit in terms of project management of resources. The task assumes development of adequate language and logic for description as well as investment analysis which would take into consideration defining aims, architecture and technology of the resources management. System audit of objects and processes includes:

- financial audit as evaluation of how lawfully resources are used;
- performance audit as evaluation of how efficiently resources are used;
- strategic audit as evaluation of how feasible the aims and consequences of the resource policy are.

For this reason, priorities in planning SAI activities are dramatically changing from planning the audit of controlled object to project audit of achieving the aims. Simultaneously, the vector of planning itself should change: it should not go from financial audit of objects to performance and strategic audit, but contrariwise.

Over the last 4 years the Accounts Chamber of the Russian Federation has been taking all measures to introduce performance and strategic audit into its activities.

At present, in accordance with the abovementioned requirements to planning SAI activities, aims and tasks of financial audit, performance audit and strategic audit are formulated, new standards for planning activities of the Accounts Chamber of the Russian Federation are being worked out.

As an object for control, management processes of the state resources are considered wherein resources participate as an object for control, executive power bodies as a subject.

It is evident that aims of planning and content of the Accounts Chamber of the Russian Federation activities are streamlined with the aims and content of national resources management process. Organizational structure and architecture of SAI activities must stem from this.

The aim, sense, and content of SAI basic activities are collecting and processing information for evaluation of legality and efficiency of the resources use in the national interests, that is IT.

Input data should include “raw” data on results of activities and the state of the controlled object, while those of output – different documents, analytical reports, and suggestions produced as a final product of evaluating and analyzing information.

Thereof, the essence of basic SAI activities lies in providing technologies for processing information comprising data collection and processing as well as analysis and diagnosis of results being separate stages in the united technological process of resource provision.

It is common knowledge that process planning should be undertaken with reference to the aims, in this case formulated by the higher political authorities in the person of the President of the Russian Federation and the Parliament and move to technological operations which form separate stages of the united technological process, including strategic audit, performance audit and financial one, i.e. from the right to the left (Figure 1).

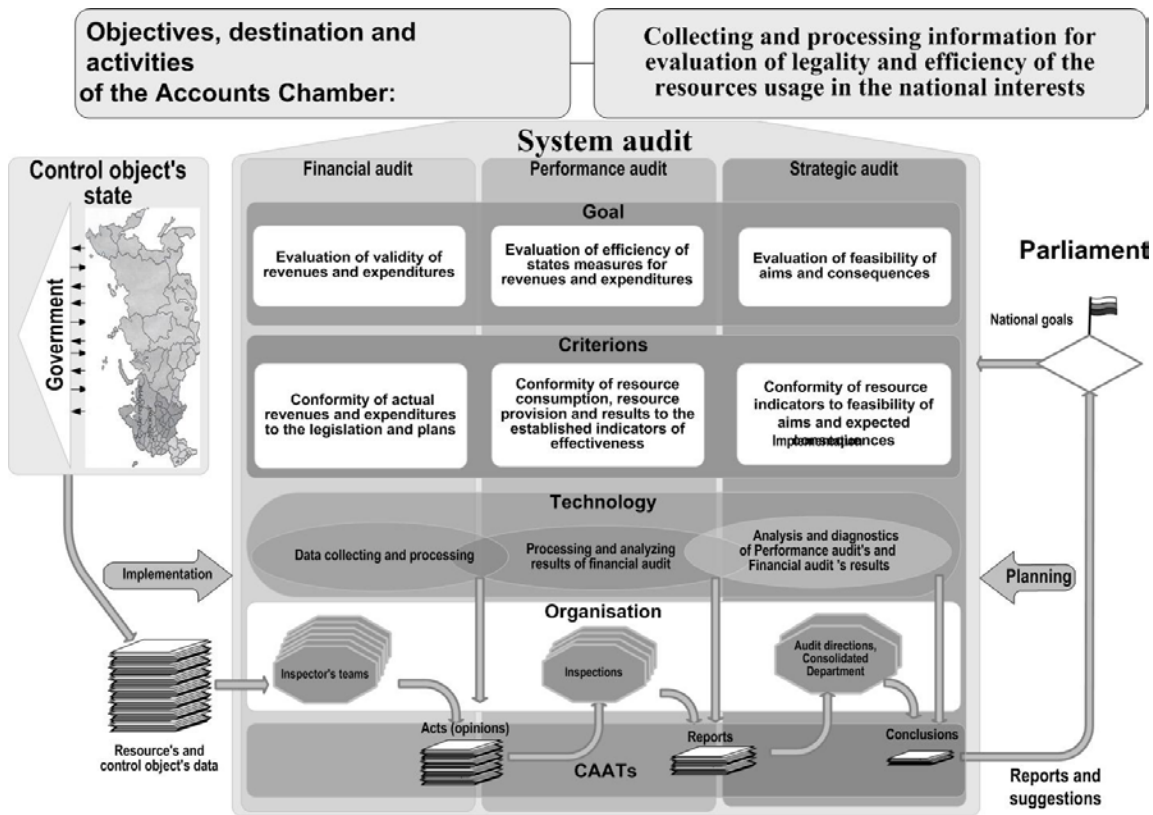


Figure 1. Architecture of system audit of Accounts Chamber of the Russian Federation

Plans are implemented from the left to the right, i.e. from technological operations of collecting and processing the data on the state of the controlled object performed by inspectors team, to processing and analyzing results of data processing performed by inspections in the interest of the performance audit, and then to evaluating feasibility of the strategic audit aims and consequences. Meanwhile one must ensure consistent satisfaction of relevant criteria including:

- conformity of actual revenues and expenses to the legislation and plans - for financial audit;
- conformity of resource consumption, resource provision and results to the established indicators of effectiveness – for performance audit;
- conformity of resource indicators to feasibility of aims and envisaged consequences – for strategic audit.

Evaluation of conformity of the results being achieved to the goals formulated by higher political authorities makes the content of analytical reports prepared by CEO of SAI and submitted to the higher political bodies and society.

Thus, SAI as an object for planning may be represented as some functional space (Figure 2).

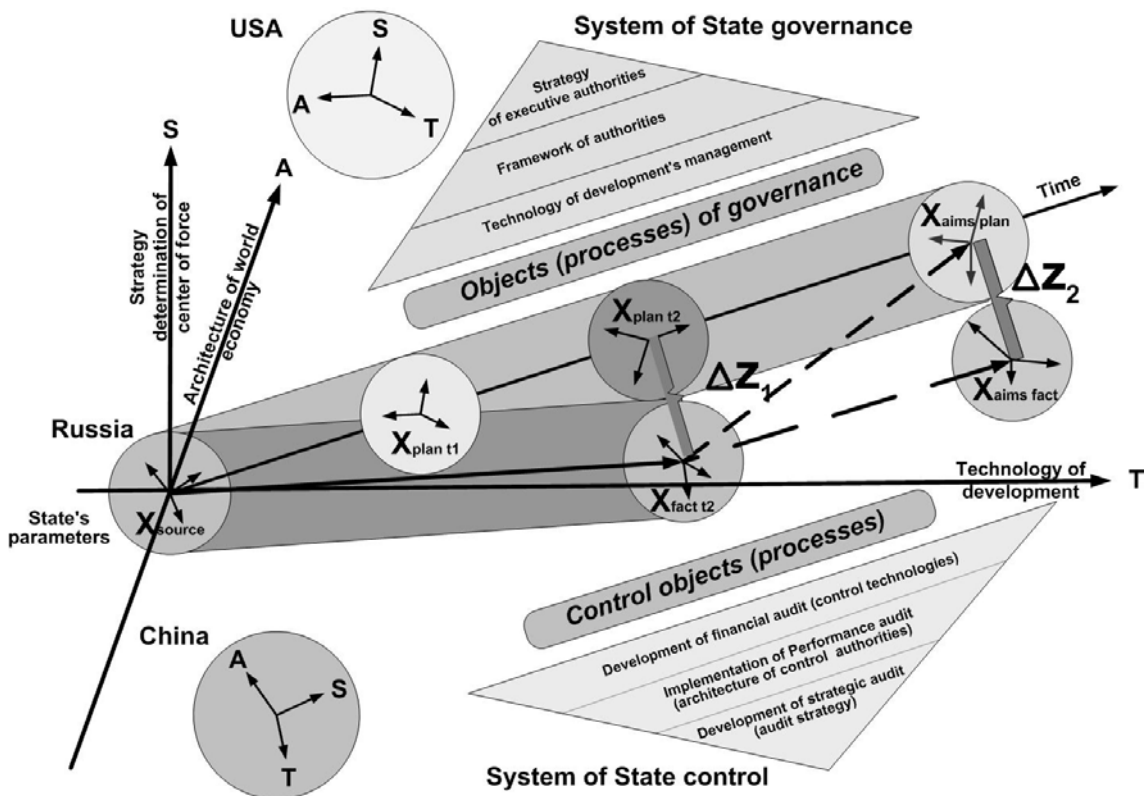


Figure 2. Architecture of SAI as an object of planning

Decomposition of this space corresponds to current views on target-based management and process management including BEA methodology.

It is commonly known that conceptual fundamentals of this methodology consists in requirement for simultaneous management of Aims, Architecture and Technologies for controlled object functioning, which make for competitiveness of states as big socioeconomic systems (Figure 3).

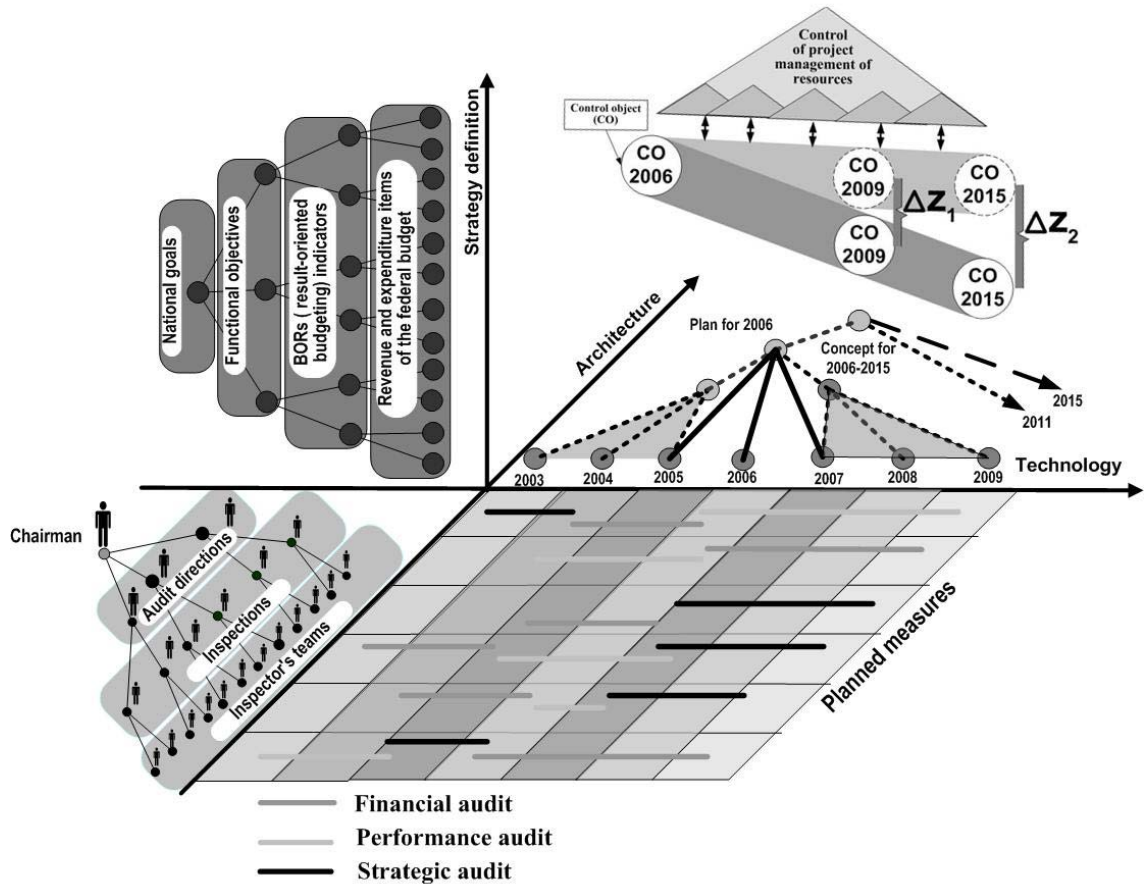


Figure 3. Architecture of Accounts Chamber as an object of planning

The vertical surface depicts Space of Aims as a regulated multitude of strategic, operative, and tactical aims.

Horizontal surface (Technologies) depicts technologies for planning and undertaking SAI activities with regards to the sequence of targeted cycles as technological processes of financial audit, performance audit, and strategic one.

A question of principle here is the move from object-based planning within the time framework of a fiscal year (ex-past, current and ex-ante audit) to project-based medium-term planning with a cycle of 6-7 years including both ex-ante and ex-past audit within a framework of performance audit and strategic one.

Implementation of a “sliding planning” concept is envisaged meanwhile.

The orthogonal surface depicts SAI Architecture including basic line and staff divisions.

Important provision for developing quality assurance system and effectiveness of the Accounts Chamber of the Russian Federation is establishment of key indicators system corresponding to methodology of target-based and process management. The system can include external and internal indicators of SAI activities.

External indicators could be the following:

- completeness, exactness, authenticity of audit findings obtained through financial, performance, and strategic audit.
- validity, cogency of conclusions and suggestions being an output of systematic audit;
- efficacy of audit findings which reflect the level of implementation of SAI conclusions and recommendations.

As internal indicators the following could be suggested:

- rationality of SAI composition and the usage of SAI structure and resources;
- effectiveness of jobs for personnel;
- personnel level of skills and motivation;
- validity of audit tasks evaluation.

At present IT-related methods and technologies start to become a working practice for the Accounts Chamber of the Russian Federation in realization of the priority national projects “Healthcare”, “Education” and others as well as federal targeted programs in different fields.

As IT Governance is an essential part of management structure ensuring IT compliance with needs of the organization only, it can be stated that in the past few years the Accounts Chamber of the Russian Federation has advanced considerably in IT Governance development.

Since 1995 the Accounts Chamber of the Russian Federation has been working out the medium-term plan of IT development, however only the 2 latest versions for 2003-2005 and 2006-2008 directly linked IT development goals and tasks with solving the main issues that the Accounts Chamber faces.

Information and telecommunications system of the Accounts Chamber has accumulated a considerable amount of information reflecting the situation in many branches of Russian economy. Most of these data characterize all stages of budget process, from federal budget draft to subsequent control results. The transition to result-oriented management increases the importance of the information on functioning of budget planning subjects as they reveal the efficiency of using national resources.

The existing data warehouse at the Accounts Chamber of the Russian Federation ensures functioning of a large number of software products. This software provides informational and analytical support to analytical expertise carried out by Accounts Chamber specialists, including performance and strategic auditing processes.

While conducting non-financial audit, Accounts Chamber specialists frequently resort to new software products of the Situation Center that is being established within the Chamber.

Thus, the Accounts Chamber of the Russian Federation is currently faced with the task of creating an effective situation-based external audit analytical system

comprising modern information technologies. In order to work out a complex solution to this task, which is invariant for all SAI, it is essential to start a SAI joint project, whose realization and audit could allow to develop and test relevant standards for non-financial audit.