Principles for SAI's application of KNI

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Introduction to the principles

Each country is confronted with various socio-economic problems at different times in their development. INTOSAI recognizes that each country's development goal requires individual designed KNI. A development strategy implicates also risks which have to be reflected in selection and development of KNI.

These principles are generic which means that they are applicable on different conceptions and models of progress, well-being, sustainability etc. The character of being nonspecific and general is important because each individual country has different socio-economic problems to solve depending on the political stipulated preferences by the legislative power.

KNI can be considered as performance audit criteria by which outcomes of development strategies realization, government activity, socio-economic processes and society condition as a whole are evaluated.

Principles

Conditions

1. SAIs' use of KNI has to be within their mandate and respecting their independence.

1.1 Direct participation in the construction and improvement of KNI is not in accordance with SAIs' prerequisite of independence however there is a participation in improvement of KNI by advice giving.

1.1.1. SAIs' advice giving on construction and improvement of KNI has to respect the principles of objectivity and impartiality and not compromising the principles of independence.

1.1.2. SAI should ensure that advice giving on constructions and improvements of KNI don't lead to conflict of interest and don't include management responsibilities or powers.

2. A precondition for a SAI to use KNI in the audit is that the SAI's staffs have professional knowledge and experience within the field of both the policy area and the methodological questions concerning KNI.

SAI duties

3. SAI has to emphasise the aspect of accountability when evaluating and using KNI in the audit.

3.1 SAI has to draw attention to the value of disclosure and transparency of all aspects in connection with KNI.

3.2. SAI has to promote the use of KNI in all stages of the budgetary process, including programming and planning.

Function

4. KNI is an instrument for a SAI to analyse the implication of public policies in the case of implementing performance audit, in particular.

4.1. SAI's audit of KNI should make it possible to take corrective action in the relevant policy area.

5. SAI has to evaluate mainly adequate implementation of KNI by the government.

5.1 SAI has as a part of this task also to evaluate validity, reliability, conciseness, completeness, independence and comparability of KNI used by the government and the information systems providing data to calculate the values of KNI.

Requirements

6. SAI has to evaluate the disclosure of methods of calculations of KNI in order to assure transparency of KNI in use.

7. When working with KNI a SAI has to use general accepted and modern scientific methods within disciplines such as economy, statistics and social science and management science.

Methods

8. When a SAI is using KNI to analyse the implication of public policies the selected KNI has to be material in relation to the issue.

8.1 SAI has to evaluate the set of KNI established to illustrate the progress of the approved policy.

8.2 SAI has to evaluate critically the capability of the stipulated KNI system in order to increase the number of international comparisons.

9. When evaluating existing KNI used by government, a SAI has to evaluate to which extent there is a risk for not measuring the right issue in question.

Communication

10. SAI should evaluate that the communication of KNI by government is carried out in compliance with the general principles of public statistical information.

10.1 When an audit of KNI reveals weaknesses, a SAI has to present its findings in such a way that it creates opportunities for the responsible for improving the KNI system.

Explicatory notes to the principles

General comments

These Principles for SAI's application of KNI are consistent with the different conceptions and models regarding progress, welfare and sustainability.

The generic character of these principles is very important, since it represents a common application core. Specifically, each country should build their own principles, in accordance with their different social, political and economic problems.

According to The Lima Declaration of Guidelines on Auditing Precepts (1977), SAI audits are an indispensable part of the regulatory system. Audits reveal deviations from accepted standards which make it possible to take corrective action. The most important objective of a public sector audit is to make those who are accountable accept responsibility. For this reason audits are not an objective themselves, but a means to improve political decision making.

KNIs are generally not a part of the financial statement because they are usually statistical information which, by definition, is outside the financial statement. KNIs don't fit into the normal conceptual framework of financial audits.

Compliance audits verify that SAIs are fulfilling their responsibility to monitor the activities of public sector entities, ensuring that they are in accordance with the relevant laws, regulations and authorities that govern the entities in question. This means that SAIs could answer the following two questions in relation to KNIs:

- Does the national administration define KNIs in accordance with the legislation?
- Does the administration have an obligation ex officio to establish a set of indicators in relation to all relevant legislation?

In this context, compliance audits verify that the definition of KNIs is in accordance with the intention that the political decision makers have laid down in the legislation.

Performance auditing is an independent examination of the efficiency and effectiveness of government undertakings, programs or organizations, with due regard to economy, and with an aim of bringing improvements. Performance auditing is based on the decisions made, or goals established, by the legislature, and it may be carried out through anywhere in the public sector. When a SAI is

carrying out a performance audit of KNIs the auditor could raise the following pertinent questions:

- Is the use of KNIs relevant and meaningful in the actual context?
- Which indicators already exist and which are missing?
- How valuable are the indicators in describing the problem under investigation?
- Does the administration have the relevant key indicators for the program?
- If they don't have the relevant indicators then which factors are barriers for producing the relevant indicators?

However KNIs are highly important for SAIs when they are carrying out performance audits, especially when a SAI is evaluating the effectiveness of the government's policies and activities on social and economic development.
In public sector audits the fundamental question an auditor should ask is: *will a successful audit contribute to improving the administration and make it possible to take corrective action?*

This leads to the following fundamental questions that a SAI should apply in relation to KNIs:
- Does the government have KNIs for all material programs?
- Has the government defined KNIs so the measurement is valid, reliable and relevant?
- Does the government use KNIs as a corrective mechanism for improving the implementation of the program?

Using these audit activities a SAI is, therefore, contributing to making the government accountable through the use of KNIs. For more details on how to do such an audit see annexed box.

In audit of key national indicators in context of the accountability framework the public sector auditor could raise the following questions:

a. What are the objectives stipulated by the legislative power, on the content of general and abstract objectives such as "progress" and "well-being"?

b. Does the government set up a system of key national indicators which in fact reflect the objectives of the legislation?

c. Is the key national indicators logical in accordance with the political defined objectives or do the government interprets the objectives logical consistent when defining the key indicators?

d. Does the system of key national indicators really measure what is going to being measured; are the key indicators validate?

e. Does the method of measurement on repeating measurements give the same result; are the key indicators reliable?

f. Is the model of the relationship between input, output and outcome based on a model which has been documented by evidence?

g. Does the system of key national indicators also include measurements of unintended consequences' and economic externalities?

KNI are a useful tool for a SAI in performance audits, especially when evaluating efficiency and the impact of government programs. SAI has to insist on the fact that governments are responsible for producing relevant and valid KNI for public sector programs. Governments could in some cases try to avoid presenting KNI, or try to manipulate KNI in their favour, because it gives the government an opportunity to present the story in a good light. And so when a government is producing and presenting KNI and a SAI is auditing and using KNI in the evaluation of the governments program, it is promoting accountability and good governance.

Prerequisite

Ad 1

The trustworthiness of a SAI is depending on how it is respecting its own mandate. In new areas as KNI it is fundamental that the activities are carried out within and in accordance with the mandate.

It is convenient that the use of KNI by a SAI be within their mandate and respecting these entities' independence, which is mandatory.

When a SAI uses KNI in its audit work it has to be in accordance with the principles laid down in Mexico Declaration on SAI Independence and INTOSAI's Code of Ethics. The Independents of a SAI is the valuable asset in caring out the audit task and has to be protected.

SAI has experience and knowledge about construction and improvement of KNI which could be useful in setting up of KNI. From a rational and economic point of view to take corrective action in advance is better and cheaper if it is not jeopardizing the independents of a SAI. But the participation of SAI in the construction or improvement of KNI must not affect SAIs' independence.
Giving the administration advice on KNI should be implemented in advance so the risk of self-review is avoided or reduced to an absolute minimal.

Ad 2

It is essential for SAI's audit staff using KNI to have professional knowledge and experience within the field of both the policy area and the methodological questions concerning KNI. In accordance to the INTOSAI's Code of Ethics auditors must not undertake work they are not competent to perform.

In compliance (regularity/ performance) audits KNI could be used in order to understand how policy making institutions coordinate implementation of the respective policy areas and not all of the auditors may have the specific knowledge on the methodology of KNI. Among the auditors in a SAI there shall be someone

possessing this specific knowledge. It would require specific training not only on the development of KNI in the respective country, but on KNI methodology within the particular sector as well as possible relation with other sectors and best practice of other countries. For example, education would never be on its own, but would work as a tool in achieving overall state objectives.

The organization of training seminars and workshops for a SAI by expert institutions is considered essential, so that KNI development and use in performance auditing could be carried out in a systematic and standardized way.

Context

Ad 3

The subject of accountability when evaluating and using KNI in the audit is fundamental.

Accountability only exists in an environment which is open and transparent both concerning generating data and methods for analyzing data.

With the use of KNI contained in the SAIs' mandate, the disclosure and transparency of all aspects in connection with KNI is carried out along with the audits systematic development.

Function

Ad 4

A general principal for SAIs' working with KNI is that the indicators are relevant for the policy area. KNI is not an end in itself, but KNI is produced for analytical purpose.

For KNI implementation, a deep knowledge on public policies is essential.

In accordance with the general principals in the Lima declaration (section 1) it is a central function of SAI's audit to make it possible to take corrective action. This provision is also pertinent in the case of KNI.

Ad 5

It is considered that a SAI must evaluate not only the validity and reliability of KNI, but also -and mainly- their adequate implementation by government.

Requirements

Ad 6

SAI must be aware of the methods and calculations of KNI, in order to secure transparency of KNI in use. Transparency is inherent in the scientific methods because science is by definition inter subjective transmittable knowledge.

Ad 7

The use of scientific methods generally accepted within disciplines such as economy, statistics, social science and management science are mandatory to work with KNI. The uses of general accepted methods reduce the need for methodological triangulation to produce the necessary convincing evidence. For this reason general accepted methods are more cost effective when auditing KNI.

Methods

Ad 8

SAI evaluates the set of KNI to identify the progress of the public policy.

International comparisons in KNI systems are essential; for example, the case of the SAI of Canada regarding the welfare index could be quoted, as well as that of Australia, where key indicators to measure progress have been developed.

Ad 9

SAI is responsible for evaluating existing KNI in use by government, but particularly for identifying and assessing the right issue for which those KNI were constructed.

Communication

Ad 10

SAI has the right and obligation to present information, different methods and techniques in factual reports, papers etc. on construction and improvement of KNI.

The use of KNI by government must be mandatory and the information stemming from their implementation must be provided through an accountability system, which should be assessed by a SAI.

The conclusions of KNI audit should be invariably proactive, so that its findings reflect on improvement opportunities during KNI implementation.

Cases illustrating the implementation of the principles

Case 1 Australia:
Indicators to measure progress

Case 2 Canada:
Welfare index

Case 3 Denmark

The Danish SAI – Rigsrevisionen - published in 2008 the report on the integration of immigrants and their descendents. The law on integration stipulated several objectives but they were not being systematically measured by government.

Through using KNIs, the SAI's report evaluated the extent to which the law on integration has reached the objectives stipulated. It answered the following three questions:

- Are immigrants and their descendants participating in social life in Denmark?
- Are immigrants and their descendants economically independent, and not dependent on social welfare?
- Have immigrants and their descendants got an understanding of Danish national values?

Rigsrevisionen made following observations concerning the question of whether immigrants and their descendants are economically independent, and not dependent on social welfare:

- There is no national indicator for the percentage of immigrants that 'should' be economically independent
- The Minister of Integration in Denmark has access to all databases concerning the labour market and tax
- An audit carried out by Rigsrevisionen indicated that only 50% of immigrants where economically independent

Rigsrevisionen recommended setting up indicators to measure the participation in the community of immigrants and their descendants and the administration make more profound reflections on how to set up indicators to measure the efficiency integration.

Case 4 Hungary:
The Knowledge Base on KNI

Case 5 International cooperation:
KNI within the framework of the CIS

Case 6 USA:

Informing Our Nation: Improving How to Understand and Assess the USA's Position and Progress