

INTOSAI Working Group on Key National Indicators

Methodology on the Key National Indicators selection for the use in SAIs activity

Selection of Key National Indicators (KNIs) for SAI purpose is very challenging and essential process since it has to assess policies and programmes of socio-economic development of individual countries. Therefore, the road map of KNI selection must be universal in order to give foundation for methodological comparability of KNI systems of different socio-economic environment.

The particular characteristics of SAIs mandates and limitations associated with their role of participation in the KNI system development should be taken into account. SAIs in many countries, have avoid involvement in the selection of indicators despite their overall support of the KNI system development. This is caused by the need to preserve their independence and retain the credibility. Both independence and credibility could be at stake if indicators approved and developed respectively by the national SAI, appear to be inaccurate or inadequate.

In order to avoid these risks SAIs should follow *universal principles of SAIs activity in the process of selection and use of KNIs*:

Independence

Supreme Audit Institutions should use KNIs within the frame of the valid mandate and taking into account the preservation of their independence.

Objectivity and impartiality

Consulting, analytical and monitoring activity of SAIs in the field of development and use of KNIs should be carried out under the principles of objectivity and impartiality. A SAI should guarantee that its activity in the field of development and use of KNIs will not cause a conflict of interests and will not involve managerial functions and powers.

Professionalism

A mandatory condition of the use of KNIs in the frame of audit activity is the requirement that all employees of SAIs should have professional knowledge and experience in political and methodological issues related to KNIs. Continuous improvement of knowledge and the level of training of SAIs staff in the sphere of the KNI use in their activity is a crucial objective.

Transparency and accountability

SAIs should not only assess the adequacy of the methods of KNI audit to ensure transparency of their use, but also assist in establishing transparency of the activities associated with KNIs, since one of the main tasks of audit institutions is accountability of audit activity whether KNIs are used or not. SAIs should assess the degree of compliance of the government's policy in respect to accessibility of information on KNIs with general principles of statistical information accessibility in a particular country.

Taking into account the above-mentioned principles, the **goals** of SAIs in the process of selection and using KNIs are as follows:

1. To assist the enhancement of the SAIs role in assessing efficiency of governments activity based on the results of the audits carried out using KNIs, in particular, performance audit and strategic audit;
2. To assist the development of universal approaches to the selection of KNIs to be used in SAIs activities in order to improve effectiveness of socio-economic development of the INTOSAI member countries;
3. To assist the experience sharing in the development and use of KNIs and their dissemination in countries that do not have a KNI system;
4. To assist the enhancing of the INTOSAI international authority in the development and use of KNIs for progress evaluation.

Accordingly, **SAIs' tasks** may include:

1. Assisting the KNI use at all stages of the budget process, in particular, at the stages of programming and planning, as well as in developing goals, tasks, and

performance indicators of the efficiency of government strategies and programmes implementation;

2. Assessing of correctness as well as credibility, reliability, objectivity, integrity, independence and comparability of KNIs used by governments and the institutions that provide information for calculation of KNI values;

3. Expanding of the sphere of the KNI use in audit activity, in particular, in performance audit and strategic audit, where KNIs may be considered as criteria of effectiveness used to assess the results of development strategy implementation and the activities of governments, as well as socio-economic processes and the state of society as a whole;

4. Assisting the awareness and involvement of public institutions into the programmes associated with the KNI selection and, in particular, in the events associated with the KNI use in the audit activity;

5. Using the latest developments in the field of economic and statistical assessments, sociological surveys, mathematical and software support and means of visualizing the results achieved, along with conventional methods, in the work with KNIs;

6. Providing access to the information and guidance documents related to KNIs, which have been developed by international organizations in the framework of various initiatives;

7. Promoting the maximum broad possible experience sharing between national SAIs on the issues of using KNIs in the audit activity.

The use of KNIs to assess the development, particularly by SAIs, suggests certain **support**, including principal aspects:

- **legal and regulatory support**, which suggests passing of a legislative initiative regarding the need to develop a KNI system and the forms of its use for assessing socio-economic development. This may be a federal law (for instance, the Patient Protection and Affordable Care Act in the USA) or special regulatory documents reflecting the sphere of responsibility of all actors involved in the

process of development and use of KNIs. It is essential for the document (or documents) to guarantee legitimacy of the activity associated with KNIs.

- **institutional support**, which suggests identification of an agency or agencies responsible for the KNI system development and use, as well as for ensuring interaction of the parties involved in this process. When identifying stakeholders, it is necessary to take into account historical, political, institutional and cultural aspects typical for the country. The structure responsible for the KNI system development may be represented by a state authority, a research and development institute, an institution engaged in the issues of the accountability of public policy or a statistical institution; it also may be a network of several of above-mentioned structures interacting on the basis of a special agreement.

- **information and methodological support**, which involves organization activity concerning the experience and information sharing on the issues of the development and use of KNIs. In order to maintain an ongoing experience sharing, it seems appropriate to use the Knowledge Base on KNI developed in the framework of the INTOSAI Working Group on KNI. This tool may be used to ensure a possibility of simultaneous work with various sources of information (IMF, World Bank, OECD, etc) in order to analyse the dynamics of economic processes by periods, countries, regions and spheres. Besides, the capabilities of the Knowledge Base allow providing all INTOSAI members with the access to the existing developments in the sphere of assessment of socio-economic development, as well as visualizing their results.

- **financial support** involves creation of a certain degree of freedom in the use of KNIs, which combines both the opportunity to use available data and carry out expert and analytical activities to improve KNIs at the national and international levels.

The use of KNIs in SAIs activity involves identification of the most essential characteristics of KNI systems. The following aspects are to be determined as the *basic characteristics of KNI systems*:

- **complexity**, which ensures that the KNI system covers all the relevant to society areas and allows increasing their number if necessary;

- **reliability**, which ensures that the KNI system represents the carefully selected spheres, indicators and data from reliable sources;

- **systematization**, which evidences that each indicator of the KNI system is represented by the information that characterizes it in a prescribed format.

- **methodological soundness**, which guarantees that the data on each indicator will be as detailed as possible, taking into account the main constraints in time, geography, etc.

Depending on the methods of their composition, **KNIs may be classified** as:

- quantitative and qualitative;
- interval and real-time;
- individual and aggregated.

Selection of KNIs for their use in SAIs' activity demands a profound analysis and a comprehensive approach, since its results determine whether the KNI system will adequately reflect the modern trends of social development and effectiveness of the public resources use. The work with the system of indicators should be carried out at all stages of auditing of the strategies and development programmes implementation.

First stage. During the stage of preliminary preparation of the auditing the crucial steps include the justification of the audit subject choice; preparation of the relevant economic and methodological feasibility of the audit; and, finally, development of the audit plan taking into account the use of KNIs. The selected indicators should reflect not only the changes that take place in a particular place and at a particular time, but also the most important factors affecting the economic performance of a country.

Second stage. The main research, including collection and analysis of audit evidences, has a special significance for selecting KNIs. This is the stage when a

whole complex of activities for assessing and selecting of KNIs is carried out, including:

- identification of a KNI set on the basis of priorities specified in strategies and development programmes;
- verification of quality of the selected KNIs and identification of strong and weak points of each of them;
- determining the level of disaggregation of the selected KNIs;
- determining the frequency of submitting reports which reflect the dynamics of the selected KNIs;
- identification of the information sources to be used for submitting data on KNIs, taking into account that the data should be analytically substantiated, measurable, topical and relevant;
- developing a plan for the use of various methods (tools) for data collection, which ensure that KNIs will be measured with required quality at necessary intervals;
- comparison of the developed plan with the available opportunities for data collection and identification of limiting factors;
- preparation of the real data collection plan;
- refinement of the KNIs set, taking into account the identified limitations and the real data collection plan.

In order to form a shorter list of indicators and data sources, several cycles are required and one or another level of disaggregation and a frequency of monitoring corresponding to each of them.

In the process of this stage, it should be taken into account that selection of KNIs, which best reflect the reality, takes time. Besides, the legitimacy of the final result will depend on the effectiveness of the responsible agency interaction with all stakeholders and the degree of their involvement into this process.

And, finally, selection of indicators entails political implications and has to take into account the existing constraints. In general, given the optimal level of disaggregation, it is preferable to have a small number of indicators of good quality

answering the most important questions and easily measurable in view of real possibilities.

Third stage. Preparation and dissemination of the Report on the audit results. Communicate the information to the target audience is one of the key tasks, the notion of the target audience is being much wider than the immediate participants of the audit. The most interesting conclusions and proposals of audits should be accessible for broad audience, including the public, the expert community and all those who are interested in the relevant issue. The information can be disseminated in various ways: by releasing various printed editions, data publication in the Internet, presentation and discussion of the most important and interesting findings and especially recommendations made by the SAI.

Fourth stage. Monitoring of the implementation of audit recommendations. It is also a factor of the knowledge accumulation on the use of KNIs in audit activities. This stage involves wide dissemination of information in order to create a synergetic effect. In this case, the preparation of the statement and dissemination of information are not considered as the end of the process. The information obtained on the basis of KNIs should, on the one hand, energize, and on the other hand, ensure accumulation of knowledge on the use of KNIs in audit activities.

To reach a comprehensive influence on the national economies development and enhance the authority of audit institutions, SAIs should **regularly publish special reports** on the use of KNIs in audit activities. It should be taken into account that over time, it becomes necessary not only to optimize the system of indicators, but also to introduce certain adjustments into the process of interaction between the parties concerned. In addition, when assessing the KNIs used by the governments, SAIs should take into account the risks associated with considering issues not related to the subject of the audit.

It is especially important **to accumulate and disseminate knowledge** obtained by SAIs as a result of the use of KNIs, as well as to ensure continuity of the relevant information and experience sharing on this problem. The use of KNIs in audit activities should not be limited to obtaining traditional statistical

information. The analysis based on KNIs and the monitoring of KNI dynamics, if regularly updated, will make it possible to significantly improve not only effectiveness of the public resources use, but also effectiveness of the strategic planning system in the country.

Besides, in order to increase effectiveness of the KNI systems use in the activity of audit institutions, it is necessary *to disseminate the existing international and national experience* in this sphere, as well as to take into account current trends of global development. This approach should become the basis for ensuring continuity, experience sharing, sustainability and topicality of the process of the KNI use in SAIs activity, both in the framework of a single country and at the global level as well.