

REFLECTIONS ON THE

SAI Performance Measurement Framework (SAI PMF)



SAI ISRAEL'S DEFICIENCIES RECTIFICATION INDEX FOR FOLLOW-UP AUDITS AND ITS RESULTS FOR YEARS 2020-2021

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Updating the method for conducting follow - up audits in Israel

As part of the policy of the State Comptroller of Israel, Mr. Matanyahu Englman, to increase the number of follow-up audits in order to motivate the auditees to rectify their deficiencies, the method for conducting follow-up audits was updated. The new method includes, inter-alia, a new way of presentation of the degree of rectification of each deficiency in the report, on a scale of four categories - "fully rectified", "significantly rectified", slightly rectified", "not rectified".



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4 Categories for Evaluating the Extent of Deficiencies Rectification



As part of their implementation of The State Comptroller Law, the auditees are required to report to the State Comptroller's office about the actions they took to rectify the deficiencies raised in the audit reports. In order to submit the rectification report, the auditees use a designated computer system developed in the State Comptroller's office and the information from the auditees reports serve as an input in conducting follow-up audits.



Deficiencies Rectification Index for follow-up audits of the State Comptroller's Office of Israel

Background

In 2020 the Israeli State Comptroller's office started a multi-year project for developing an index for evaluating the degree of deficiencies rectification regarding follow-up audits.

The purposes of the index

The index is designated to be an internal quantitative decision-support tool for the management of the State Comptroller's office, creating a model for evaluating the degree of deficiencies rectification by the auditees regarding deficiencies raised in follow-up audits and increasing the motivation of the auditees to rectify their deficiencies.

The index will give an indication of the effectiveness of state audit performance. The index can provide a tool for drawing conclusions about the auditees' performance regarding follow-up audits, and a research and analysis tool of the auditees' performance regarding follow-up audits.

The index will indicate consistent "low-graded" auditees and make decisions regarding those auditees. Using the index can improve the State Comptroller Office's Resources allocation for audits in general and for follow-up audits in particular, and assist the decision-making process for choosing the topics for follow-up audits.

The Main Purposes of the Index



Indication of the Effectiveness of State Audit Performance

Decision-Support Tool for the Management of The State Comptroller's Office Quantitative

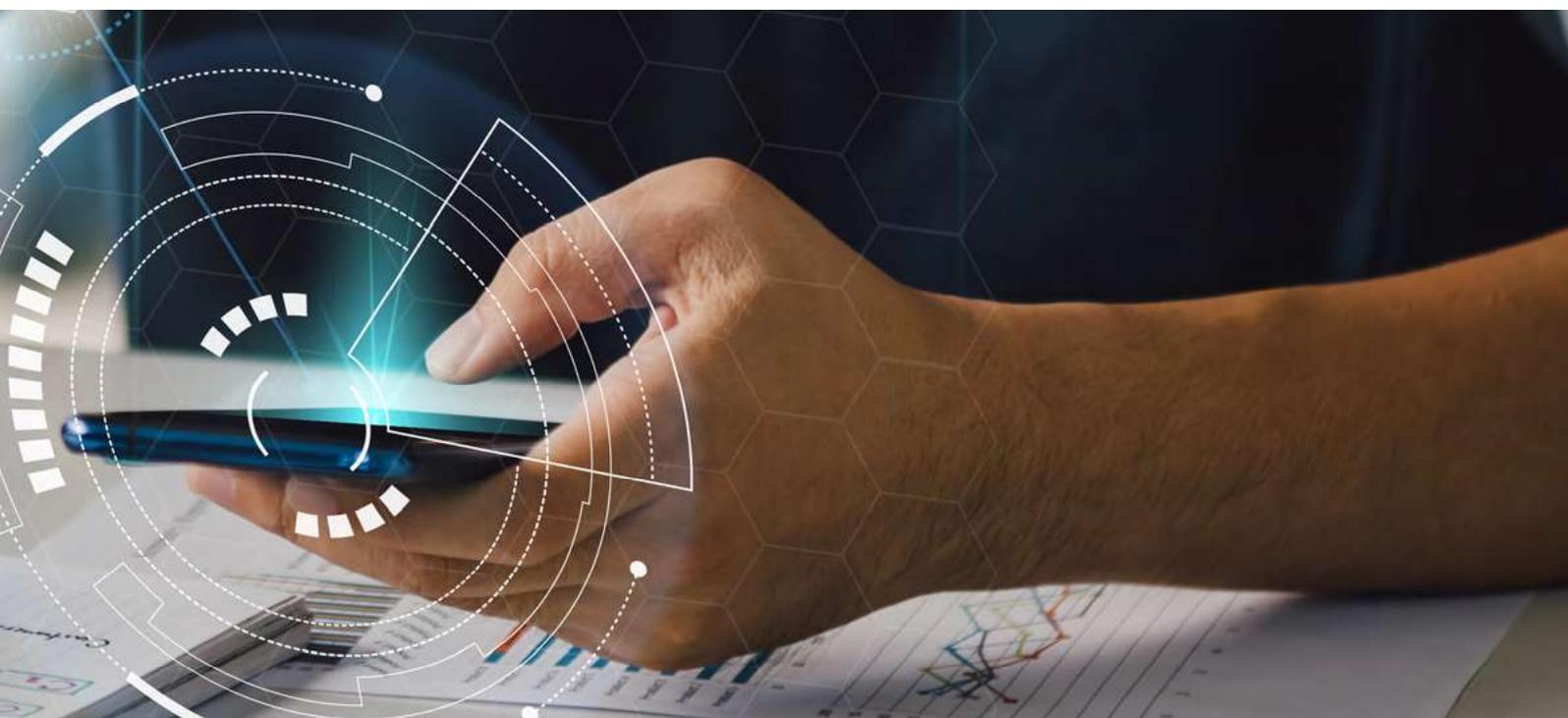
Motivation for the Auditees to Rectify the Deficiencies

Research and Analysis Tool of the Auditees' Performance

Identification of Consistent "Low-Graded" Auditees

Improvement of Resources Allocation for the Audit

Assisting the Decision-Making Process for choosing Follow-Up Audits



The methodology

The Deficiencies Rectification Index for Follow-Up Audits is designated to evaluate the degree of deficiencies rectification regarding follow-up audits, by using a comparable unified score on a scale of 0-5. 0 represents the lowest score and 5 represents the highest score.

 *The Deficiencies Rectification Index for Follow-Up Audits is designated to evaluate the degree of deficiencies rectification regarding follow-up audits*

The Extent of Deficiencies Rectification

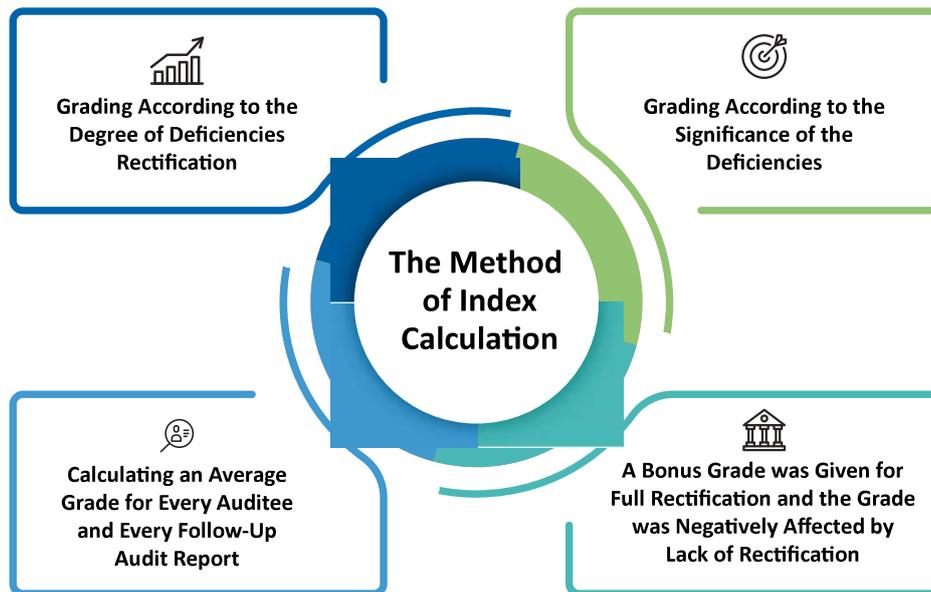


The index is calculated on an annual basis, and takes into consideration every follow-up audit report published in that year. The index applies to all auditees in which at least three deficiencies were examined in the chosen year. Although the main purpose of the index is to evaluate the degree of deficiencies rectification regarding follow-up audit reports, it can also be used to examine the degree of rectification by audit report and indicate by subjects in which topics the degree of rectification is relatively high and in which topics the degree of rectification is relatively low.



The calculation is based on the following principles:

- 1. Grading According to the Degree of Deficiencies Rectification** - the higher the degree of deficiencies rectification, the higher the score.
- 2. Grading According to the Significance of the Deficiencies** - rectification of significant deficiency grants the auditee a higher score. The calculation is based on division of deficiencies into three categories of importance - high importance, moderate importance and low importance.
- 3. Granting of a Bonus Grade for Full Rectification and the Negative Effect of a Lack of Rectification** - in order to achieve the following goals: motivate the auditees to fully rectify their deficiencies, improve the office's ability to identify those auditees, increase the variance of the auditees' grades and enable a better distinction of their level of deficiencies rectification.
- 4. Calculation of an Average Grade for Every Auditee and Every Follow- Up Audit Report**- the calculation is based on weighting the degree of deficiencies rectification, the significance of the deficiencies, the bonus and the negative effect, and the number of the deficiencies examined in every auditee or every audit report into a comparable unified score on a scale of 0-5, in which 0 represents the lowest score and 5 represents the highest score. In order to receive the highest score, an auditee must fully rectify all deficiencies, and all of the examined deficiencies must be of high importance.



The results of the deficiencies rectification index for years 2020-2021

General results

In 2020 - 2021, the Israeli State Comptroller’s Office conducted 20 follow-up audits in the new format (7 in 2020 and 13 in 2021). 227 deficiencies were examined in these years. 160 of these deficiencies (70%) were rectified to varying degrees: 48 deficiencies (21%) were fully rectified, 45 deficiencies (20%) were significantly rectified, and 67 (30%) were slightly rectified. 67 deficiencies (30%) were not rectified. Of these 227 deficiencies, 130 deficiencies (57%) were of high importance, 82 deficiencies (36%) were of moderate importance and 15 deficiencies (7%) were of low importance. The distribution of the deficiencies by degree of rectification and by degree of importance is shown below:

Figure 1: The Distribution of Deficiencies Noted in Follow-up Audits (2020 - 2021), by Degree of Rectification

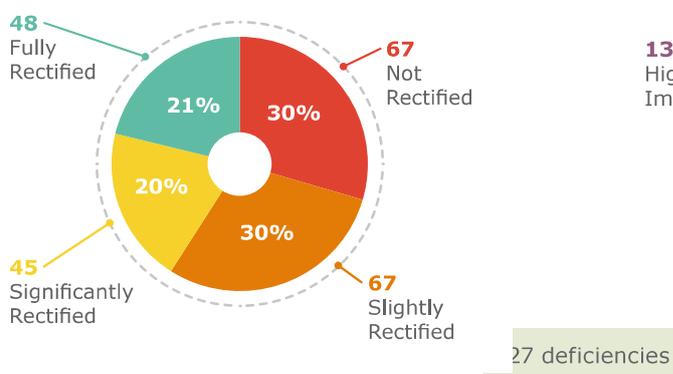
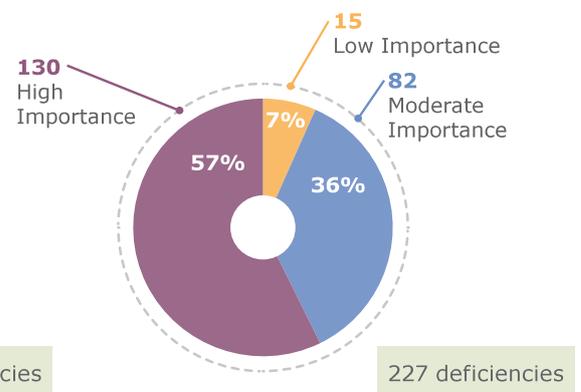


Figure 2: The Distribution Deficiencies Noted in Follow-up Audits (2020 - 2021), by Degree of Importance



The Source: Analysis of The Israeli State Comptroller’s Office

The index results by auditees

The calculation of the index scores for the auditees was performed for auditees in which at least three deficiencies were examined in a given year. In 2020, scores were calculated for 13 auditees and in 2021, scores were calculated for 18 auditees. Scores were calculated for 4 auditees in both 2020 and 2021, thus, in total, in 2020 - 2021 scores were calculated for 27 different auditees. Due to the fact that the development of the index has not yet been completed and its results have not yet been published to the auditees and the public in Israel, confidentiality measures were taken.

The results are presented below without mentioning the auditees' names. The scores are presented in two groups: one group includes Government Ministries, Government Companies, Statutory Corporations and other bodies, excluding Local Authorities and Water Corporations, and another group that includes Local Authorities and Water Corporations.

Figure 3: Grading of Auditees (Not Including Local Authorities & Water Corporations) According to the Deficiencies Rectification Index-Follow-up Audits, 2020 - 2021



Figure 4: Grading of Local Authorities & Water Corporations According to the Deficiencies Rectification Index- Follow-up Audits, 2020 - 2021



The Source: Analysis of The Israeli State Comptroller's Office

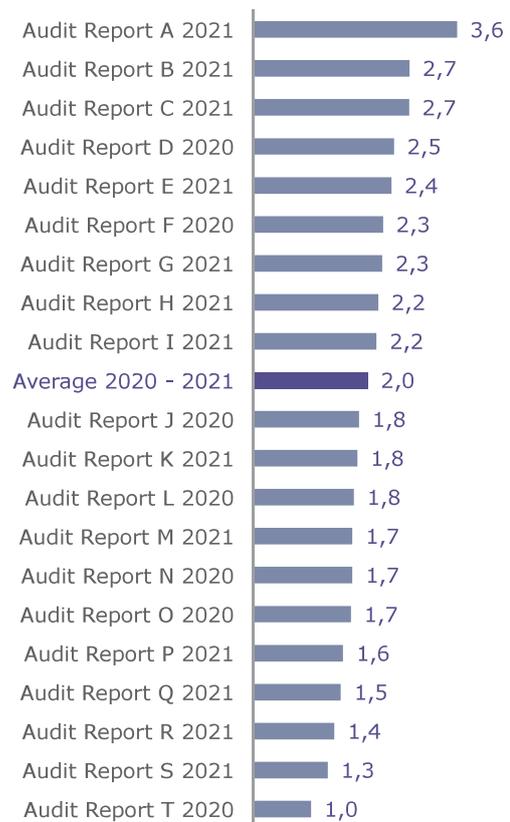
The figures indicate that the average score of the group of Government Ministries, Government Companies, Statutory Corporations and other bodies was 1.8 and it ranges between 0.7 for auditee S and 3.6 for auditee A, and the average score of the group of Local Authorities and Water Corporations was 2.8 and it ranges between 1.2 for auditee AA and 3.9 for auditee V. The figures also indicate that although the development of the index has not been completed yet, it is already possible to identify among the auditees included in the first group and relatively low-graded auditees (below the general average), relatively high-graded auditees (above the general average). Auditee S is ranked 25th (last) and 22nd with scores of 0.7 and 0.9 regarding follow-up audit reports carried out in 2020 and 2021 respectively; in contrast, the scores of auditee C in both years is relatively high, and it is placed in the third and fifth places with scores of 3.3 and 2.7 respectively.



The index results by audit reports

The index can help in making decisions about performing repeated audits in subjects where the degree of correction of deficiencies is relatively low and assist the decision-making process for choosing the topics for follow-up audits. Below are the index results by audit reports for the years 2020 - 2021.

Figure 5: Grading of Audit Reports According to the Deficiencies Rectification Index - Follow-up Audits 2020 - 2021



The Source: Analysis of The Israeli State Comptroller’s Office

The figure indicates that the average score for the degree of deficiencies rectification, by audit reports in 2020 - 2021, was 2 and it ranges between a score of 1 in follow-up audit T, carried out in 2020, and a score of 3.6 in follow-up audit A, carried out in 2021.

Future research

SAI Israel continues to develop the index by adding a calculation for years 2022-2024, performing statistical analysis to identify and verify various characteristics of the importance of the deficiencies, performing additional statistical analysis to examine scores influencing factors, including the examination of differences between the average scores of different groups of auditees, the number of deficiencies examined, the time gap between the original audit and the follow-up audit, etc.