SAYIŞTAY DERGİSİ
JOURNAL OF TURKISH COURT OF ACCOUNTS

Cilt/Volume: 32
Sayı/Issue: 117
Haziran/June 2020

ISSN: 1300-1981
eISSN: 2651-351X
Araştırma Makalesi/Research Article

PERFORMANCE MEASUREMENT IN PUBLIC AUDITING AND CHALLENGES FOR SUPREME AUDIT INSTITUTIONS (SAIs)

KAMU DENETİMİNDE PERFORMANS ÖLÇÜMÜ VE YÜKSEK DENETİM KURUMLARI (YDK) İÇİN GÜÇLÜKLERİ

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ABSTRACT

Performance measurement has gained more recognition over the last three decades and presents an increasing importance in the public sector for both academicians and practitioners. However, in the academic literature there is an endless discussion and concern relating to the establishment and use of appropriate indicators (KPIs), their interpretation as well as the challenges and the paradoxes of the performance measurement.

Despite their initial reluctance, Supreme Audit Institutions (SAIs) are increasingly realizing the importance of measuring their performance too. The new tool (new SAI PMF) developed by the International Organization of SAIs (INTOSAI) is the result of a common effort to create a performance measurement framework applicable to all SAIs regardless of their differences.

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Gönderim Tarihi/Submitted: 07.06.2020
Revizyon Talebi/Revision Requested:16.06.2020
Son Revizyon Tarihi/Last Revision Received: 19.07.2020
Kabul Tarihi/Accepted: 21.07.2020
Sorumlu Yazar/Corresponding Author: Kontogeorga, Georgia
Atıf/To Cite: Hemici, Farouk and Kontogeorga, Georgia (2020), Performance Measurement in Public Auditing and Challenges for Supreme Audit Institutions (SAIs) TCA Journal/Sayıştay Dergisi, C: 32, S: 117, s.39-55

Until recently, this evaluation was made either by using tools used to evaluate the systems for managing a country's public finances (such as PEFA, CFAA, etc.) or by capability or maturity models that have been developed by the actual SAIs, some of which are presented briefly in this paper. The study concludes that performance measurement via indicators will always be a controversial issue, so it should be used only as a tool that can help decision-makers and not as an end itself.

ÖZ

Son otuz yılda daha fazla tanınır hale gelen performans ölçümünün kamu sektörü açısından taşıdığı önem, hem akademisyenler hem de uygulayıcılar için artan bir ilginin konusunu oluşturmaktadır. Bununla birlikte akademik literatürde uygun göstergelerin (KPG'ler) oluşturulması, kullanılması ve yorumlanması konularında ve aynı zamanda performans ölçümünün güçlükleri ve paradoksları hakkında bitmeyen bir tartışma ve kaygı söz konusudur.

İlk dönemlerdeki isteksizliklerine rağmen Yüksek Denetim Kurumları (YDK'lar) da kendi performanslarını ölçmenin önemini giderek fark etmektedir. Uluslararası Yüksek Denetim Kurumları Teşkilatı (INTOSAI) tarafından geliştirilen yeni performans ölçümü aracı (yeni SAI PMF), farklılıklarına bakılmaksızın tüm YDK'lar için uygulanabilir bir performans ölçümü çerçevesi oluşturmaya yönelik ortak çabanın bir eseri olarak ortaya çıkmıştır.

Yakın zamana kadar bu değerlendirme, bir ülkenin kamu maliyesini yönetmeye yönelik sistemleri değerlendirmek için kullanılan araçlarla (PEFA, CFAA, vb. gibi) veya YDK'lar tarafından geliştirilen kabiliyet veya olgunluk modelleriyle (bunların bazıları bu makalede kısaca sunulmaktadır) yapılmıştır. Çalışmanın ortaya koyduğu sonuca göre göstergeler yoluyla performans ölçümü, her zaman tartışmalı bir husus olacaktır ve bu yüzden kendi başına bir amaç olarak değil, sadece karar alıcılara yardımcı olabilecek bir araç olarak kullanılması gerekmektedir.

Keywords: Supreme Audit Institutions (SAIs), Performance measurement, Key Performance Indicators (KPIs), Public auditing, Maturity/capability models

Anahtar Kelimeler: Yüksek Denetim Kurumları (YDK'lar), Performans ölçümü, Kilit Performans Göstergeleri (KPG'ler), Kamu denetimi, Olgunluk/kabiliyet modelleri

INTRODUCTION

For the last decades, performance measurement has become increasingly popular in the management of public sector organizations and is claimed to be an indispensable part of implementing strategies in these organizations (Bouckaert and Peters, 2002). Performance measurement is *"the process of defining, monitoring, and using objective indicators of the performance of organizations and programs on a regular basis"* (Poister, 2003).

The emerging philosophy in the 1970s, mainly in the United Kingdom, Australia and New Zealand, known as "the new public management (NPM)", changed the focus on the results of public sector entities and contributed to the growing interest in performance measurement. This new type of public management proposes abandoning bureaucracy and adopting innovative practices in the private sector, i.e. public organizations change their focus from procedures to the results of those procedures (Hood, 1995). The notion of performance, in general, is linked either to the quality of the actions being executed or to the quality of the results obtained from these actions. Performance measurement typically provides feedback to the following three questions: How well is an organization performing? Is the organization achieving its objectives? How much has the organization improved from the last period?

Such a change inevitably affects the nature of the audit of Supreme Audit Institutions (SAIs) as well, in that it moves its focus from traditional audit (of regularity and legality) to the performance audit and the three 'E's (economy, efficiency and effectiveness). Van Zyl et al. (2009: 7) mentioned that the demands on *"SAIs have expanded to go beyond judgments of compliance and accuracy to also evaluate government performance and the value for money obtained through government transactions."*

As one of the key government agencies, the image of SAIs has been slowly changing around the world in light of the broader transformations in governments' roles (Baimyrzaeva and Kose, 2014: 77). They play broader roles in the better management of public resources, empower the public to engage in governing processes and hold government accountable and responsive. Thus, they add value to the quality of public governance by strengthening accountability, transparency and effectiveness of public management (Akyel and Kose, 2013: 5496). As key organisations to enhance public performance in general, they have to be sensitive about their own performance and measure it accordingly.

Key performance indicators (KPIs) are established to measure the performance of public or private organizations. A common use of measurement is to facilitate the decision-making process at the management and governance level and to inform the public. Consequently, the users of this information vary between decision-makers, parliamentarians, politicians, citizens, nations, media etc.

Despite its indisputable utility, performance measurement is not an easy process, especially in the public sector. We need to identify what to measure, how to measure, collect and interpret data and finally report to the target group, taking into consideration their needs. The increasing importance of performance measurement is somewhat paradoxical considering that it has been criticized in recent decades for having dysfunctional consequences in the public sector (Siverbo et al., 2019).

SAIs could not be an exception to this rule. In the last decades, SAIs have largely adopted practices that have been applied for years in the field of private enterprises. They clearly establish their vision and mission, set their strategic objectives, build up their capacities, and evaluate and make public their productivity, in accordance with the requirements of the international standards of SAIs developed by INTOSAI (International Organization of SAIs). In order to evaluate their capacity and effectiveness, SAIs employ various devices, including reports on their activities and development, evaluations vis-à-vis the ISSAI framework, and national or internationally developed performance indicators (Kontogeorga, 2013). Moreover, INTOSAI, recognizing the need for a commonly accepted measurement framework, developed the new SAI PMF (INTOSAI, 2016), a useful tool for all the SAI regardless their national context, structure or geographical location, in 2016.

The paper is structured into five sections: The following section presents the literature review concerning public management and the challenges in performance measurement. The second section describes some of the paradoxes in the field of audit. The efforts of SAIs to measure their own performance are in section three. In section four, there is an overview of the new SAI PMF developed by INTOSAI. Finally, the fifth section summarizes the basic conclusions and concerns drawn from the previous sections.

1. CHALLENGES IN PERFORMANCE MEASUREMENT

Previous studies in the field of public management have demonstrated problems concerning the meaningful definition of indicators and revealed paradoxes as well. van Thiel and Leeuw (2002) mention that people can get disoriented about public sector performance as a result of measurement. Bouckaert and Balk (1991) suggested "*a management of the meaning of measurement*" as they considered that various problems concerning the measures used could lead to different "diseases". An example is the case of the Northern Great Britain, which seemed to have more fires than other European countries just because it had developed a better statistical technique for measuring (as referred in van Thiel and Leeuw, 2002).

Excessive use of KPIs can provoke the phenomenon called *"paralysis by analysis",* which is the state of over-thinking a decision to the point that a choice never gets made. Although performance management was designed to improve decisions, it could also lead to paralysis. Therefore, selectivity in measurement is one of the main challenges for the implementation of performance management. Each indicator will generate new questions and reveal new dimensions that are not measured. In the end, all this information can lead to paralysis: The more we measure, the less we understand.

The "tunnel vision" (or myopia /or narrowing of vision) constitutes another example. In this case, the entities emphasize certain aspects of performance while others are not examined as necessary, similar to when we are in a tunnel and can only see a very small part in the end. It is a common strategy for entities to improve only a certain division to the detriment of their organizational enhancement as a whole. In this case, we only see a small fraction similar to our tunnel vision, forgetting what is "*the raison d'être*" (the reason for existing), the ultimate goal and mission of the entity or by neglecting the human side (Loocke and Put, 2011). For example, the USA standards introduced in the schools according to which the student scores determine school budgets, teacher salaries, and principals' job positions. The better the scores, the bigger the budget a school has. A survey conducted by USA Today (2000) and the American Federation of Teachers found that the introduction of standards on what students need to learn led to teachers helping their pupils to "cheat" in order to achieve better results and as a consequence larger school budgets (van Thiel, Leeuw, 2002).

Furthermore, using outcome targets for performance measurement can sometimes cause targets to shift to other erroneous activities only to "fix" or present "correct" numbers without improving the actual results. Organizations focus their efforts on activities that are easier to perform and prioritize the aspects of a service on which they will be measured and assessed. Using results for performance measurement can distort the way organizations set their priorities and can lead to changes even in staff behavior to the harm of the people they supposed to serve.

Ketelaar (2007) mentions that focusing only on targets can be detrimental to public sector effectiveness if the targets or indicators are not relevant to the desired outcome. If the wrong outputs are measured, the outcomes might also be contrary to those intended, a phenomenon colloquially known as *"hitting the target, missing the point."*

Siverbo et al. (2019) consider a dysfunctional consequence of performance measurement, the gamesmanship. The term "*gamesmanship*" refers to the behavior where accountable persons knowingly try to manage or manipulate the control system to look more favorable and reap unearned positive consequences. According to the authors, performance measurement can be involved in gamesmanship by being actively managed to ensure unearned tangible or intangible rewards.

According to Schalock (2001), there is another paradox concerning the information about outcomes. The reason that outcomes are attractive and more effective than inputs or outputs as a measurement tool is that they are supposed to refer to the impacts on the lives of real people. Unfortunately, it is extraordinarily difficult and resource intensive to understand the impact on people's lives: the depth of knowledge that is required to understand the meaning of an outcome within an individual's context demands the use of both intensive quantitative and qualitative research methodology with subjects over prolonged periods.

Moreover, sometimes the performance measurement can lead to a lack of motivation for employees especially when measurement systems set unrealistic or unfair goals or contain an incomplete set of performance measures, which fails to register and appreciate effort, and unattractive rewards (Siverbo et al., 2019). According to Otley (2003) and Horngren (2004), if negative attitudes arise from performance measurement, it is a serious paradox effect since its intended purpose is to increase motivation and not the opposite.

2. PARADOXES IN AUDITING

In auditing, one of the most common indicators used in order to measure its effectiveness is the number (or the percentage) of recommendations that the audit entity accepts (or implements). However, many criticisms focus on similar indicators: proposing (from the auditor's point of view) or implementing (from the audited entity's point of view) the recommendations of the auditor do not necessarily result in improvement, as some recommendations may be ineffective. Moreover, the non-implementation of a recommendation is not necessarily bad, because a problem can have several solutions and the proposed solution may not be the best for the entity's interest.

Again, the rate of implementation of the recommendations is strongly correlated with the nature of the recommendations proposed by the auditor. If the recommendations are easily achievable, the percentage of recommendations implemented will be high. If the recommendations are radical, the possibility of implementation will be low. Moreover, the *"definitions of this indicator vary from country to country; timeframes used to check whether recommendations have been implemented differ (2,3,4 years); some SAIs distinguish between fully and partially implemented recommendations; and some proceed from the percentage of recommendations that were agreed by the auditee, others focusing on those that were implemented"* (Loocke and Put, 2011: 199).

Furthermore, controlled entities could create an illusory world composed of beautiful plans, SMART (Specific, Measurable, Achievable, Realistic, and Timely) goals, techniques etc. to manipulate financial statements and reports to show more favorable results, such as "window dressing" or "impression management", just to satisfy the auditors and achieve the target of implementing their recommendations in order to present superficial compliance and improvement, while in the practice, everything goes on as before (Loocke and Put, 2011).

Moreover, the "illusion of control" is an often-encountered phenomenon, especially in large and complex organizations (such as at international level). According to this, when more people, organizations etc. participate, it becomes more difficult to make it transparent and accountable. In addition, as the saying goes, if many people are accountable at the very end, no one is. Several audits at different levels create the superficial impression that everything is under control, while in reality the responsibility is blurred.

Finally, according to Pwc (2014: 2), concerning the measurement of performance of internal audit function there is never a "one size fits all approach", but rather a common approach. "When metrics are aligned with what matters most to Internal Audit's stakeholders they drive results and performance that add value to the organization—however, a balanced approach is still needed."

Such a common, balanced approach, which adds value was also needed in the field of external audit and SAIs as well.

3. SUPREME AUDIT INSTITUTIONS (SAIS) AND PERFORMANCE MEASUREMENT

Supreme Audit Institutions (SAIs) evaluate and make recommendations to audited entities concerning the improvement of their performance. However, a question arises: who audits a SAI and how does a SAI evaluate its own performance? Although performance measurement for SAIs constitutes a rather sensitive issue (what about the public image and the impact of a SAI if its performance is characterized as poor?), more and more of them have adopted practices of the private sector in recent years. They clearly establish their vision and mission, set their strategic objectives, build up their capacities, and evaluate and make public their own productivity.

Loocke and Put (2011: 196) mention that the SAIs' indicators cover all aspects of the "MAPE" spectrum, which stands for:

"**M**eans: cost of an audit, work time spent to complete an audit, amount of resources allocated to front line activities

Activities: implementation of audits within a planned timeframe, number of performance audits for which external professionals are called upon,

Performances delivered: number of audit reports produced; timely delivery of audits and

Effects: number of implemented recommendations, generation of a debate in parliament and media."

According to a survey by the Court of Auditors within SAIs in Europe in 2014 on the measurement of their own performance (European Court of Auditors, 2014), the most common indicators were the implementation rate of recommendations and the number of audit reports produced.

However, there was not a globally accepted and complete performance measurement framework for measuring a SAI's performance up to recently. The evaluation was made either by using tools used to evaluate the systems for managing a country's public finances (i.e.: PEFA, World Bank, CFAA, etc) or by models that have been developed by the actual SAIs (e.g. AFROSAI-E Capability Model, NAO Maturity Model, GAO Accountability Organization Maturity Model, CBNA Framework, etc.) on the basis of international standards and good practices – which are also influenced by the corresponding private sector standards – that are used both to evaluate their capabilities and as development models (Kontogeorga, 2013).

In 2010, the Working Group on the Value and Benefits of SAIs (WGVBS) was tasked with mapping the existing tools and assessing whether any of these may be used by INTOSAI and other stakeholders or whether it is necessary to develop a new tool. As a result, 20 tools and frameworks were identified and assessed against 12 criteria defined by the WGVBS as follows:

I. Comprehensiveness: Broad coverage of the key domains of an SAI's performance and its contribution to accountability, transparency, good governance and the sound utilization of public funds.

II. Objectivity: Indicators to measure performance and progress are objective.

III. Subjectivity: Subjective factors can also be captured, e.g. through narrative performance report.

IV. International agreement: Performance indicators and measurement scales reflect the agreed international standards, such as the ISSAIs, and international good practices where available.

V. Relevance (to all countries): Developed for and/or used by all types of SAIs, regardless of their administrative heritage or level of development.

VI. Performance Improvement: Enables an understanding of the reasons for strong or weak performance and is designed to contribute to performance improvement.

VII. Progress: Facilitates the consistent measurement of SAI performance (at different stages of the results chain) over time.

VIII. Consistency: Coverage is not inconsistent with SAI related indicators in the high-level PEFA framework (PI-10 element iv and PI-26) with respect to assertion of good practice and location in the results chain.

IX. Compliance: Measures actual audit practices, as well as the quality of the SAI's legislative / regulatory framework and internal guidelines / manuals.

X. Quality Assurance: Appropriate arrangements are defined and applied to ensure an independent review of the assessment, and disclosure of the nature of the review.

XI. Brevity: Comprises the minimum number of performance indicators possible to cover key aspects of an SAI's performance, so as make the tool of practical benefit to SAIs.

XII. User Friendly: Facilitates easy-use by SAIs as self-assessment or peer assessment tool (INTOSAI IDI, 2012: 8).

Based on the above analyses, the most relevant tools for a SAI PMF were among others: the PEFA, the IMF Fiscal Transparency ROSC, the IDI Capacity Building Needs Assessment Guide, the Institutional Capacity Building Framework Survey and the Quality Assurance Review of AFROSAI-E (INTOSAI IDI, 2012: 16).

However, the assessment concluded that none of the tools meet all 12 criteria. Consequently, the development of a new SAI performance measurement tool was recommended, with the aim of meeting as many of the criteria as possible, building on existing tools. Benefits of developing a single, performance measurement framework for SAIs which may be applied globally by all key stakeholders could be substantial and include reduced transaction costs for SAIs and improved ability to monitor changes in performance over time and benchmark performance against peers (INTOSAI IDI, 2012: 6).

4. THE NEW SAI PERFORMANCE MEASUREMENT FRAMEWORK (SAI PMF)

Despite the use of all these various models, there was a necessity for the development of an internationally accepted model for measuring the performance of a SAI regardless of its governance structure, mandate, national context, development level and geographical regions. Such a framework, the new SAI PMF (Performance Measurement Framework) was officially endorsed as an INTOSAI

tool at the INTOSAI Congress in Abu Dhabi in December 2016. The SAI PMF provides SAIs with a framework for voluntary assessments of their performance against the International Standards for Supreme Audit Institutions (ISSAIs) and other established international good practices and to a certain extent against the SAI's specific mandate and legal framework. In line with the objectives of ISSAI-12 "The Value and Benefits of Supreme Audit Institutions – making a difference to the lives of citizens", the SAI PMF also provides SAIs with an objective basis for demonstrating their ongoing relevance to citizens and other stakeholders. It gives SAIs an opportunity to become model organizations, leading by example in promoting transparency and accountability through credible public reporting on their own performance (INTOSAI IDI, 2020).

The new SAI PMF gives an overview of the important areas of SAI performance and it covers both the SAI's internal processes and its outputs. It is composed of a performance report, which consists of a narrative analysis of the findings and a set of 25 indicators (including three indicators for SAIs with jurisdictional functions) for measuring SAI performance against international good practice in six domains as follows:

A. Independence and Legal Framework: This domain covers the legal mandate of the SAI and its independence. The purpose of the domain is to consider the institutional basis for the SAI's operations and to support the understanding how the SAI performs as an organization. Domain A is measured through two indicators:

SAI-1: Independence of the SAI

SAI-2: Mandate of the SAI

B. Internal Governance and Ethics: One of the objectives of ISSAI 12 is that SAIs should lead by example and be model organizations. An SAI should promote transparency and accountability through good governance of the SAI and ethical conduct, in order to fulfill their mandates. This domain is measured through the following five indicators:

SAI-3: Strategic Planning Cycle

SAI-4: Organizational Control Environment

SAI-5: Outsourced Audits

SAI-6: Leadership and Internal Communication

SAI-7: Overall Audit Planning

C. Audit Quality and Reporting: This domain aims at assessing the quality as well as the outputs of the audit/control work that is the core business of the SAI. The domain C covers the three audit disciplines as they are defined in the ISSAIs, as well as jurisdictional control for SAIs with jurisdictional functions. It comprises the indicator:

SAI-8: Audit Coverage (it measures audit coverage in each of the three audit disciplines: financial, performance and compliance audit, as well as for jurisdictional control where relevant).

Domain C also comprises:

Financial Audit Introduction

SAI-9: Financial Audit Standards and Quality Management

SAI-10: Financial Audit Process

SAI-11: Financial Audit Results

Performance Audit Introduction

SAI-12: Performance Audit Standards and Quality Management

SAI-13: Performance Audit Process

SAI-14: Performance Audit Results

Compliance Audit Introduction

SAI-15: Compliance Audit Standards and Quality Management

SAI-16: Compliance Audit Process

SAI-17: Compliance Audit Results

Introduction to Indicators for Jurisdictional Control (for SAIs with jurisdictional functions)

SAI-18: Jurisdictional Control Standards and Quality Management

SAI-19: Jurisdictional Control Process

SAI-20: Results of Jurisdictional Controls

D. Financial Management, Assets and Support Structures: Domain D consists of one indicator that covers the main dimensions and criteria required for an SAI to demonstrate accountability for how it manages its finances, assets, and support services to achieve its objectives

SAI-21: Financial Management, Assets and Support Services

E. Human Resources and Training: This domain looks at the SAI's performance in managing and developing its human resources. Domain E is measured through two indicators:

SAI-22: Human Resource Management

SAI-23: Professional Development and Training

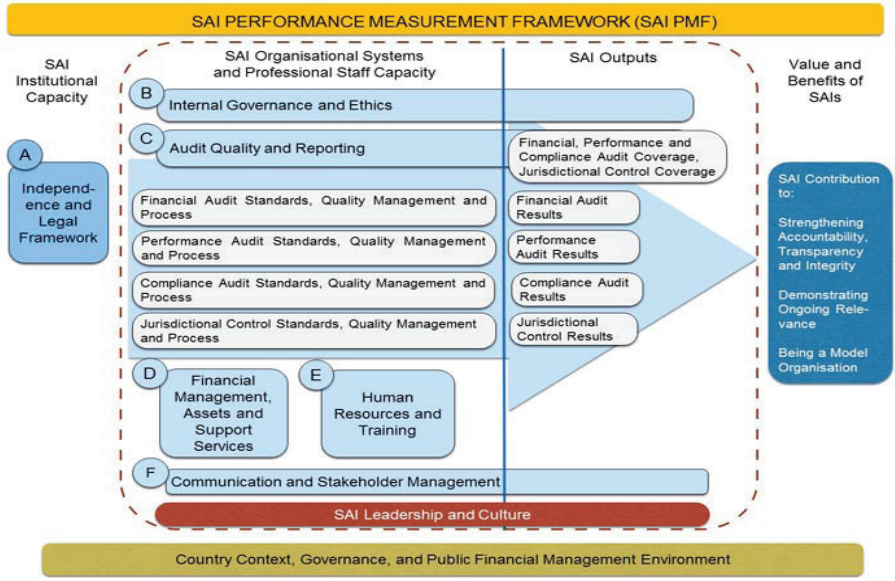
F. Communication and Stakeholder Management: SAIs should communicate with stakeholders to ensure understanding of the SAI's audit work and results. This should be done in a manner that increases stakeholders' knowledge and understanding of the role and responsibilities of the SAI as an independent auditor of the public sector (ISSAI 12: 6). Domain F is measured through two indicators:

SAI-24: Communications with the Legislature, Executive and Judiciary

SAI-25: Communications with the Media, Citizens and Civil Society Organizations (INTOSAI, 2016: 11).

Each of the 25 indicators seeks to measure the performance of the SAI on a key area against a five-point scale from 0 to 4. The indicators predominantly measure things that are within the control of the SAI, i.e. its organizational systems and professional capacity with the exception of the domain A, which measures the SAI's independence and legal framework, as shown in the Figure 1 below. These factors are included because they are crucial to the SAI's performance, and because they are given considerable emphasis in the ISSAI framework. It should however be recognized that any weaknesses in this domain may not easily be addressed by the SAI itself (INTOSAI, 2016: 11).

Figure 1: The New SAI PMF



Source: INTOSAI IDI, 2020

According to the results for SAI PMF implementation for the year 2018, 47 SAIs conducted assessment for the very first time, 2 SAIs conducted repeat assessment, and 11 SAIs published their assessments[3] (INTOSAI, 2019a: 14).

5. DISCUSSION

The permanent challenge concerning measurement is how to establish robust and meaningful indicators. In the public sector, data are mostly qualitative and not quantitative, sometimes are missing, or if available, are not of good quality, and consequently, difficult to measure objectively. For example, how easy is it to measure the performance of a psychiatric clinic and its impact for the patients or of a prison and its impact for the prisoners? This is why the adoption of estimates in surveys related to public administration and governance issues is highly recommended (UN DESA, 2007). However, estimations can vary or change over time, so surveys must be repeated regularly to be up-to-date and reflect the current situation.

[3] The cumulative number refers to the SAIs with a finalized SAI performance report based on the SAI PMF framework

Another difficulty, especially in the performance audits, consists of the fact that outcomes are not always obvious as they occur in the long term, and other exogenous factors may have contributed to the result. In this case, it is not very easy to determine the extent to which an intervention or a policy has a direct and exclusive impact on the result, or whether it is the combination of several factors. In addition, the majority of these external factors are far beyond the control of the institutions (SAIs or international organizations).

The interpretation of the result is another complicated issue: The definition of optimal result differs from one person to another according to his or her own interest. Government programs are often designed to achieve multiple objectives (or in the case of international organizations) especially in the public sector, so managers, politicians (or nations as well) and auditors have multiple and sometimes contradictory interest, or they do not set very clear objectives. In this case, it is quite difficult to establish objective standards, so there is an urgent need for constructive communication and dialogue among stakeholders to ensure that nobody is marginalized and excluded, and all the aspects are considered. For that reason, indicators should be as clearly defined as possible.

On the other hand, most of the performance information systems measure only a single dimension or value of government performance. Consequently, there is always the risk of over-simplification of the concepts by indicators that cannot capture this complexity and sufficiently represent all necessary aspects.

Finally, some organizations, such as international organizations or SAIs, are sometimes too secluded from citizens and their real needs, procedures and decisions are very complex and not always very clear or easily accessible to the average citizen. As a result, it is doubtful whether such institutions still represent and serve the public interest. Especially in the case of SAIs, the INTOSAI pronouncement P-12 (The Value and Benefits of SAIs) set as a priority and ultimate goal for all SAIs "to be able to make a difference to the lives of citizens" (INTOSAI, 2019b).

In any case, indicators should be as sensitive and dynamic as possible in order to better reflect the content of the notion that they try to measure and should be questioned, revised or updated whenever is needed.

In any case, we should bear in mind that performance measurement will always be a challenging endeavor and as such, there will always be room for improvement and endless discussions. As the well-known ancient Greek quote says, *"all in good measure, all in moderation (Pan metron ariston)"*, a principle that should be applied even to the measurement itself.

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