

INTOSAI Working Group on KNI

PROJECT PROPOSAL

1. Working title

Establishing a professional standard on the development and use of key national indicators (KNI)

2. Developing standard objective (purpose)

The KNI referred to as “headline indicators”, are defined as a core set of information about the progress and position of a nation.

As the global financial crisis spurs critical thought about socio-economic development strategies around the world, the development and use of a new system of economic evaluation criteria is particularly timely. That is why nowadays KNI systems are being developed in different countries.

There is no “right” number of KNI; the balance between simplicity and breadth of coverage can vary widely. However, KNI are generally limited to what society considers the “vital few.” While a set of indicators can include dozens of indicators, any KNI set is not intended to be exhaustive, but rather, to provide a summary picture of the conditions considered being most important for the progress of a nation. Similarly as it is in the process of defining progress, the process of selecting KNI is inherently political, representing the aspirations and values of society.

In some countries, KNI are a part of the strategic planning process and refer to government activities, while in others, the KNI system is based on traditional macroeconomic indicators, which are developed by national statistical services.

Models of management development and performance measurement methods largely depend on a country's existing political, legal, and administrative systems.

In some countries, these processes are centralized, in others, decentralized. The lack of systems of strategic management and performance measurement at the national level usually means a lack of audit and monitoring of government socio-economic development strategies. Economic, social, and environmental indicators in this case are used for current monitoring of socio-economic development of the state, but not as an element of strategic management.

In many countries, the existence of both a national socio-economic development strategy and an integrated assessment system of the state of the economy and society is assumed. In this context, KNI would reflect the highest public priorities and obligations of the state, helping to enable changes that improve the economy and society while preserving national identity, sovereignty, and unity. It is important to emphasize that such indicators are topical when there is a perceived need for integrated development management and that the processes of the implementation of national socio-economic development goals and the development of indicators are interrelated.

In most countries the development of national indicators is primarily the responsibility of the government sector, however, in some countries dialogue between the citizens and decision-makers forms the basis for the development of national indicators.

As SAI in some cases is the main body which is responsible for the control of the strategies and programs at regional, national, and local levels, the use of the KNI in the SAIs' activities is strongly important. It should be also mentioned that the countries' environments (i.e. the existence of the KNI, regulatory framework, SAIs' mandates, the personnel readiness to use the KNI in their activity, etc.) differ considerably, but the SAIs role in the country's assessment process might be growing.

Therefore the KNI which may be defined as a specific set of indicators that measure economic and social progress in achieving national goals in the respective areas are a proper tool for the countries' state evaluation both individually and on

an international scale as well. In order to achieve strategic goals and priorities concerning worldwide, regional and national development there is an obvious need to develop KNI and a guideline which will identify the use of KNI in the SAIs activities. That will allow auditing the implementation of socio-economic development strategies and programs at regional, national, and local levels and their compatibility with global development goals.

The developing standard could be an example of such general guideline which will focus primarily on KNI as a necessary tool for the effective evaluation of national strategies, and the role of SAIs in their development and use.

In the future, the developing professional standard will become a key document for understanding the specific ways in which SAIs can help governments to achieve the strategic goals through effective audit methods.

Thus the objectives of the standard are:

- to enhance SAIs' roles in the assessment of effectiveness and efficiency of government activities on the basis of the KNI;
- to highlight the importance of the development and use of the KNI in assessment systems of socio-economic development;
- to support a comprehensive approach to the development and use of the KNI
- to share best practices and better practice guides of the development and use of the KNI

3. Tasks within the standard (scope - content)

Guide to terms and concepts of KNI

The diversity of interpretations of such terms as “progress”, ”KNI”, “data quality” and others makes it necessary for SAIs to formulate a common

understanding of key terms used by SAIs. In this case, not only definitions and terms, but their interpretations and description of the most correct way to use them, are important. In accordance with this objective, this guide answers the following questions:

- What are KNI?
- What is measured by KNI?
- What is a KNI system?
- How is data quality defined?
- What roles of SAIs can be played in the development and use of the KNI?

Basic principles for the development and use of KNI

In developing a professional standard for SAIs, relevant ISSAIs have to be considered. Those are bases in establishing these basic principles of the development and use of the KNI. At least, there are four main basic ISSAIs

- The Lima and Mexico Declaration of SAI's independence are underlying principles for SAIs (ISSAI 1, 10, and 11)
- Principles of Transparency and Accountability of SAI (ISSAI 20 and 21)
- Code of Ethics (ISSAI 30)
- Fundamental principles of public sector auditing (ISSAI 100).

KNI help countries evaluate and align their strategies and programs for socio-economic development, and they can produce other meaningful results as well. The overall goal of a KNI system should be to trigger better results from public administration.

A SAI must evaluate the disclosure of KNI methodologies to assure transparency in KNI use and promote the use of KNI in all stages of the budgetary process, including programming and planning.

Although SAIs have encouraged the development of KNI systems, they have generally avoided involvement in the selection of indicators in order to retain their independence and to avoid any possible loss of credibility if the indicators are viewed as inaccurate or inappropriate.

The standard is to give the directions of how SAI's functions in supporting and using KNI in audit work can be implemented.

When developing and selecting the indicators themselves, a country needs to ensure that these basic KNI system requirements are met:

- **Complexity/Comprehensiveness:** The KNI system must cover the key areas that are relevant to society and must allow for new indicators to be added as needed.
- **Reliability:** The KNI system must be created and indicators selected using stable, consistent, accurate, and reliable data and tools to ensure that the system reflects the society accurately.
- **Continuity:** Information that helps determine the evolution of the issue being measured must be available.
- **Comparability:** Certain set of data within the KNI system produces commensurable national progress data.
- **Systematization:** Consideration must be given to how the indicators will be used to assess and improve government's performance and contributions to socio-economic development and other results.
- **Validity:** Documents should be available to prove that indicators actually measure what they purport to measure.
- **Methodological soundness:** The data on each indicator should be as detailed as possible, considering time, geographical, and other constraints.

Principles for SAIs application of KNI, role of SAIs in the development and use of KNI systems

The principles should be generic, i.e., acceptable regardless of levels of socio-economic development and models of progress. Being nonspecific and general is important because each individual country, depending on political priorities, may have different socio-economic problems and corresponding lists of KNI.

Since every country in the process of development faces various socio-economic problems, each country's development goals require individually-designed KNI. In addition, in the process of KNI development, it is necessary to take into account not only development strategies, but also the possible risks of their implementation. SAIs' use of KNI has to be within their mandates and should respect their independence. Direct participation in the construction and improvement of KNI is not in accordance with SAIs' prerequisite of independence, however, SAIs may participate in improving KNI by giving advice.

SAIs can have different functions in supporting and using KNI in audit work. The standard is to give some directions on how these functions can be implemented.

An SAI should promote the use of KNI in all stages of the budgetary process, including programming and planning.

An SAI must evaluate the disclosure of KNI methodologies to assure transparency in KNI use.

When an audit of KNI reveals weaknesses, an SAI must present its findings in such a way that creates opportunities to improve the KNI system.

Roles of KNI in sustainable development monitoring

In many countries, the concept of sustainable development has become an integral part of policies, strategies, and programs at regional, national, and local levels. This has necessitated the urgent development and application of new audit methods and tools.

To evaluate whether development is sustainable, SAIs should conduct the following types of audits:

- an audit of targets, to see if they are realistic and are based on proper understanding and evidence about what needs to be done;
- an audit of indicators, to see if they are relevant and reliable;
- an audit of the progress revealed by comparing indicators with their associated targets.

Guidelines for knowledge-based economies

Nowadays, many countries operate within knowledge-based economies and societies (KES). This is manifested through knowledge-based industries and services as well as institutions in the economic and social structure, in addition to the growing government's programming and funding activities for KES progress. These kinds of changes need to be adequately reflected in performance auditing, particularly from the accountability perspective.

The purposes of performance auditing should be decided on by the SAI for achieving the following main goals:

- the evaluation of economy, efficiency, and effectiveness of the government's activities in support of KES progress;
- the determination of the most important indicators of effectiveness and their sources of data and
- the assessment and improvement of political decisions and goals established for promoting KES progress.

Guidelines on the development and use of KNI in developing economies

The issue of the development and use of KNI is very topical for countries that are on the way to forming a knowledge-based economy and society. To increase the economic growth and welfare of societies, such countries often create

regional alliances and develop common regional development strategies. To organize and conduct joint audit-analytical activities SAIs need to have common standards, agreed-upon procedures and evaluation criteria and, most importantly, key indicators that should be determined jointly to satisfy the overall goals and objectives of economic development.

4. Developing standard within the ISSAI framework

The standard on the development and use of the KNI in the SAI's activities is developing by the members of the INTOSAI Working Group on KNI. During the preparation of the paper the following documents were used:

- Lima Declaration of Guidelines on Auditing Precepts adopted in 1977 at the IX Congress of INTOSAI;
- ISSAI 100 –Fundamental Principles of Public-Sector Auditing;
- ISSAI 5130 – Sustainable Development: The Role of Supreme Audit Institutions;
- ISSAI 3000 – Standards and guidelines for performance auditing based on INTOSAI's Auditing Standards and practical experience;
- ISSAI 3100 – Performance Audit Guidelines: Key Principles;
- Due Process for INTOSAI Professional Standards.

5. Guidance from other internationally recognized, regional or national standard setters

A thorough study of the different standard setters' activity revealed that there is some research concerning the KNI in some countries, for example:

- Canada: Canadian Index of Wellbeing;
- Great Britain: Measuring progress. Sustainable development indicators 2010;

- Australia: Measures of Australia's Progress.

There is no guidance from other internationally recognized, regional or national standard setters related with the use of KNI in SAI's activities.

6. ISSAI category

Taking into account the principles for classification of INTOSAI's professional standards and considering the document as one of the external audit tools it is considered to qualify the developing standard as an INTOSAI Guidance for Good Governance (INTOSAI GOVs). The suggested number for the document is INTOSAI GOV 9300.

7. Target group

The target group of the developing standard includes Heads and Audit Directors of SAIs, External Governmental Auditors, Internal Auditors. The standard addresses the need for guidance on the development and use of KNI in SAIs activities at all levels. An issue like the effectiveness and efficiency assessment of the government activities on the basis of KNI is very complex and should be regarded at all levels of the decision making process and in the audit activities. In this regard management and personnel of all SAIs levels should be provided with the guidance for the use of KNI.

8. Categories of auditing in the standard

The system of KNI may be defined as an organized effort to assemble and disseminate a group of indicators that together tell a story about the position and progress of a nation. In other words, KNI system is an instrument for analyzing the

implication of public policies, particularly in implementing performance audits. KNI can be considered as performance audit criteria by which socio-economic development strategy outcomes, government activity, socio-economic processes, and society condition as a whole are evaluated.

9. Author – committee

In accordance with the Due Process for INTOSAI Professional Standards the responsible subcommittee has to agree upon all developing documents with the steering committee. The responsible subcommittee in this case is the Working Group on KNI. According to the INTOSAI organizational structure the Knowledge Sharing Committee is the steering committee for the Working Group on KNI.

10. The supposed timeline of the future standard development

- Project Proposal – by July 2014;
- Exposure Draft – by November 2015;
- Endorsement version – by October 2016;
- Final INTOSAI Gov 9300 – by November 2016.