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ASOSAI Workshop Country Papers
on
Sub-theme 3

Audit of Social Services

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**Principal Paper
on
Sub-theme 3**

Audit of Social Service

Prepared by:
Office of the Comptroller and Auditor General,
India

6th ASOSAI INTERNATIONAL SEMINAR 1997

Topic :

Sub-theme 3 : Audit of Social Services

Principal Paper By : SAI - India

Sub-theme 3: Audit of Social Services

Principal paper by SAI-India

1. Introduction

1.1. In the post World War-II era, governments all over the world, especially those of the developing countries, have undertaken large socio-economic developmental programmes aimed at improving the quality of life of their people. Massive amounts of money have been invested in these programmes, which cover a wide range of areas.

1.2. These programmes are aimed not only at economic objectives like rate of economic growth and Gross National Product, but also at social objectives from the human development perspective. The Human Development Report 1994 produced by the United Nations Development Programme refers to a compact for Human Development suggesting the following targets to be achieved by 2005 AD :-

- Universal primary education - for girls as well as boys
- Adult illiteracy rates to be halved - with the female rate to be no higher than the male one
- Primary health care for all - with special stress on the immunisation of children
- Severe malnutrition to be eliminated - and moderate malnutrition rates to be halved
- Family planning services for all willing couples
- Safe drinking water and sanitation for all
- Credit for all - to ensure self-employment opportunities.

UNDP estimates the additional cost of meeting the above targets by 2005 AD at US\$ 30 to 40 billion per annum.

1.3. India is no exception to this global trend and has a formal centralised planning mechanism since the 1950's for promoting national development. Successive Five-Year Plans have been implemented for achieving social, economic and industrial development through various programmes targeted at employment generation, health and sanitation, agricultural and rural development, infrastructure sectors (energy, transport and communications), besides investments in several key industrial sectors like iron and steel, petroleum, mining etc.

2. State Audit and Social Development

2.1. While planning, monitoring and implementation of socio-economic developmental programmes is the responsibility of the planners and administrators, who form part of the Executive branch of Government, there is need for an independent assessment of performance, with a view to assessing the extent of achievement of planned targets, and how efficiently and economically these programmes have produced the desired results. This role is performed by Supreme Audit Institutions (SAIs).

2.2. The traditional approach adopted by SAIs in the past was mostly confined to certification of accounts, focussing mainly on incurring of expenditure within legislative appropriations and compliance with applicable laws, rules and regulations. The audit approach was based on test check of individual transactions, rather than examination of systems and procedures. With the dramatic shift in the pattern of Government expenditure from mere law and order and policing functions to promotion of and active participation in economic development, SAIs have had to reorient their audit strategy accordingly. The expanded scope of audit covered aspects of economy, efficiency and effectiveness of delivery of programmes, in addition to the regularity and compliance aspects. The focus of audit shifted to assessment of performance, both in terms of physical and financial targets, with a view to ascertaining whether best 'value' had been derived for the money spent on these programmes. The aim of audit has evolved beyond an emphasis on minimising waste, abuse and fraud and ensuring compliance with applicable authorities. It now aims to improve services to society by promoting value for money in government decision making and enhancing organisational performance. Audit's potential for proactively promoting good governance is now recognised as a significant factor in the evolution of public sector reform. State audit thus forms an integral link in the process of economic development, by promoting public accountability and thus good governance.

2.3. Even before formal introduction of performance auditing, the Indian SAI's audit scope had extended beyond examination of the regularity of expenditure and its compliance with applicable rules and regulations to cover its "wisdom, faithfulness and economy". The focus was on bringing to light not only cases of irregularity, but also cases, which in the SAI's judgement, involved improper expenditure, extravagance or wastage of public money. This audit approach, which is referred to as "propriety audit" in Indian parlance, was applied to individual transactions.

2.4. While propriety audit continues to be an integral component of SAI-India's audit strategy, along with regularity and compliance audit, it was felt that examination of individual transactions alone would not enable an overall assessment of the various government programmes and the social and economic return on government investment. "Efficiency cum Performance Audit" was

introduced in the 1960's by the SAI to evaluate the various developmental programmes and projects executed by the Federal and Provincial Governments, to assess and appraise the extent to which the social and economic objectives sought to be achieved, had been achieved and at what cost.

2.5 While the nature of performance audit, whether social audit or economic development, is the same, social audit differs from economic development audit in two respects :-

- identification of performance indicators or the quantifiable expression of programme objectives, and
- setting of performance standards or the desired level of achievement for performance indicators.

2.6 These indicators are distinct from the programmes targets or outputs, which are generally of an intermediate nature. For example, in the case of a programme for development of health services in a particular area, the physical targets could be setting up a specified number of health centres or hospitals within a stipulated time frame. On the other hand, the performance indicators for this programme could be the level, quality and effectiveness of health care services provided, including availability and accessibility of doctors to patients, and the consequential medium and long term impact on the state of health of the population covered by the services. Similarly in the case of a rural water supply programme, while the quantification of pipelines and coverage of villages could form the intermediate programme targets, the ultimate performance indicators could be the quality, quantity and regularity of water supply, its effective utilisation by the target population and its impact on the population.

2.7 It is in this area, that performance audit of social services closely approaches the concept of programme evaluation that has gained ground in the recent past. Programme evaluation however generally goes further than performance audit, in that besides assessing the economy, efficiency and effectiveness of governmental programmes, it involves :-

- Analysis of the objectives of the programme or policy, including assessment of the adequacy of objectives vis-à-vis identified needs, and possible inconsistencies between stated objectives and implicit objectives as well as between the programme delivery mechanism and the specified objectives
- Analysis of results of the programme, in terms of identifying the entire set of outcomes of the programme for society, including impacts not explicitly incorporated into the objectives, as well as establishment of a cause-effect relationship between the observed effects and the programme under review.

2.8 While many SAls do not conduct programme evaluations of social development schemes *per se* for various reasons (restricted mandate, non-availability of specialist manpower for evaluation, non-availability of performance indicators and standards etc.), SAl's performance audits do generally have an evaluative aspect e.g. they might draw upon the internal evaluation studies conducted by the Executive, highlight the shortfall in programme achievements vis-à-vis performance indicators set by the Executive, or draw critical reference to the non-identification of performance indicators and standards.

3. Selection of topics for audit

3.1 With the vast volume of investment in social development programmes, SAls have necessarily to be selective in choosing areas for detailed examination as part of their medium and long-term audit planning process. The criteria adopted for selection of social programmes, departments or organisations for performance audit would obviously vary from SAl to SAl, but could include the following :-

- Investment - Quantum of investment of public resources, including fiscal, human and material resources, over the entire duration of the programme.
- Impact on society - Importance of the programme in the context of overall socio-economic development
- Legislative sensitivities - Since the ultimate aim of State Audit is promoting public accountability, generally through legislative financial control, and legislators are the major users of SAl products, several SAls have a formal policy of giving high priority to audit areas, on which specific requests have been received either from Legislative Committees or individual legislators. Even other SAls who do not follow such a formal policy, generally do take legislative sensitivities into account in an informal way in the selection process. Also SAls might like to audit programmes in order to review the action taken by the Executive in the light of legislative recommendations on past audit findings.
- Topicality and Public Sensitivity - Topicality of subjects and public interest and sensitivity at a given point of time, including media coverage, play an important role in the selection process.
- Information from financial and regularity audits - In the course of financial and regularity audits, SAls might discover weaknesses in the internal control, financial management and programme implementation structure, which could have a serious impact on the delivery of the projected social outputs. Such programmes may get a higher priority in the selection process.
- Specific requests from Executive - Sometimes the Executive branch may itself, based on the feedback received on programme implementation or otherwise,

make a specific request to the SAI for a performance appraisal of a specific programme or scheme.

4. Audit Arrangements

The arrangements for conduct of audit of social services would vary from SAI to SAI, depending upon their audit mandate and jurisdiction, the audit organisation and the resources (human and financial) available with the SAI.

4.1. Audit Mandate and Jurisdiction

This would include the inclusion of performance audit in the SAI's mandate, and its audit jurisdiction, in terms of coverage of Federal and Provincial Governments, local municipal bodies as well as state owned public enterprises. For example in the case of SAI-India, though there is no specific mention of 'performance audit' in the Constitutional and legal provisions governing the SAI, the term audit has been interpreted to cover all aspects of audit, including performance audit. Also SAI-India's audit jurisdiction covers not only the Federal Government, but also the Provincial Government, large municipal bodies as well as state-owned public enterprises. Most of the socio-economic developmental programmes in India are funded by the Federal Government, but implemented through the Provincial Governments and other local authorities. The performance audit of such programmes is considerably facilitated by the vast audit jurisdiction of SAI-India, enabling it to trace the outputs of a programme to its ultimate impact on the intended beneficiaries.

4.2. Audit Organisation

In view of the federal funding and provincial implementation of socio-economic development programmes in India, SAI-India's audit organisation has been restructured to facilitate the planning and implementation of "All-India Audit Reviews", catering to the needs of both federal and provincial legislatures. Under this arrangement, the selection of All-India Socio-Economic Development Schemes for performance audit is done centrally at the Headquarters of the SAI, and detailed guidelines for audit implementation are framed centrally, in consultation with the SAI's provincial field formations. The actual audit execution and data collection for the performance appraisal is conducted through the SAI's field formations spread all over the country. The data collected by the field formations is consolidated by the nodal field formation dealing with audit of the Federal Government and the audit findings finalised and issued as part of the Federal Audit Reports, which is presented to the President for transmission to the Federal Legislature. Simultaneously, the audit findings relevant to each province are also incorporated in the SAI's Provincial Audit Reports, which are presented to the Governor of the Province for onward transmission to the Provincial Legislature.

5. Audit Methodology

While the specific audit methodologies adopted for performance audit of social development schemes would differ from SAI to SAI, the broad approach would generally cover the following stages :-

- Preliminary Survey/ Feasibility Report
- Audit Planning / Guidelines Finalisation
- Execution
- Mid-Term Appraisal
- Reporting

5.1. Preliminary Survey/ Feasibility Report

A preliminary or "pilot" study of the selected scheme is an essential pre-requisite for the performance audit. The objective is to obtain a comprehensive overview of various aspects of the programme, its aims and objectives, the performance indicators and standards set by the policy makers, the delivery mechanism established for the programme etc. with a view to identifying areas requiring in-depth examination and investigation by the SAI. A decision is then to be taken by the SAI as to whether to conduct the performance audit now or not.

5.2. Audit Planning / Guidelines Finalisation

After a decision has been taken to conduct the performance audit of the selected scheme, a detailed audit plan is developed based on the pilot study. This plan spells out clearly the areas requiring detailed investigation, the audit hypothesis to be tested, the data to be collected at the administrative office and programme field sites and also from the beneficiaries. The questionnaires for data collection are also framed at this stage, along with detailed instructions for data collection.

5.3. Execution

5.31 After the finalisation of the audit plan, the performance appraisal proper commences, with the objective of ascertaining whether the social development programme is being executed efficiently and economically and the expected outputs are being achieved. The policies, procedures, practices and internal controls followed are examined with a view to ascertaining, among other things, whether

- the objectives of the programme have been identified clearly enough to be capable of measurement and proper implementation

- the programme achievements (intermediate and ultimate) are in accordance with the planned targets
- programme costs are within the estimates and are commensurate with the benefits derived from the programme
- the purpose of the programme has already been achieved and whether there is any continuing need for the programme
- the programme is the most effective, appropriate and economical way of achieving the goals set for it
- effective monitoring and internal control mechanisms exist for ensuring that the programmes run on course and according to schedule

5.32 After collecting audit evidence through substantive and system testing, audit findings are formulated, and discussed with / communicated to the auditee agencies with a view to ascertaining their viewpoint for incorporation in the Audit Report.

5.4. Mid-Term Appraisal

There is need for continuous monitoring by the SAI of the execution of the audit tests in an ongoing fashion, supplemented if need be by a mid-term appraisal of the interim audit findings. Often the SAI finds after deploying a portion of the resources allocated for the audit, that it is not really worthwhile to continue the audit and deploy more resources on it, and a decision could be taken to either abandon or defer the audit or restructure its scope and coverage. Occasionally, an SAI might find that its planned level of resource deployed is not commensurate with the actual volume of audit effort involved, and the resource deployment plan may have to be augmented or the scope of audit restructured in consonance with the available resources. A mid-term appraisal of a performance audit is thus an important milestone, giving the SAI an opportunity to decide whether to continue the audit, restructure its audit scope or coverage, enhance resources deployed for the audit or abandon the audit altogether.

5.5. Reporting

This is the final stage of the performance appraisal. The data collected is consolidated and collated for interpretation and detailed analysis. The audit findings are drafted carefully after analytical dissection of the findings of investigations. The draft performance audit report is sent to the Government / auditee agency with a view to ascertaining their viewpoint. Based on their comments, the report is revised, finalised and presented.

5.6. Follow-up

There is a formal and effective system of follow-up on the performance audit reports issued by SAI-India. These reports are examined by the Legislative Financial Committees, who make appropriate recommendations to the Executive for implementation. The Committees also monitor the implementation of their recommendations. Even in cases where the Committees are unable to examine the audit findings, reports on action taken on audit findings are called for from the Executive. These "Action Taken Reports" are vetted by the SAI for factual accuracy, before transmission to the Committees.

6. Indicators for Measuring Performance Measurement

6.1 The development of performance indicators and standards for social development programmes is a challenge facing SAIs the world over. While the responsibility for development of performance indicators and standards normally rests with the planners and administrators who plan and implement the social development programmes, often SAIs find that these standards have not been formally set and even where such standards have been set, they are either intermediate in nature (and do not reflect the ultimate objective of the programme) or are framed in such a fashion, as to be incapable of precise measurement. Faced with such situations, some SAIs develop performance indicators and standards on their own, but in this effort, they are often hampered by lack of specialist expertise for development of such indicators, non-availability of complete data as also non-acceptance of such standards by the Executive.

6.2 In India, the SAI does not fix its own performance indicators but generally relies the targets, goals and indicators projected by the auditee. This does not however preclude the SAI from critically evaluating the indicators and standards, to assess whether they are meaningful and reflect the true effects of development.

7. Assessment of Cost of Social Services

7.1 In order to evaluate the value derived for the money spent on the social development programmes, there is need for a scientific assessment of costs of social services. This assessment of costs has a wider dimension than merely effective budgeting or estimating of expenditure on economic or commercial projects. For such frames, often the time frames are longer and the benefits flowing therefrom are somewhat intangible and less easy to quantify and measure. The overall costs are equally difficult to measure, since they cover deployment of material and human resources, which need to be quantified in monetary terms. Generally in social programmes, the major component of the cost is on human resources, who play a pivotal role, and on the services rendered by them. SAIs often face problems in estimating the costs of social services towards evaluating value for money, especially where the cost assessment system on the Executive side is weak.

7.2 SAI-India does not generally conduct any assessment of costs incurred on provision of social services vis-à-vis tangible & intangible benefits produced. However where the costs have been worked out on the basis of declared parameters either by the Government or the project implementing agency, these costs are analysed by the SAI and suitable comments incorporated in the audit findings.

8. Manpower for Audit of Social Services

8.1 The conduct of performance audit of social development programmes requires development of specialised audit expertise in all SAls, to cater to the special challenges posed by this area, especially in the area of performance measurement and cost assessment. Building up and maintaining a pool of trained manpower for this task is a major challenge for all SAls, especially in view of the constraints of financial and human resources. Some SAls tackle this problem by either recruiting specialist expertise in the areas of economics, engineering, social sciences, law, environmental sciences, architecture etc. for this purpose, or by utilising the services of consultants on short term basis. Others prefer to rely on development of in-house skills in these areas through training and experience.

8.2 SAI-India follows a policy of rotation of staff between the financial and performance audit wings, in order to provide auditors with exposure to the different areas of audit and develop a balanced perspective. Staff members engaged in performance audit of social development programmes receive extensive training in different areas of performance audit both in-house at the Regional Training Institutes of the SAI as well as through external training sources, both within India and abroad. Such auditors are retained in the performance audit wing long enough for them to hone their skills through rich practical experience. As a policy, the SAI does not generally engage the services of external consultants, and prefers to rely on in-house development of skills. However, staff from the Executive side are periodically seconded to the SAI in specialist areas. Simultaneously, SAI staff are deputed on a cyclical basis to the Executive for gaining a balanced perspective of programme planning, monitoring and implementation. These arrangements facilitate the SAI in discharging its role of performance audit.

9. Constraints

9.1 A few SAls do not have a clear mandate for conducting performance audit, and consequently their ability to conduct audit of social services programmes is severely hampered. The main problem facing almost all SAls is however the non-availability of precise criteria for measurement of performance of social development programmes. Non-availability of adequate databases, both in terms of social statistics as well as for meaningful comparison of the performance with similar activities elsewhere, and absence of a formal evaluating mechanism either within the executing agency or outside, compound this problem, especially in the

developing countries. Lack of a properly conceived Management Information System in the auditee agency, and non-availability of data in electronic format can also severely restrict the SAI's ability to analyse voluminous data and draw relevant conclusions.

9.2 Another problem faced by many SAIs is the lack of adequate follow-up action by the Executive on the findings of the SAIs and the recommendations of the Legislative Committees thereon. The Committees are also not able to follow up all the findings of the SAI, due to paucity of time. Despite strictures passed by the Committees from time to time, there is often considerable delay in responses from the Executive and this is a major stumbling block in the SAI's objective of promoting public accountability.

9.3 Non-availability of trained manpower for performance audits is also a major problem, especially for SAIs from developing countries, who have limited resources (both financial and human) at their disposal. International Financial Institutions like the World Bank and the Asian Development have, in the recent past, approved funding programmes for strengthening of performance audit mechanisms in SAIs, in view of the important role played by SAIs in the public accountability and governance cycle.

1. Australia

**Country Paper
on
Sub-theme 3**

Audit of Social Service

**Prepared by:
Australian National Audit Office**

6th ASOSAI INTERNATIONAL SEMINAR, 1997
SUB-THEME 3: AUDIT OF SOCIAL SERVICES
COUNTRY PAPER - AUSTRALIA

1. Introduction

The Australian federal system comprises three tiers of government: national, state or territory and local (municipal). Social services are most commonly funded through the national government's revenue raising powers, but delivered by the six state and two territory governments. Important exceptions to this include national health care programs, national programs for indigenous peoples, income support payments, and tertiary education. In these cases, funding and service provision are both arranged by the Commonwealth (national) Government.

The responsibility for audit of social services is split between the Commonwealth, State and Territory Auditors-General.

2. Developments in Australian public administration

Three developments in Australian public administration since the early 1980s have had particular impact on the audit of social services.

First, all jurisdictions have moved to a program management and budgeting framework. This has made the identification of government objectives and inputs, and lines of accountability, an easier task for auditors.

Secondly, Governments have more recently required that greater attention be paid within that framework to performance information, and a focus on outcomes. Again, in theory, this provides auditors with more detailed information to use in assessing the efficiency, effectiveness and economy of auditee operations.

Finally, all Australian Governments are making greater use of purchaser/provider models of service delivery, although the extent to which

these arrangements are in place varies across jurisdictions. This raises for auditors the issue of access to third party records.

The implications of these developments are elaborated upon in section 8 below, which also reflects comments provided by State and Territory Auditors-General. In the interests of brevity, however, sections 3 to 7 deal only with processes used by the Australian National Audit Office (the office of the Commonwealth Auditor-General).

3. Selection of topics

i) Performance audits

Topics for performance audits are selected mainly on two grounds: first, to focus on those audits which are likely to result in maximum value added in terms of improved accountability, economy, efficiency and effectiveness; and secondly, to ensure appropriate coverage of agency operations within the limitations of available audit resources.

As part of the annual audit strategic planning process, the Auditor-General identifies particular audit emphases, directions and themes to help guide the selection of potential audit topics. For 1996-97, for example, these included human resource management, client services, contracting out, and information technology.

These themes provide general direction, but are not exclusive. The primary basis on which performance audit topics are selected is an analysis of risks to poor performance (that is, risks of inadequate economy, efficiency and effectiveness). Topics are then ranked against six criteria:

- overall estimated audit impact;
- financial materiality;
- risk to good management;

- significance of the program to the activities of the agency;
- visibility of the program as reflected in its political sensitivity or national importance; and
- lack of recent audit coverage and internal and external review of the program.

Of major importance in the final selection of topics is the added value expected from the audit which goes beyond likely budget savings.

ii) *Financial statements audits*

The ANAO's function in the area of financial statements auditing is to examine and report on the financial statements presented by Commonwealth Government entities. As auditor, the ANAO is not responsible for the preparation of the financial statements, nor for the maintenance of the accounting records and adequate accounting procedures and controls.

The selection of areas for audit is governed by the requirement for the Auditor-General to form an opinion on whether an entity's financial statements:

- are in agreement with the accounts and records kept in accordance with relevant provision of the *Audit Act 1901*, or the organisation's enabling legislation;
- are in accordance with relevant Guidelines issued by the Department of Finance; and
- present fairly in accordance with Statement of Accounting Concepts, applicable accounting Standards and other mandatory reporting requirements, the information required by relevant Guidelines.

The work undertaken to form the required audit opinion typically focuses on:

- materiality;
- systems and internal controls;

- risk factors facing a particular entity;
- the growth in, and reliance upon, Information Technology systems; and
- the extent of the entity's own comprehensive review activities and risk management strategies.

4. Audit arrangements

Audit mandate

As noted above, responsibility for audit in Australia is shared by the Commonwealth, State and Territory Auditors-General. The mandate for each is slightly different, although common elements include powers to conduct financial and performance audits, and coverage restricted to the particular jurisdiction (the Commonwealth Auditor-General, for instance, has no power to audit the activities of State or Territory Governments, even if those activities are funded by the Commonwealth). However, audits could be conducted on a joint basis.

The Commonwealth Auditor-General's mandate includes financial audits of all Commonwealth agencies - departments of state, statutory authorities, and government business enterprises. However, the power to conduct performance audits of government business enterprises is qualified (in most cases) to the extent that the Auditor-General must receive a request from the Parliament or the Minister responsible for a particular government business enterprise. Performance audits focus on administrative effectiveness and do not cover policy issues, including outcomes.

Audit organisation

The Australian National Audit Office (ANAO) comprises two business units, one focusing on performance audits, and the other on financial audits. Two other audit products have recently been introduced, one dealing with financial

control and administration (focusing on better practice), and the other with assurance and control assessment (providing assurance about the control environment). These are currently undertaken by the Financial Audit Business Unit.

Most audits are conducted from the Central Office in Canberra, with audit teams visiting audit sites around Australia as required to undertake audits. However, some financial audit work is carried out by staff in the ANAO's Sydney and Melbourne regional offices.

5. Audit methodology

i) Performance audits

The performance audit of social services involves a three stage process:

- planning;
- implementation; and
- reporting.

Planning

The planning phase commonly, but not always, involves the conduct of a preliminary study.

The preliminary study aims to provide sufficient justification to proceed to an efficiency audit or conclude any further work and report findings. If an efficiency audit is to proceed, the preliminary study will identify the material findings and issues, structure the approach, define the scope and focus of coverage, and propose a timetable to conclude a timely and defensible audit report for the Parliament.

Implementation

Once the Auditor-General has approved the conduct of a performance audit, the implementation phase can commence. This involves the carrying out of an audit program developed to test the audit objectives and criteria defined in the preliminary study. The methodology used will vary from audit to audit, but commonly includes the following procedures:

- observing;
- interviewing;
- documenting;
- testing and checking; and
- analysing.

This stage also includes a review of audit progress by the Auditor-General.

Reporting

Once the test program has been completed and the results analysed, the preliminary findings are communicated to the auditee, and the reporting phase begins. Auditee responses to findings and recommendations are incorporated into the report, which is tabled in the Commonwealth Parliament.

Follow-up

Progress with implementation of the recommendations in an audit report is monitored regularly. Approximately one year after tabling, a desk review of progress is undertaken. This may be followed, after two to three years, by a formal follow-up audit, which uses the same process as a performance audit, but focuses on progress with implementation. Follow-up audit reports are also tabled in the Parliament.

ii) *Financial statements audits*

The same three stage process is used for financial statements audits. However, the implementation phase typically makes far greater use of a wide variety of Computer Assisted Audit Techniques (CAATS) where there are large volumes of transactions being processed, and to reduce the need for detailed substantive testing of individual transactions.

Audited financial statements are published as part of each entity's annual report to Parliament.

Prior to this, however, the ANAO provides letters to the management of each agency, outlining the key audit findings. These letters are not usually included in reports to Parliament.

6. Performance indicators

As noted above, the program management and budgeting framework used by Australian governments includes a requirement for programs to be monitored against defined performance indicators covering purpose, inputs, outputs and outcomes.

One of the difficulties facing all governments is the definition of appropriate outcome performance indicators for social service programs, because of the long term horizons under which most operate. The quality of performance information available consequently varies widely. This issue was also raised by some of the State and Territory Auditors-General.

At the Commonwealth level, the planning of audit objectives and criteria frequently includes the development of standards against which performance can be measured. These may be developed with reference to similar

Commonwealth activities, or using national and international comparisons, as well as the work of other SAIs.

7. Staffing

The conduct of performance audits which add value to agency management and contribute to improved public administration requires staff specially trained in performance audit techniques. The ANAO currently provides most of this training in-house.

Over the last two years, the ANAO has also pursued a recruitment strategy for performance auditors which is targeted at public servants who have experience in program management and administrative review. The philosophy underlying this approach is that the experience of such staff will add a practical dimension to the conduct of performance audits and to the development of recommendations, and thus add value to audit reports.

Financial statements auditors are required to hold relevant professional accounting qualifications. Performance auditors who do not have such qualifications would not be eligible to transfer to the other Business Unit.

In addition to permanent officers, both Business Units make use of contractors, consultants, academics and public servants from other agencies. All are engaged on a temporary basis, for the duration of a particular project. These "outside arrangements" are used when an audit requires specialised skills not available within the ANAO, or, in the case of financial auditors from the "Big 6" accounting firms, to meet peak workload demands.

8. Constraints

One of the major challenges currently facing Australian Auditors-General flows from the use of purchaser/provider models of service delivery. Under

these arrangements, Government services - and particularly social services - are delivered under contract by third party organisations, who may be from either the private or the non-government sector. The mandate of the Auditors-General does not usually extend to these organisations, and provision for external scrutiny is not usually included in contractual arrangements. As the use of purchaser/provider models grows, therefore, there is a risk that increasingly larger areas of Government expenditure will be exempt from external scrutiny unless the contracts provide for this to occur.

Another major challenge lies in the quality of performance information available. Although the program management and budgeting arrangements include requirements for objectives and performance indicators to be established prior to a program being funded, all Auditors-General reported difficulties arising from poorly defined objectives and performance measures, which are indicative of poor planning for the delivery of social services. This has implications for the performance of those programs, especially when poor planning and performance information leads to a failure to target programs adequately. For auditors, this often means difficulty in defining adequate audit test programs and developing findings that can add value to agencies and to improved public administration.

For financial statements auditors, one of the main challenges is dealing with different expectations. The public, and to some extent the Parliament, expect financial audits to detect fraud, or to disclose defalcations or other irregularities. This may possibly be an outcome of audit tests undertaken, but is not a necessary consequence. Rather, the ANAO's financial statement auditors are required to form a professional opinion, in accordance with the standards of the profession.

It may, however, be that the difficulties being reported by Auditors-General are a reflection of the continuing nature of the public administration reforms.

Auditors-General, by reflecting these problems in published reports, can provide useful guidance to Governments on processes required to provide adequate assurances of accountability, efficiency, effectiveness and economy.

2. Bangladesh

Country Paper
on
Sub-theme 3

Audit of Social Service

Prepared by:
Office of the Comptroller & Auditor General,
Bangladesh



6TH ASOSAI INTERNATIONAL SEMINAR 1997

COUNTRY PAPER : SUB - THEME - 3

AUDIT OF SOCIAL SERVICES

PREPARED BY : SAI, BANGLADESH

1. The first part of the document is a list of the names of the persons who have been appointed to the various positions of the Board of Directors of the Corporation.

2. The second part of the document is a list of the names of the persons who have been appointed to the various positions of the Board of Directors of the Corporation.

3. The third part of the document is a list of the names of the persons who have been appointed to the various positions of the Board of Directors of the Corporation.

4. The fourth part of the document is a list of the names of the persons who have been appointed to the various positions of the Board of Directors of the Corporation.

AUDIT OF SOCIAL SERVICES

1. Introduction

Social Welfare is a set of activities to develop and sustain social harmony, balance and stability. It is becoming increasingly relevant to our world. This is because of the paradoxes of amazing plenty and heart-rending poverty, thrilling progress and stunning stagnation existing side by side. Nearly two-thirds of the world's population are poor and their poverty is mocked by the wealth of the rest. The developed market economies enjoy an average income per capita of US\$ 4,910 and the rest suffer an annual income per person of US\$ 240. Millions of people die due to starvation, while the food thrown away in garbage elsewhere could have kept them alive.

The effect of these utter disparities on the mind of modern man has become significantly pronounced in recent times. Throughout the world, there is now a perceptible, though gradual, awareness that effective and enduring systems and services need to be created and expanded to suitably amend the process of dehumanized.

2. Social Work Services in Bangladesh

Social work as a modern concept as well as an organised programme is comparatively new in Bangladesh, but the essence of social welfare, the spirit of doing good to one's fellow beings and the enthusiasm for taking part in activities meant for the well-being of the under-privileged, can be traced back to time immemorial. The participation of individual philanthropists, community groups and private voluntary organisations in social welfare activities to provide succour to the poor and the distressed has always been considered a

religious and moral obligation of the well-to-do people in this society. For this work, they have traditionally used locally mobilised resources collected from private channels. The spirit of sacrifice and service without any pecuniary motive has been the hallmark of their activities.

Charity, Zakat, Baitul Mal, Wakf, alms giving, khairat, dharmogola, langorkhana are some of the important institutions inspired by Islamic and Hindu religious motives that made a fair contribution in the field of social welfare during the pre-industrial time in Bangladesh. Voluntary social welfare efforts have been in practice since the early part of this century and found expression in the establishment of educational institutions, charitable dispensaries, orphanages, religious institutions, etc. Except in a few cases voluntary institutions and charitable endeavours remained mostly unorganised, and therefore, had no lasting impact. On the other hand, increasing urbanisation, industrialisation and mobility of people have started to weaken the ties of joint family system that had always been the built-in mechanism of providing service, shelter and security to the members. Rapid population growth, increasing landlessness and an impoverishing situation have already put serious limits on the role and scope of voluntary and charitable efforts. Therefore, alternate ways of providing service and assistance to the needy and weaker sections of people had to be found. State endeavour coupled with organised voluntary effort was the answer. State endeavour in social welfare began with the establishment of four state orphanages in 1943 in different parts of the country.

Till 1958, the public social welfare programme was under the Ministry of Works. In October 1958, a separate Ministry of Health and Social Welfare was created and subsequently, in October 1959, again, Social Welfare was brought under the newly named Ministry of

Health, Labour and Social Welfare. To create momentum in Social Welfare activities and to monitor the same, the Department of Social Welfare came into existence in November, 1961. In 1984, the total structure of the Department was reorganised by the Government in a bid to meet the changing demand of the situation and renamed as the Directorate of Social Services headed by a Director General.

3. Budgetary Allocations of Social Services

During the pre-liberation period, Social Welfare received low priority in respect of fund allocation in all the five year plans. The allocation never exceeded 0.3 per cent of any plan. Moreover, the gap between plan allocation and actual release of funds was quite disappointing. This was mainly due to higher emphasis on economic growth and lack of appreciation for scientific social work.

However, after the liberation of Bangladesh, the First Five Year plan (1973-78) gave due emphasis on the role of social welfare sector aiming at balanced socio-economic development of the country. This led to initiate programmes covering wide range of areas for the benefit of the disadvantaged who were not previously covered by any programmes of welfare services. Under the Urban Community Development Programme, 68 centres were established to provide vocational and income generating training for making the urban poor and slum dwellers productive and self-reliant. Forty rural centres were covered under the Rural Community Development Programme to make disadvantaged groups and landless people productive through skill training and production oriented programmes. To make the programmes successful in the First Five Year Plan, an amount of Tk.122.80 millions was allocated and the entire amount was utilised. During the subsequent Two Year Plan (1978-80), the allocation was

given mainly to complete the incomplete projects of the First Five Year Plan. A total sum of Tk.136.00 millions was allocated, of which Tk.113.00 millions was utilised during the plan period. In the second Five Year Plan (1980-85), an amount of Tk.590.00 millions was allocated of which Tk.391.10 millions was utilised to implement 32 projects. During this plan period, Rural Community Development Programmes were undertaken with special emphasis on disadvantaged groups such as school drop-outs, youth, women and the landless, in order to develop their potentials through education and skill training. A total of Tk. 750.00 millions was allocated for social welfare programmes in the Third Five Year Plan (1985-90). The estimated expenditure during the period was Tk.630.00 millions representing 84 per cent of the allocation. the programmes undertaken during the Third Plan period emphasised the provision of institutional services for the rehabilitation of the orphans and physically handicapped in addition to motivating, organising and involving the disadvantaged, especially the poorest men and women, in activities relating to their socio-economic potentials and learning new skills.

In the Fourth Five Year Plan (1990-95), an allocation of Tk.1,330.00 millions had been earmarked for implementation of the public social service programmes. Since poverty alleviation was the major theme of the Fourth Five Year Plan, major emphasis had been given on socio-economic development of the under privileged groups. Different programmes had been undertaken to assist the socially and economically disadvantaged people, orphans, helpless children, old and disabled persons to enhance their potential, skill and capabilities for self-reliance. The main characteristics of the said plan policy was the adoption of integrated and comprehensive approach taking the family as the basic unit for social services programmes with emphasis on group

and communitiy development rather than individual development. For the first time, the Government had undertaken direct service programmes for the aged and drug addicts. During the fourth Five Year Plan, arrangements had also been made to provide medico-social services, cultural and recreational facilities to the aged persons. Measures had also been taken to provide treatment, training and rehabilitation of the victims of drugs both in urban and rural areas, undertaken jointly by the Ministry of Health and the Department of Social Services.

In the financial years 1994-95 and 1995-96 respectively the total amonuts of Tk. 1,11,500 millions and Tk. 1,21,000 millions were allocated in the Annual Development Plans prepared by the Planning Commission. Through Annual Deveolpment Plans, all devlopment projects are being implemented. Most of the projects are aided by foreign aid giving agencies, like the World Bank, IDA, Asian Deveolpment Bank, UNDP, UNICEF etc. Amongst these projects, a good number of projects aim at rendering different social services in different sectors such as, Education, Health, Family Planning, Agriculture, Man Power Development, Urban and Village Welfare Development etc. All of such projects more or less aim at acheiving the targets set in the Human Development Report, 1994 of the United Nations Development Programme, namely, universal primary education, adult illetaracy rates to be halved, primary health care for all, severe mal-nutration to be eliminated, family planning services for all willing couples, safe drinking water and sanitation for all and credit for all to ensure self employment opportunities.

It may be mentioned here that Social Services to the public are being rendered in three different ways. Firstly, the Government itself is

rendering Social Services through its different activities done by the different Ministries and Departments. The specialised Ministry and the Department for the purpose are the Ministry of Social Welfare and the Department of Social Services. The expenditure on Social Services rendered directly by the Government is met out from the revenue budget of the country. In the year 1995-96, the total amount of revenue budget of the country was Tk. 1,94,058 millions out of which a substantial amount of money was spent in rendering better social services to the peoples of the Republic. Besides revenue budget, as discussed earlier, a total amount of Tk.1,21,000 millions was allocated in the Annual Development Plan of 1995-96 for execution of different projects. Besides revenue budget and Annual Development Plan, a substantial amount of money is being spent by a large number of Non-Government Organisations (NGOs) for rendering different Social Services in order to improve the livelihood conditions of the people. From June, 1990 to June, 1996, the Government of Bangladesh has so far given approval to a total number of 3,509 projects run by foreign aided NGOs (Non-Government Organisations) and has approved budget of about Tk. 78,737 millions. A good amount of money was spent in different Social Welfare activities.

In the Annual Development Plan 1995-96, the total allotment for different Social Services was Tk. 39,500 millions out of a total allotment of Tk.1,21,000 millions which was approximately 35% of the total ADP. One of the most pre-requisites to the development of the country's soci-economic condition is to introduce literacy amongst the masses. In the Education Sector, the total allotment was Tk.16,050 millions which was about 14% of the total ADP.

Poverty alleviation is a pre-requisite for long-term and stable economic growth. In the ADP of 1995-96, a total amount of Tk. 22,130 millions was allocated to target oriented poverty alleviation programmes which was about 20% of the total ADP.

In the Agriculture sector and Village Development programmes respectively 21.5% and 7.5% of the total ADP moneys were allocated.

It may be seen from the above facts that the Government of Bangladesh with the help of foreign aids is giving proper and much importance to the different sectors of Social Services.

4. Social Welfare Programmes

In Bangladesh, Social Welfare Programmes are multi-dimensional and varied in nature. They cover a wide range of services for children, youth, women, landless and other disadvantaged segments of population. Social Welfare Programmes are planned and undertaken to assist these socio-economically disadvantaged people like (i) the landless and unemployed (ii) children in specially difficult circumstances like the orphan, abused children, helpless and neglected children, juvenile delinquents and (iii) distressed people like the vagrants, destitutes, disabled and (iv) other by-passed segments of population to enhance their potentials, skills and capabilities. Social Welfare programmes are designed and implemented for the overall development of these targetted population by an integrated and comprehensive approach to enable them to actively participate in the overall national development activities both as contributors and beneficiaries and thus ensure their access to and control over development inputs rather than being passive recipients of relief and charity. These services are generally organised and offered through institutional and community based programmes.

Major fields of activities covered under the programmes run by the Department of Social Services, Ministry of Social Welfare may be summarised as below:

- a) Alleviation of poverty by income and employment through credit investment, Savings and other income generating activities.
- b) Human resource development through educational skill training, family development, motivation and other activities.
- c) Promotion, organisation and empowerment of groups for participatory planning and implementation of development programmes for themselves and for the nation.
- d) Promotion and development of NGOs to undertake programmes in Social Welfare Sector and develop partnership with the Government to implement development programmes for the nation.
- e) Provision of services to the needy and distressed like orphans, destitutes, poor patients, vagrants, and other vulnerable people and the disabled through direct programmes and catalytic activities with other Nation Building Agencies.
- f) Conduct study and research, innovate plan and implement new programmes for the social development of the country.

Activities of the Department of Social Services are implemented through the under-mentioned programmes:

<u>Areas of Activities</u>	<u>List of Programmes</u>
A. Community-based Development programme.	(1) Thana Social Services Programmes in 400 Rural Thanass of the country.
	(2) Rural Social Service Programmes in 461 Thanass.(Rural and Sadar Thanass).

- (3) Use of Rural Mother Centres for Population Planning and Family Development Activities(9,736 centres)
- (4) Urban Community Development Programmes in 43 Urban Areas.
- (5) Programmes for Welfare and Family Development of Urban Children in Especially Difficult Circumstances (CEDC).
- B. Child Welfare and Child Development
 - (6) Sarkari Shishu Paribars (State Orphanages)-73 Institutions for 9,500 orphan children.
 - (7) Baby Home for abandoned children-03 Institutions for 250-inmates.
 - (8) Day Care Centre for Children of Working Mother-01 Unit for 30 children.
 - (9) Destitute Children's Rehabilitation Centre-01 Unit for 400 Children.
 - (10) Vocational Training Centre for the Orphans and Destitute Children-01 Unit for 100.
 - (11) Institute for Mentally Retarded Children for 100.
- C. Welfare & Rehabilitation programmes for persons with disabled.
 - (12) School for the Visually impaired Children-05 Schools for 300 Children.
 - (13) School for the Hearing Impaired children -07 Schools for 330 children.
 - (14) Training Centre for the Physically Handicapped Children-04 Units for 200.
 - (15) Employment Rehabilitation Centre for the Orthopaedically handicapped-02 Units for 100.

- (16) Training and Rehabilitation Centre for Visually Impaired Children-47 Units for 470.
- (17) National Centre for Special Education One Training College, one Resource Centre and Three Laboratory Schools Capacity-210.
- D. Welfare Programmes for the Vagrants/ Destitutes. (18) Training and Rehabilitation centre for the Vagrants-06 Units for 1900.
- (19) Training and Rehabilitation of Socially Handicapped Women-06 Units for 600.
- E. Correctional Services for Youth Offenders (20) Probation and After-Care Services Programmes in 22 District Head Quarters.
- (21) Correctional Institute for Youth Offenders-02 Units for 350.
- F. Welfare Programmes for Poor Patients. (22) Medical Social Services Programmes in 64 District Head Quarters-84 Units.
- G. Socio-Economic Development Centre for Women (23) Socio-Economic Centre for the Women -02 Units for 100.
- (24) Vocational Training Centre for the Women-01 Unit for 100.
- H. Training Academy/ Centres. (25) National Academy of Social Services-01 Unit.
- (26) Regional In-service Training Centre-03 Units.
- I. Promotion, development & Supervision of Non-Govt. Organisations (NGOs) (27) Promotion, Registration, Assistance, Supervision and Control of Voluntary Social Welfare Agencies Working in the field of Social Welfare-registered 20,114 so far.
- (28) Assistance to Private Orphanages for Care, Education And Rehabilitation of Orphan Children-1,276 orphanages.

5. Role of S.A.I in the audit of Social Services

The Supreme Audit Institution (SAI) of Bangladesh is headed by the Comptroller and Auditor General (CAG), who is a constitutional person, being appointed by the President of the Republic. The powers and functions of the CAG are described in the Articles 127 to 132 of the Bangladesh Constitution. According to Article 128(1) of the constitution, the Auditor General or any person authorised by him is empowered to have access to all records, books, vouchers, documents, cash etc. or other Government property in the possession of any person in the service of the Republic. According to the Article 128(4), the Auditor General in the exercise of his functions shall not be subject to the direction or control of any other person or authority.

It may be seen that the CAG is fully competent to perform his auditorial function in any manner or way he likes.

In this context, it may be mentioned here that until recently the audit methods exercised by the Bangladesh Audit Department is the old stereotyped financial, compliance and regularity audit introduced by the British rulers.

As stipulated in Article 21 of the Audit code: "The primary function of audit is to verify the accuracy and completeness of accounts to secure that all revenue and receipts collected are brought to account under the proper head, that all expenditure and disbursements are authorised, vouched, and correctly classified, and that the final account represents a complete and true statement of the financial transactions it purports to exhibit."

So far the audit conducted by the SAI of Bangladesh was limited to Audit of Classification (Articles 30 to 43 of Audit Code), Audit of Expenditure (Articles 44 to 90-A of Audit Code), Audit of Debt and Remittance Transactions (Articles 91 to 110 of Audit Code), Audit of Subsidiary Accounts of Government Commercial Undertakings (Articles 112 to 119 of Audit Code), Miscellaneous Audit (Articles 120 to 133 of Audit Code), Audit of Receipts & Accounts of Stores and Stock (Articles 139 to 145 A of Audit Code), Inspection & Local Audit (Articles 148 to 153 of Audit Code), Audit of Accounts of Non-Government Institutions (Articles 154 to 155 of Audit Code), Appropriation Audit (Articles 157 to 164 of Audit Code), Audit of Pay & Allowances (Articles 165 to 189 of Audit Code), Grant in-Aid Audit (Articles 190 to 195 of Audit Code), Contingent Audit (Articles 196 to 201 of Audit Code), Audit of Miscellaneous Transactions (Articles 201 to 213 of Audit Code), Works Audit (Articles 214 to 236 of Audit Code) etc.

It may be mentioned here that the Audit Code was prepared by the Auditor General of the British India in 1938 and subsequently in 1951; it was adopted by the Auditor General of Pakistan as a guide-book of audit. The same was also adopted in 1980 by the CAG of Bangladesh as a guide-book of audit for the Bangladesh Audit Department.

The auditing procedures laid down in the Audit Code are the old traditional ones of the British period, in the sense that the main emphasis of audit continues to be on regularity and compliance of rules of financial transactions rather than on their efficiency, economy and effectiveness. Although Articles 84 and 85 of Audit Code give some emphasis on audit against propriety, stating "The expenditure should not be prima facie more than the occasion demands. Every public officer is

expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money," which indicates that even in the traditional audit some emphasis was given on economy audit, but there is almost no emphasis on efficiency and effectiveness audit in the Audit Code. As such this century old traditional auditing system has become more and more outdated and obsolete with the change of time. This traditional old auditing system was introduced by the colonial British rulers in their own interest for keeping a reliable record of revenue collection of a non-local establishment. Stress was given to introduce an intricate system of internal checks and balances to minimise misappropriation and misuse of collected funds. After the end of British rule, more and more developmental activities have started in this country in order to build up this nation into a developed one. As such, a huge amount of foreign aid came directly to the Government by the Aid giving agencies like the World Bank, Asian Development Bank, UNDP etc. and also through a large number of NGOs (Non Government Organisations) in order to implement a large number of development projects. Social services play a very vital role in the overall development activities of the country as discussed earlier. In order to audit the huge amounts of moneys spent from the Government revenues and the foreign aids given by the donor agencies to the Government as well as to the NGOs, since last year attempts have been started by the SAI of Bangladesh to introduce latest and modern techniques of auditing, namely, Performance Audit, Value for Money Audit, Economy, Efficiency and Effectiveness Audit, Management Audit and Comprehensive Audit, etc.

Performance Audit of a limited number of projects/organisations have been conducted by the different Audit Directorates under the SAI. Many of these projects/organisations are rendering socio-developmental activities. Results of audit of these organisations/ projects will certainly increase their economy, efficiency and effectiveness as a whole.

However, there are certain Articles (e.g Articles 24 to 28) of the Audit Code which are contrary to the concept of Management Audit and Performance Audit. Article 26 states: "Criticism offered by the Bangladesh Audit Department must be limited to financial criticism based on the accounts. It is not the function of Audit to range over the field of administration or of statistics and offer suggestions how Government may better be conducted."

As such the Codes & Manuals relating to audit should be amended and updated in such a manner that the outdated and obsolete audit methods are discarded and latest and modern auditing methods as stated earlier are incorporated. Very recently, a committee has been formed by the CAG to start the process of amending and updating the Codes and Manuals of the SAI.

6. Audit of Social Services of Non-Government Organisations

As discussed earlier, the NGOs (Non-Government Organisations) are playing a vital role in rendering different social services with the help from different foreign donor agencies. Most of the activities of the NGOs are directed towards rendering multifarious social services in order to build up a better society. The Government of Bangladesh in the year 1993, has issued a circular from the Prime Minister's Secretariat promulgating certain the regulations to be followed by the foreigners

working in Bangladesh and the foreign aided Bangladeshi NGOs. Some of the salient features of the circular are:-

- (i) Every NGO has to apply for registration to the Director General, NGO Bureau.
- (ii) In case of foreign NGO, the registration fee is U.S.\$ 1000 and in case of Bangladeshi NGO, the fee is Tk. 5,000.
- (iii) Any project to be executed through foreign aid by an NGO should have prior approval of the NGO Bureau.
- (iv) Before prior approval of the Government, no NGO can implement any project and the total activities of the NGO should be limited to the approved project cost.
- (v) The audit and inspection of the NGOs will be done by the NGO Bureau. The NGO Bureau will audit the accounts by chartered accountants.

It may be seen that responsibility of audit and inspection of the NGOs has been given to the NGO Bureau instead of the CAG's Office. It is felt that the responsibility of audit and inspection of the NGOs should be given to the Office of the Comptroller & Auditor General of Bangladesh which is the Supreme Audit Institution of the country.

As SAI is functionally independent of the executive and is wholly responsible to the parliament in respect of audit, so the audit of the NGOs, which are mostly undertaking socio-economic developmental activities, should be conducted by the SAI, so that funds given by the foreign donors amounting to billions of Takas specially in the fields of socio-economic development are properly audited and the economy, efficiency and effectiveness of these activities are ensured.

7. Conclusion

That the importance of Social Development is growing everincreasingly is much evident from the fact that a World Summit for Social Development was held from 6 to 12 March, 1995 in Copenhagen, Denmark, which is the largest gathering of the world leaders, pledged to make the conquest of poverty, the goal of full employment and the fostering of stable, safe and just societies.

Among the ground-breaking agreements made by the world's leaders in the Summit are ten commitments to:

- eradicate absolute poverty by a target date to be set by each country;
- support full employment as a basic policy goal;
- promote social integration based on the enhancement and protection of all human rights;
- achieve equality and equity between women and men;
- accelerate the development of Africa and the least developed countries;
- ensure that structural adjustment programmes include social development goals;
- increase resources allocated to social development;
- create "an economic, political, social cultural and legal environment that will enable people to achieve social development";
- attain universal and equitable access to education and primary health care; and
- strengthen cooperation for social development through the UN.

The summit was mandated by the General Assembly in December 1992, by its resolution 47/92. It was organised principally by the United Nations Department for Policy Coordination and Sustainable Development.

Primary responsibility for implementing the Summit agreements will be at the national level, where the UN and its development agencies are providing support for that effort. At the international level, the Summit strongly endorsed the leadership role of the UN in social development, assigning specific responsibility to several UN institutions as well as to the Secretary-General, ECOSOC and the General Assembly.

During its session in 1996, which is the International year for the Eradication of Poverty, the General Assembly is to review progress in implementing Summit pledges on poverty eradication. A special session to the Assembly will be held in the year 2000 to examine the overall implementation of the Copenhagen Declaration and Programme of Action.

Thus it is seen that Social Development has become a significantly important issue both in the national and international levels. As such the audit of social services, that is, the audit of socio-developmental activities as a whole, should become a very important issue for the SAIs. For a poverty stricken country like Bangladesh which is striving hard to alleviate poverty and increase its socio-economic condition to that of a developed one, the SAI should play a very important role in auditing the socio-development activities by applying latest and modern techniques of audit in order to achieve the national goals as well as the international goals set by the United Nations at the Copenhagen Conference.

3. Cyprus

Country Paper
on
Sub-theme 3

Audit of Social Service

Prepared by:
Audit Office of the Republic,
Cyprus

6TH ASOSAI INTERNATIONAL SEMINAR 1997

TOPIC:

SUB-THEME 3: AUDIT OF SOCIAL SERVICES

COUNTRY PAPER

CYPRUS

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AUDIT OF SOCIAL SERVICES

1. INTRODUCTION

Cyprus, like most of the other developing countries, has undertaken large socio-economic development projects and schemes, since its independence in 1960, aiming at improving the quality and standard of living of its people. Large amounts of money have been invested by the Government in the Social Services sector covering a wide range of areas, such as health, education, welfare etc.

2. STATE AUDIT AND SOCIAL DEVELOPMENT

The responsibility for planning, monitoring and implementing the various social and economic development programs rests with the various Government Departments. An independent assessment is made by the Supreme Audit Institution (AO) of the extent to which the planned targets of these programs have been met, as well as their efficiency and effectiveness.

Traditionally the AO was carrying out certification audit, that is, the financial, regulatory and compliance audit for attesting the financial statements.

The objective of certification audit is to obtain sufficient, relevant and reliable audit evidence, in order to express an opinion as to whether the financial statements present fairly and truly the financial position and the results of financial operations, in accordance with generally accepted accounting principles and the relevant laws and regulations.

In view of the fact that financial auditing is primarily concerned with the correctness of the accounts and legality, there is the possibility that many problems relating to the economy, effectiveness and efficiency of the audited agencies not to be revealed directly in the course of certification audit.

Until very recently, much emphasis was placed on financial and compliance auditing. Thus, under the concept of financial and compliance auditing, procedures were developed, mainly to check the legality of expenditures and ensure honesty in fiscal affairs. Key tests made by the auditor were to

determine if expenditures were properly documented and authorized, and whether funds were properly received, accounted for and safeguarded.

Due to the dramatic shift in the pattern of Government spending from mere law and order and policing functions to promotion of and active participation in social and economic development, the AO had to re-orient its audit strategy accordingly and the audit function has recently changed and expanded to include performance or value-for-money or management audits, as areas of mismanagement involving waste, abuse, uneconomic and inefficient operations were not covered by the financial audit.

Though regularity and financial audit is still being conducted, at a lower degree, it is now being recognized that the examination of individual transactions alone would not enable an overall assessment of the various Government programmes and the social and economic return on Government investment. Since 1986, the audit programmes have been revised to cover also the areas of performance, operation and efficiency and the audit staff has been trained accordingly to cope with this new development. This is the most challenging and rewarding task aiming in assessing and appraising the extent to which the social and economic objectives are achieved and at what cost.

However, our experience in assessing social programmes is rather limited, because only very few isolated aspects of social development programmes have been the subject matter of our examination in the context of performance audits.

We appreciate the difficulty in establishing the scope and objective of social programmes and how to measure their effectiveness. To this end performance yardsticks can be used which can provide the auditors with an extremely useful tool in the evaluation of social development projects.

Performance indicators should be simple in design, relative to key areas, and quantitative so as to assist in understanding how efficiently and effectively social services are operating, either by comparison with predetermined objectives or other statistical data, inter departmental or from private sector.

Performance measures provide the means of monitoring current operations and assists in planning future projects. These should include a combination of the following:

- Better results for same money. These indicate the cost of services rendered or output produced, with related resources or input.
- Economy and efficiency measures. These indicate how well resources or input are utilized to produce services or output. They highlight opportunities for producing more services for the same cost, or for the same services at lower cost.
- Effectiveness measures. These indicate how well a policy objective is being achieved, without regard to the cost. It should consider the value or quality of the service offered from the users' viewpoint. However, this evaluation is more subjective than the previous two and is difficult to evaluate.

3. SELECTION OF TOPICS FOR AUDIT

The careful selection of social programmes for performance audit is of paramount importance in view of the large amount of money invested in these programmes, the complexity of Government operations and the relatively limited resources available for carrying out the work. The OA takes into consideration those areas which have maximum value added in terms of improved accountability, economy, efficiency and effectiveness.

The analysis of the risks of inadequate economy, efficiency and effectiveness will dictate the list of potential performance audits. The criteria to be used in reaching a decision include the following:

- overall estimated audit impact and possibility of improvements in either effectiveness, economy or efficiency
- materiality of financial, human and material resources invested in the programme
- public interest and sensitivity of the topic

- national importance, social impact and political sensitivity
- known areas of concern arising from previous financial and certification audits and areas identified after reviewing accounts and budgets revealing trends and patterns in expenditure and indicating possible areas of inefficiency
- significance of the programme to the activities of the department or organization
- specific requests from the Executive or the Parliament

4. AUDIT ARRANGEMENTS

In carrying out performance assignments the OA takes into consideration its audit mandate and jurisdiction and the human and financial resources available.

Audit Mandate and Jurisdiction. In Cyprus, the powers, functions and duties of the Auditor General emanate from the Constitution. The relevant provisions stipulate that, on behalf of the Republic, he is empowered to control all disbursements and receipts and audit and inspect all accounts of moneys and other assets administered, and of liabilities incurred, by or under the authority of the Republic. For this purpose, he has the right of access to all books, records and returns relating to such accounts and to places where such assets are kept.

Primarily the Auditor General is concerned with certification audit, which includes financial, regulatory and compliance audits, under which he is required to examine and certify the accounts of Government and Quasi-government Organizations, Local Authorities and other Statutory Corporations, with the aim of providing Parliament with assurance on the proper spending of Government expenditure, the collection of revenue and safekeeping of assets.

Although there is no specific provision in the Constitution enabling the Auditor General to conduct performance audits it is argued that the existing provisions imply such a requirement. Therefore to some extent it becomes

part of his duty to direct his audit towards performance evaluation and it is now accepted that the scope of audit has been extended to cover administrative and efficiency areas, including social development programmes in addition to regularity audits.

Audit Organization. The AO is divided into two Divisions and six Branches all headed by qualified accountants. Under the administration of each Branch come two Sections which are headed by senior officers properly equipped with adequate practical auditing and accounting experience. Furthermore there are two other units, the Technical Services unit, responsible for the audit of technical projects (roads, dams, buildings etc.), and the Computer Audit unit. All these Sections operate as audit teams consisting of five to six persons. The Technical Services unit is headed by a civil engineer and its staff consists of technical officers.

Each Section is responsible for the audit of various types of accounts viz: of Government, Statutory Corporations and Local Authorities and the co-ordination and monitoring of work is made centrally as the AO is not operating any regional offices. The allocation of audit work, including performance audits, to the various Sections is made by the Auditor General in consultation with Principal Auditors and Section Leaders.

There is no single Section which is responsible for carrying out only performance audits but the work is undertaken by the Section that has direct connection with the topic. Sometimes staff may be selected from various Sections to be engaged in performance audits. This, together with the staff job rotation followed from time to time strengthens their experience and knowledge.

5. AUDIT METHODOLOGY

The audit methodologies adopted for performance audit of social development programmes include the following:

- Audit Planning and Preliminary Review
- Detailed Examination

- Reporting
- Follow-up

Audit Planning and Preliminary Review. Once the planning process is complete and a decision has been taken to carry out the performance audit of a particular programme, the audit team will usually, but not always, conduct a preliminary study. This will facilitate the further understanding of the programme under audit, its aspects, aims and objectives, in order to develop the scope and criteria of the audit, and prepare a preliminary report.

Detailed Examination. This includes the collection and documentation of relevant and reliable evidence usually in accordance with a detailed audit test programme, sufficient to support audit findings and recommendations. The detailed stage also involves regular communication with the entity and the discussion of preliminary issues that have emerged during the course of the audit.

Reporting. On the conclusion of the detailed examination stage, the data collected is consolidated and collated for interpretation and a draft report is prepared which is submitted to the audited agency for comment before the report is being finalized. Copies of the final report are sent to Parliament, the Ministers and the audited agency.

Follow-up. The follow-up stage of a performance audit is an integral part of performance auditing and may serve to increase the likelihood that entity management will implement the recommendations that were agreed. As one of its objectives is to add to the impact of our reports, follow-up activity should be directed to encouraging the implementation of recommendations rather than finding examples of lack of action. Working with management may also assist the agency in implementing recommendations.

6. INDICATORS FOR MEASURING PERFORMANCE

Performance indicators provide a very effective investigative tool for auditors to enable them to perform a more valuable role in monitoring productivity, as part of the ongoing management information system for an organization.

While the responsibility for developing performance indicators rests with the administrators and planners of the social development programmes the Auditor General has a duty to advise them on the selection and use of performance indicators.

There are no generally accepted performance indicators but these may be developed from various sources including legislation, standards of professional bodies, statistics of the organization or similar organizations or from criteria identified in similar performance audits.

Where performance indicators developed by auditees are not very comprehensive, the Auditor General encourages the development of alternative suitable measures.

The Auditor General has a responsibility to assess whether identified performance indicators are suitable, meaningful and that they reflect the true effects of development, something which is judged by the degree of relevance to the matters being audited and appropriateness to the circumstances.

Although we don't have the specialist expertise and we have not yet established a framework and process for use in developing and selecting performance indicators, the aim is to develop a balanced set of performance indicators for each major activity of the audited organization, allowing a meaningful analysis of effectiveness, which are as far as possible complementary to each other.

Sometimes the Auditor General may be consulted by the auditee at an early stage, or participate in the development committee as an independent observer with the right to make suggestions and recommendations. In this way the Auditor General preserves his independence and may whenever he feels so, criticize those performance indicators which will prove unsuitable.

7. ASSESSMENT OF COST OF SOCIAL SERVICES

It is very difficult to establish what social programmes are trying to achieve and how to measure achievements. Equally difficult is to assess the costs involved in these programmes, a task that is much more complex than merely

estimating and examining the costs of economic programmes. This difficulty is due to the fact that social programmes have a much longer duration and the benefits derived from them are not only most of the times intangible but less easy to measure and quantify as well. Adding to this is that the major component of the cost of social programmes is on human resources which needs to be quantified in monetary terms.

Although it is difficult to assess the costs of social programmes, in the case where the auditee has established cost parameters for a specific social programme, the Auditor General evaluates and analyses these costs and comments on them.

8. MANPOWER FOR AUDIT OF SOCIAL SERVICES

Specialized audit expertise and qualified staff in a variety of disciplines is one of the prerequisites for conducting performance audits of social development programmes, especially in the area of performance measurement and cost assessment.

Until very recently the Audit Office of the Republic was mostly engaged in financial, compliance and regularity audits and all the staff were accountancy oriented and sufficiently qualified, trained and experienced in performing this type of audits. With the introduction of performance auditing the Audit Office recruited personnel possessing other disciplines which, however, did not include all essential disciplines due to budgetary constraints, and gave due weight in training existing staff. Regular and systematic training which is provided both locally as well as overseas, is very essential for improving auditing standards and audit efficiency. Very rarely the Auditor General engages the services of external experts and consultants, as a policy and for economic reasons as well.

9. CONSTRAINTS

Although there is no clear mandate for conducting performance audits the Auditor General is carrying out such audits and prepares reports describing management's performance and presenting the facts, findings and an opinion

indicating the extent to which management has performed efficiently, effectively and economically.

However, comprehensive management information systems which are able to generate relevant data and precise criteria for purposes of management evaluation and measurement of performance of social development programmes are not sufficient or not existent in some cases. This makes the evaluation of non financial results difficult.

Performance reporting could lead to better public understanding of the purpose of large Government social development programmes, and contribute to better management in Government. If clearly defined targets are set and public officials can explain in advance what they hope to accomplish, then they may be able to focus more clearly on ways to meet those objectives and actual results can be compared with these preset targets in order to have meaningful conclusions. Lack of performance information is a serious impediment to understanding and managing Government programmes and as a result the Government does not know what it gets for the money it spends. Moreover in the absence of adequate information, Governments cannot be held accountable for their performance whether is good or bad.

Another problem is the limited financial and human resources made available to the Auditor General to embark upon the wider aspect audits. This could be overcome if budget allocations are approved directly by Parliament. Additionally the Auditor General should have power to recruit his staff with suitable qualifications and experience and of the right caliber.

**AUDIT OFFICE
OF THE REPUBLIC
OF CYPRUS**

4. Indonesia

Country Paper on Sub-theme 3

Audit of Social Service

**Prepared by:
Supreme Audit Board,
Republic of Indonesia**

SUB-THEME 3

COUNTRY PAPER

ON

AUDIT OF SOCIAL SERVICES

THE SUPREME AUDIT BOARD
REPUBLIC OF INDONESIA

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AUDIT OF SOCIAL SERVICES

Introduction

1. In 1969, more than two decades after the declaration of independence, the Indonesian people embarked on a planned and sustained national development effort to achieve and maintain a well-balanced growth in the political, economic and social fields, matching national aspirations and goals with the national resources on hand.

This national effort that is implemented in stages carried in five yearly development plans has presently reached the third phase of the sixth Five Year Development Plan.

In building up the plans, programs and processes for national development, Indonesia as a developing nation faces generally the same major constraints as those encountered by other developing countries, such as poor national discipline, shortage of capital and technological skills, and low national productivity.

To overcome these constraints and to control the disbursements of the increasingly larger funds required to finance the national development effort, the function of audit in the framework of public as well as development administration plays an important role.

The audits should be oriented and geared towards optimizing

the economy, efficiency and effectiveness in the mobilization, allocation and use of resources, so as to minimize waste and irregularities, and at the same time maximize the national productivity level.

The process of national development itself requires improvements, adjustments and compatibility in public administration as a structural and procedural mechanism that transforms various inputs such as organizations, resources, funds and information into national goals and objectives.

Audit of Social Services

2. The type of audit of social services carried out by BEPEKA does not differ from that of nonsocial services. Similar patterns are used as audit criteria, e.g.:
 - * the amount of funds used
 - * the impact on society
 - * legislative special interest

As mentioned earlier in Sub-Theme 1, the scope of BEPEKA's audit covers some aspects of economy, efficiency and effectiveness, in addition to financial audit. BEPEKA's audits, including those of social services are, therefore, normally referred to as financial plus audits.

The assessment of performance still focusses on physical

as well as financial targets, emphasizing the minimizing of waste and irregularities and compliance with applicable laws and regulations.

So far, BEPEKA has refrained from assessing outcomes, due to the absence of reliable performance standards and difficulties in analyzing performance indicators.

The evaluation of outcomes (impacts and effects) is the responsibility of the government and BEPEKA utilizes these evaluations to complete its audit results.

3. In the past, BEPEKA has conducted audits of social services on :
 - the Family Planning Program
 - rural hospitals and health services
 - the effective utilization of schools and educational centers
 - the procurement and distribution of rice.
4. In 1970, the Government introduced the Family Planning Program, and since then, BEPEKA has audited the effectiveness of this program. In its early stages, it was difficult to evaluate and analyze this program, e.g. measuring the allocation and use of funds, considering the fact that the program was spread out over a wide region with an infrastructure still found to be in poor condition. Resistance emanating from religious and cul-

tural groups against the implementation of the program has influenced the success of this program. Over the years, the Family Planning Program gained its expected results and is currently considered one of the most successful programs of the National Planning Coordinating Board (later strengthened by the establishment of the Ministry of State for Population Affairs). From the auditor's point of view, in evaluating the outcome of this program, BEPEKA faces the problem of determining the level of prosperity of those families who are taking part in this program. Reasons for this inadequacy are, among others, the lack of performance indicators and standards, the complexity of coordinating with the various organizations involved, such as the Ministry for Religious Affairs, the Ministry of Information, the Ministry of Agriculture, the Ministry of Health, and NGOs.

5. Rural hospitals and health services are audited to evaluate the effectiveness of government efforts in providing health services to the people, by means of building hospitals, providing medical personnel in the form of medical doctors and paramedics, and the distribution of medicine. The general objective of the program is to improve regional health facilities and a better quality of life.
6. The audit of educational programs aims at evaluating whether government efforts to provide schools, good teachers,

and educational material have not been in vain. There are still not enough schools for the young and illiteracy remains a problem to be coped with successfully.

7. The objective of auditing the procurement and distribution of rice is to support price stability and the equitable distribution of rice throughout the nation. The sustained production of rice has, therefore, become a national priority.
8. The island of Java is the major center of rice production; because of vast developments during the past decade, however, it failed to cope with the increasing need for rice for almost two hundred million people. Transmigration programs are carried out to boost rice production and to improve the quality of life of rice farmers, whose social and economic conditions have almost remained stagnant over the years. Audits of transmigration programs, particularly those related to the effort of raising the number of rice growing areas, are significant to the effort to obtain information on the development of rice production.

Constraints

9. The constraints in performing audits of social services are also similar to those faced by performance audits, namely :

- * absence of clear performance standards,
- * lack of professional and trained personnel.

Conclusion

10. So far, BEPEKA has executed its constitutional audit mandate with the objective to enhance the accountability of the Government to such an extent that :

- (1) the governing, managing, and accounting of public funds are controlled effectively, accounted for orderly, reported appropriately, and all existing legal regulations respected so that misuse and misappropriation may be avoided;
- (2) public funds are used in accordance with the principles of efficiency and economy so as to avoid waste, and
- (3) the results or benefits are commensurate with pre-determined objectives (output).

11. Limited funds, time and personnel are the common constraints faced by almost any activity including that of an audit. Therefore, for any audit activity to yield reasonable results with the aid of limited resources, it is mandatory for such activity to be planned properly.

12. The long term audit plan of BEPEKA is prepared in such a way that more emphasis is placed on the policies and

programs of the Government which affect the livelihood of many people, or have a large impact on society, also on programs that require extensive financing. The long term audit plan is reflected in a Five Year Work Plan that carries the principal policies and steps to be taken within a five year period.