

5. Israel

**Country Paper
on
Sub-theme 3**

Audit of Social Service

**Prepared by:
State Comptroller's Office,
Israel**

Audit of Social Services

Country Paper

Israel

Since the founding of the State in 1948, Israel has adopted a strong social democratic philosophy. The state provides free education through the end of senior high school, supports a comprehensive social security program and runs extensive welfare and housing services. As a young and rapidly developing country, the State has played a central role in developing services for the needy, the young and the elderly populations. Until recently, citizens purchased health services from Sick Funds on a voluntary basis. The passing of the National Health Insurance Law made the government responsible for universal health care - still provided by Sick Funds. Approximately 30% of government expenditure is devoted to social service provision.

Performance Audit in the State Comptroller's Office

The State Comptroller Law authorizes the audit of legality, moral integrity, orderly management, efficiency and economy. The law states further that the State Comptroller may investigate any matter which he deems necessary. The State Comptroller's Office (SCO) seeks to improve

the functioning of government agencies, not just to ensure that they act properly and legally. Therefore, the SCO is concerned with the following questions: "Did the actions of the audited body result in achieving the goals it set for itself and the implementation of the policy it established? Did it employ the most effective and efficient means at its disposal? Were the most economical means chosen for reaching the objectives? Are the review and control procedures appropriate, and to what extent is it prepared for the tasks to be carried out?"*

The SCO conducts performance audit as an integral part of its regular audit work. The integration of performance audit with regular audit work is reflected in the organizational structure of the SCO. The office is made up of several branches each of which is responsible for the audit of certain agencies. In contrast to some SAIs, the SCO has no special performance audit unit, rather each branch conducts performance audit where warranted by the topic being investigated. To be sure, many audits consider only legality, moral integrity and orderly management; other audits include performance measures alongside these; still other audits take performance as their major focus.

* Miriam Ben-Porat, "The State Comptroller and Supreme Court Decisions", A. Friedberg, B. Geist, N. Mizrahi and I. Sharkansky (eds.), Studies in State Audit, (State of Israel: State Comptroller's Office: Jerusalem, 1995) pp. 60-82.

Performance and the Audit of Social Services

Social services appear to be particularly conducive to performance audit. Expenditures on social services constitute an ever growing proportion of total government expenditure. Both as taxpayers and as beneficiaries of social services, the public is demanding better quality, more availability and improved value for money. It is not enough to know that these services have been provided in accordance with legal, ethical and management standards. The public wants to know what has been accomplished with the large amounts of money devoted to social services. Are the services conveniently available? To what extent are social problems being addressed effectively? Do the programs encourage dependence or help the needy to become productive members of the community?

Within this context, the SCO has investigated performance in numerous social service programs. Performance audit of social services has had four major focuses: planning; availability; effectiveness; and equity. In auditing the performance of social services the SCO has had to deal with measurement difficulties of the following types: poorly stated program objectives; lack of basic data; and unclear relationship between program intervention and outcomes.

Focuses of Performance Audit of Social Service Programs

Planning: Poor planning has been identified as the cause of performance problems in a number of audits. For example, an audit of emergency and respiratory care in hospitals found that many patients were transferred out of emergency care units too early due to a shortage of beds. The audit found that the allocation of emergency unit beds had not been based on a proper assessment of needs.

Poor planning was identified as the cause of the partial failure of a program to speed up the building of apartments for new immigrants in 1990-91. The government offered incentives to contractors who completed construction within set periods of time. Many contractors complied with the conditions and the government paid them some ninety million dollars. The audit report demonstrated that the government program did not include any special provisions to ensure that the relevant government agencies would complete construction of the infrastructure necessary to live in the apartments (hook-ups to electricity, water and sewage systems). As a result, the apartments stood empty for months after the government paid out money for their speedy completion.

Availability: Taxpaying citizens expect that social services be made available in a convenient fashion. A number of audit reports have focussed on inadequate service availability. For example, one report measured the performance of the public health care system, using indicators mostly concerned with the level of convenience to the consumer. Findings included: long waiting-lines and crowding in initial

intake clinics; long waits in emergency wards; and long waiting lists for diagnostic tests and elective surgery.

The State Comptroller frequently insists that audited agencies publicize the benefits available to their target populations. For example a number of audit reports found that the National Insurance Institute did not provide sufficient information to various target populations about the social security benefits to which they were entitled.

Effectiveness: Traditionally, performance audit has been identified primarily with investigating effectiveness - the achievement of program objectives. Often measurement problems, mentioned below, prevent effectiveness audit. In the following example, the SCO was able to collect solid data from audited agencies.

The "Build Your Own Apartment" program aimed to lower the prices of apartments for the less well established segment of the population by discounting the price of land and by eliminating middle men in the development process. The audit found that only 17% of the apartments were purchased by the target population as opposed to the intended 50%.

Equity: A basic tenet of democracy is that principles of equality and equity guide the allocation of publicly provided services. The above mentioned audit of the "Build Your Own Apartment" program found that because of the limited scope of the program, only a small proportion of the target population could benefit from it. Similarly, the State Comptroller criticized the Ministry of Education for not providing

programs for gifted children in all areas of the country.

Measurement Difficulties

Measuring the performance of many social service programs is no simple feat under the best of conditions. The SCO operates under constraints of time, expertise and financial resources which, in some cases, restrict the conduct of performance audits. The following examples demonstrate how the SCO has dealt with some common measurement difficulties.

Poorly Stated Objectives: It is commonly accepted that policymakers tend to define objectives in vague terms so as to make them acceptable to a wide spectrum of the population. The absence of clear objectives makes it difficult for auditors to determine the relative success of a program - as demonstrated by the following example.

The Ministry of Education's "Reform of Technological Education" program stated the following objective: "making graduates more suited to the needs of the modern economy, the army and the universities". During the course of the SCO's investigation it became clear that the needs of the army were quite different from the needs of the universities. The army wanted graduates with more practical training in the use of machinery and equipment whereas the universities wanted graduates trained in mathematics and physics; they were not at all interested in practical training. As it turned out, the Reform didn't answer the needs of either

institution.

Lack of Basic Data: Performance measurement requires basic data about inputs, processes and outputs. The SCO often finds that auditees do not collect the relevant data on an ongoing basis. In many cases it is not feasible for auditors to collect basic data and they are prevented from direct performance measurement. The SCO frequently criticizes auditees for failing to collect data which is necessary for proper internal checks and controls. In the absence of data needed to directly measure effectiveness, auditors sometimes rely on process measures as indicators of likely ineffectiveness, as in the following example:

Several agencies operate rehabilitation and work placement programs for handicapped people. The SCO attempted to measure the performance of these agencies but found insufficient data for the following indicators: unemployment rates for the handicapped; the proportion of handicapped who were placed in jobs; the success of the handicapped in holding the jobs in which they were placed; the efficacy of the job diagnosis.

In looking at process indicators, the audit found: a lack of diagnostic workshops; a shortage and lack of variety in vocational training courses; deficiencies in personal rehabilitation plans; and lack of attention on the part of employment bureaus to the special placement needs of the handicapped. These serious process deficiencies indicated that the program would not likely have been found to fare very well had it been possible to measure effectiveness.

Attributing Change to Program Interventions: State auditors do not conduct social experiments. The audit usually begins during or after a program intervention, preventing the conduct of "before" and "after" controlled experiments. This makes it extremely difficult to account for intervening variables, meaning that measured effects may not be caused by the program intervention. Furthermore, audits are often conducted during the course of a program, perhaps not allowing enough time for programs to have had the desired effects. These constraints require that audit findings be presented with caution and with appropriate warnings as to their limitations.

For example, in the above mentioned audit of the "Reform of Technological Education", the SCO attempted to determine whether there had been any change in the proportion of technological track students who passed technological matriculation exams. The findings showed a decrease in the proportion of students who passed matriculation exams. In presenting this finding the SCO cautioned that the exams may have been more difficult as a result of the Reform and that the findings were preliminary because they were based only on the first graduates of the Reform. As such, the findings were meant to draw the attention of the Ministry of Education to a potential problem.

Performance Audit and Audit Resources

Limited audit resources dictate that SAIs chose performance audit subjects with great care. Where audited agencies have not collected the necessary data on an ongoing basis, the SAI must consider carefully a decision to collect data on its own. This is an undertaking which requires time, expertise and money. In some cases the SCO has sufficed with criticizing the audited agency for not having collected the data. In other instances the SCO calls on the auditee to evaluate its own program. Indeed the SCO has sent letters to auditees encouraging them to periodically evaluate their programs. That is not to say that SAIs should not conduct performance audit. But the performance audit workload of the SAI would be eased if auditees would conduct internal evaluation.

Conclusion

Performance audit is an integral part of the work of the SCO because the SCO sees the improved functioning of government agencies as an essential part of its mandate. The SCO has published important performance audit reports indicating deficiencies in planning procedures, supply of services, equitable allocation of services and effectiveness. Some of these reports have been the catalyzer for major improvements in government programs.

The SCO has encountered difficulties in the measurement of performance stemming from poorly defined objectives, lack of basic data and lack of control over intervening variables. These difficulties sometimes prevent the measurement of performance. The considerable audit resources required by many performance audits dictate careful consideration before deciding to embark on the journey. The SCO encourages audited agencies to conduct internal performance evaluations as part of routine management and in order to ease its own workload.

6. Japan

**Country Paper
on
Sub-theme 3**

Audit of Social Service

Prepared by:
Board of Audit,
Japan

Country Paper
for
The 6th ASOSAI INTERNATIONAL SEMINAR

Sub-theme 3

Audit of Social Services

Board of Audit of Japan

1. Japan Board of Audit's Social Service Audit Mandate and Coverage

The Board of Audit of Japan is established by the article 90 of the Constitution of Japan which stipulates:

Final accounts of the expenditures and revenues of the State shall be audited annually by a Board of Audit and submitted by the Cabinet to the Diet, together with the statement of audit, during the fiscal year immediately following the period covered.

The organization and competency of the Board of Audit shall be determined by law.

Based on these, the Board of Audit Law (hereinafter referred to as "the Law") Article 20 stipulates:

The Board of Audit shall audit final accounts of State revenue and expenditure in accordance with article 90 of the Japanese Constitution and of other accounts provided by laws.

The Board of Audit shall constantly audit and supervise Government accounting to secure its adequacy and to rectify its defects.

Accounts/bodies subject to Law-stipulated Board mandatory audit include:

- . Monthly State revenue and expenditure
- . Accounts of corporate bodies in which the State invests half or more of the capital

Accounts/bodies subject to Law-stipulated Board discretionary audit include:

- . Accounts of bodies directly or indirectly receiving financial assistance from the State such as subsidies, incentive grants, bounties, and compensation;
- . Accounts of bodies in which the State invests less than half of the capital;
- . Accounts of bodies invested in by State-invested bodies.

Social service programs, therefore, when implemented by the State Government, State Government-invested bodies, or by bodies such as local governments which receive State Government's financial support for such programs, are audited by the Board either by its mandatory audit or by its discretionary audit. Although the Law does not mention the types of audit the Board is mandated/entitled to do, it is generally understood that the Board audit covers both financial/regularity audit and performance audit. Although the Board is not

entitled to evaluate policies themselves approved by the Diet, the Board evaluates most of the program evaluation elements which the Principal Paper mentions as those not covered by performance audit. The Board therefore executes both financial/regularity audit and performance audit of social service programs implemented either by State Government or by other public sector bodies mentioned above.

2. Japanese Government Social Service Program Implementation Scheme

Public sector social service programs in Japan, as distinguished from "economic development program", encompass fairly large areas such as social security/welfare, education, employment, agriculture and others. They are implemented by different Ministries and Agencies such as Ministry of Health and Welfare (MHW), Ministry of Education (MOE), Ministry of Labor (MOL), Ministry of Agriculture, Forestry and Fisheries (MAFF) and others. Also, these Ministries subsidize various social service programs implemented by local governments. These State subsidies cover fairly large percentages of total project costs ranging from 30% to 75%. And local governments implement many of these State-subsidized programs based on the policies established by the Ministries and Agencies.

3. Audit Topic Selection

The Board's management establishes basic audit policy/guidelines every year. The basic audit policy/guideline describes major subject areas that should receive the highest priorities in particular year audit activities. Some of these subject areas are picked out in mid or long term audit perspectives, and reflect social/economic issues the Japanese Government currently faces, for example, at present, such as:

- . Growing social security/welfare service costs caused by rapidly growing aged population i.e. public pensioners, medical care recipients;
- . Construction and maintenance of highways, bridges, elevated railways and other infrastructures sufficiently resistant to massive earthquake such as recent Great Hanshin Awaji Earthquake;
- . Influence of international economic agreement;
- . Growing information technology investment.

Based on the established basic audit policy/guidelines, the Board's each Audit Division establishes yearly audit plan showing:

- (a) Major audit subjects;
- (b) Background and reasons for major audit subject selection;
- (c) Audit viewpoints and methods;
- (d) Manpower allocation percentages for each audit subject;
- (e) Man-days to be spent for each audit subject;
- (f) Auditee agencies' budget scales and other financial/administrative data.

These yearly audit plans also include mid-long term audit perspectives especially for auditing Government mid-long term projects.

In case of social service audit, the above include background information justifying the major audit theme selection such as:

- . social/economic backgrounds surrounding top audit priority social service programs;
- . Cabinet agreements and other information showing program goals, implementation processes etc. of the programs;
- . budget scales of the programs;
- . relevant laws and regulations.

4. The Japan Board of Audit Social Service Audit Concepts

In auditing Japanese Government social service programs, particularly in auditing social welfare/security service programs such as health/pension/labor insurance, child care and medical services, the Board traditionally has emphasized regularity/compliance audit approach. This is because internal audit functions of the Japanese Government Ministries/Agencies and local governments (see 2 above) are still weak in checking irregular revenue collection and benefit payment such as irregular/short public insurance premium collection and benefit payment. In this type of audit, the Board on the revenue side has significantly contributed to increased social service revenue collection by pointing out short insurance premium and other revenue collection, and on the expenditure side to the reduction of irregular subsidy and benefit payment. Having emphasized such regularity/compliance approach, the Board has only recently come to evaluate efficiency and effectiveness of such social security/welfare projects. The Board conducts such performance evaluation type audit mostly based on longer multi-year audit planning which is revised from time to time in accordance with changing socioeconomic environment surrounding the projects, unlike routine regularity/compliance type audit which the Board conduct every year

mostly in the same viewpoints and same procedures.

5. Audit Arrangements

The Board assigns audit works to its 34 Audit Divisions Ministry-wise, and therefore, the Board organization chart is generally aligned to the Government (Executive branch) organization chart. In case of social service audit, for example, the First and Second Health and Welfare Audit Divisions are in charge of auditing Ministry of Health and Welfare, and the First and Second Education Audit Divisions are in charge of auditing Ministry of Education, etc. To audit multi-Ministry projects or projects common to many Ministries, the Board's designated officers coordinate among different Audit Divisions' audit works. The Board presently has no branch offices in charge of audit. The Board auditors therefore frequently take on-the-spot field audit trips throughout the country to examine either State Governments' projects or local governments' projects supported by the State Government. In its annual Audit Report preparation processes, the Board internally discusses each of the numerous audit findings most of which are formed based on field audit results, and judges whether the Board will report the finding in its annual Audit Report. After completion of the Report, the Board sends the Report to the Cabinet. The Cabinet then submits its statement of accounts together with the Report to the Diet. The annual Audit Report is a document indispensable for Diet deliberation on the Government statement of accounts. The Board prepares its annual Audit Report only once a year. The Report however carries Board's many multi-year audit activity results. The Report is open to the public and mass media.

6. Audit Processes

In performance evaluation type audit, the Board normally picks out problematic programs, and reports, together with such problems themselves, any program execution deficiencies and bottlenecks which cause such problems. The first step of the Board performance evaluation is therefore to pick out, by relevant documents and any other inside/outside information, particular project auditors need to analyze and evaluate. And auditors in the second step execute performance analysis/evaluation of the picked out particular program in the following processes:

A. Preliminary analysis

Auditors in this process analyze basic policy documents such as:

- . Cabinet agreement (s), legislation(s) etc. outlining the policy behind the program;
- . Program document showing background and purpose of the program;
- . Planning document showing achievement target, target year etc;
- . Financial document showing budget and year-to-year financial positions of the program;
- . Internal ordinances and directives issued during the past project implementation processes;
- . Documents and materials acquired in the past audit and the results of their analysis.
- . Others.

By carefully going through these documents, auditors study political and socioeconomic background of the program, identify each problematic area, and also assess general gravity, scale and character of the problem(s). Through these study and analysis, auditors among other things make advance judgment on whether:

- . the problems and expected recommendations are worth reporting in the Board annual Audit Report in light of scale, gravity, and administrative/socioeconomic impact;
- . the causes of problems are within the control of the program executor;
- . the audit manpower presently available in the Board can achieve the audit goals within the prescribed audit period;
- . sufficient administrative/financial data are available inside/outside of the Board;
- . sufficient evaluation expertise are available in the Board, and if not, whether they can be obtained from outside experts;
- . there are any envisaged audit obstacles and difficulties.

B. Establishment of Audit Viewpoints

After identifying major problems of the program, auditors make detailed study on the problems, and work out detailed audit viewpoints. The auditors thereafter identify documents to be checked for each of these viewpoints.

These documents consist of:

- . Documents available in the Board, i.e. statements of accounts attached with vouchers/evidences regularly submitted to the Board by auditee agencies;
- . Documents to be checked through on-the-spot field audit in auditee agencies.

Note: Auditee agencies should regularly submit statements of accounts together with vouchers and evidences to the Board of Audit based on the Board-enacted Account

Verification Regulation.

C. Establishment of Audit Schedule

Auditors then establish detailed audit schedule. The Board audit cycle starts with audit planning and ends with submission of its annual Audit Report to the Cabinet. The Cabinet then presents the Report to the Diet together with its final statement of accounts. Since the Board submits its Audit Report once every year, the Board auditors in general establish one-year audit schedule stating, among other things, auditee agencies to be visited, on-the-spot field audit man-days, etc. Such one year audit schedule however also takes into account multi-year long term audit goals. Auditors therefore often pursue one year audit goals while pursuing goals for long term audit results of which will appear in annual Audit Reports for subsequent years. Auditors incorporate these audit schedules in the annual Audit Plan, and get management's approval.

D. Execution of Audit

After getting management's approval for the annual Audit Plan, auditors start field audit normally from mid-January every year. In executing field audit for approximately two and half months until the start of the new Fiscal Year (April 1), auditors examine the feasibility of the initial Audit Plan, results expected at the end of the audit etc., and revise the initial Audit Plan if necessary based on the results of the field audit conducted in these two and half months. Auditors then get the final Audit Plan approval from the management, and implement the revised Audit Plan. Auditors further get management's approval for modifying the Plan in case auditors face unexpected changes of audit environment/conditions during the subsequent audit implementation period. In the middle of the audit implementation period, auditors report to the management intermediate audit results and discuss need for any re-orientation of audit strategy/course theme by theme. Auditors execute audit based on modified audit plan/strategy.

E. Discussion with Auditee Agencies

At the end of the audit of particular subject, auditors present audit results to auditee agency and discuss the content of the results to reflect on the finding auditee agency's standpoints and comments. Based on the results of the discussion, auditors prepare an official inquiry to the auditee agency. Auditors then receive an answer to the inquiry from auditee agency. In these processes, auditors frequently have discussions with the auditee agency staff until both sides agree to the conclusion reached by the audit.

F. Preparation of Audit Report

Based on the agreement above, auditors draft audit finding to be reported in the annual Audit Report. To examine individual drafts, the Board establishes five "Bureau Audit Report Committees" and one "Coordination Committee". These Committees have intensive discussions on individual audit findings proposed by each Audit Division. To prepare fair and impartial Audit Report, individual drafts are examined by both auditors and non-auditors neither of whom is in charge of executing audit of the individual subjects (peer review system). Each of the five Bureau Committees' meetings are attended by the same Bureau auditors, and Coordination Committee meetings is attended by the non-auditor management staff of the Secretariat.

Note: The Board consists of a three Commissioner Audit Commission, a decision-making organ, and the General Executive Bureau, an audit executing organ. The General Executive Bureau consists of five Bureaus each having 6 to 7 Audit Divisions each, and the Secretariat comprising several administrative support divisions in charge of personnel management, training, research, staff welfare etc.

G. Follow-up Audit

After publishing annual Audit Report, the Board auditors every year conduct follow-up audit subject by subject on how auditee agencies responded to the Board's recommendations, and reports the results of the follow-up audit every year in its annual Audit Report until the recommended remedial actions are taken by the auditee agency.

7. Performance Measurement Indicators

As stated in 6.A above, Board auditors in preliminary analysis stage analyze policy documents such as:

- . Basic policy documents such as Cabinet agreement (s), legislation(s) etc. which outline(s) the Government policy behind the program to be audited;
- . Program document showing background and the purpose of the program;
- . Planning document showing achievement target, target year etc.
- . Internal ordinances and directives.

Normally, auditors in the first place identify performance measurement indicators shown in these basic policy documents such as:

- . Overall program purpose and goals;

- . Program outline/details;
- . Target date/year for achieving the program goals;
- . By-fiscal-year achievement goals;
- . Total program budget and budget breakdown;
- . Others.

To comparatively analyze program targets versus actual accomplishments, Board auditors study and use these documents as the basic performance indicators established by auditee agencies. Particularly from the standpoints that the Board does not evaluate or criticize Government policy itself, document describing overall program goals and purposes is essential performance measurement scale Board auditors in the first place rely on. Based on such basic document, auditors examine validity and appropriateness of detailed program implementation time frame, prescribed achievement goals such as population to be covered by particular social service etc. Auditors use them as detailed performance indicators as and when they find them valid and appropriate. Auditors therefore in the first place use auditee agencies' existing performance measurement indicators such as those mentioned above if they find them valid and appropriate. If not, they may critically modify existing indicators or re-invent their own indicators and seek auditee's agreement. Also, there may be cases in which auditee agencies themselves do not establish clear performance indicators either intentionally or by negligence. Auditors in such cases may need to establish its own performance indicators which are objective, fair and agreeable to auditee agencies.

For example:

As performance measurement indicator for evaluation of elderly care program, auditors refer to:

- . "Ten-year Elderly Care Promotion Strategy" agreed by relevant Ministries which stipulates among other things;
 - . Basic policies to be pursued in 10 year period;
 - . Manpower deployment targets of home-helpers and others;
 - . Facility number targets for day-service and other services;
 - . Revisions of relevant laws and regulations stipulating, for example:
 - . Promotion of home services
 - . Revised municipality responsibilities as project executors
 - . Elderly care service past audit results and collected documents/materials

. Others.

As 5-year day nursery service promotion program performance measurement indicator, auditors refer to:

. Multi-ministerial agreement stipulating:

. Basic policies to be pursued in the 5-year period;

. Day nursery admission targets;

. Facility number targets for various day services (prolonged services etc.)

. Day nursery service past audit results and collected documents/materials

. Others.

While not questioning very basic policies stipulated in 10-year or 5-year plans such as mentioned above, Board auditors closely evaluate appropriateness of detailed implementation schedule, organization restructuring schedule, appropriateness of service population estimation etc. Taking attainability into consideration, auditor themselves in some cases establish their own performance measurement indicators etc. where such indicators are not available in auditee agencies.

(Example 1)

Textbook/Night Snacks State Subsidy for Working High School Students (FY 1989 Audit Report)

Education Law guarantees equal education opportunity for all the Japanese people. Based on the Law, High School Evening/Correspondence Course Law guarantees education opportunity especially for those who cannot attend schools in daytime because of economic difficulty. To this end, Ministry of Education (MOE) grants subsidy to local governments and pay 50% or less of the cost for free textbooks and discounted night snacks these local governments offer to working students who attend such evening courses after daytime business hours. The Board examined whether the paid subsidies for textbooks and night snacks achieved the Laws-prescribed equal opportunity guarantee goals and found that:

. Many students who received free textbooks and MOE-subsidized night snacks were not categorized as "working student" because they attended these evening courses for non-economic reasons such as failure to pass daytime course examination, and also did not engage in daytime businesses which could give them regular salary income;

. The MOE subsidy consequently largely failed to achieve the Law-prescribed equal education opportunity guarantee for those who have economic difficulties.

Based on the above, the Board presented its opinion that the MOE re-examine the subsidy system to achieve the basic goal of the subsidy.

While not disputing MOE's basic policy of financially supporting working high school students, Board auditors evaluated whether MOE subsidies achieved the set policy goals and, if yes, to what extent, by examining beneficiary students' studying conditions and environment.

Since there was no definition for "working student" in MOE-prescribed textbook/night snack subsidy payment guidelines, the auditors in making such definition examined the MOE-prescribed scholarship recipient's qualifications, and adopted one of them which defined "working student" as "regular income earner high school student" as adequate definition of qualified textbook/night snack recipient student. Having confirmed validity of this definition by, for example, examining validity of MOE-defined word "regular" and confirming reasonably acceptable extent of "income", the auditors decided to accept this definition and to use it as a key performance measurement indicator.

(Example 2)

Wintertime Employment State Subsidy (FY 1994 Audit Report)

Ministry of Labor (MOL) pays Wintertime Employment State Bounty to subsidize wintertime allowance paid by heavy snowfall districts' employers, who tentatively hire their seasonal workers (construction workers etc. who work in non-winter seasons) as part-time workers during wintertime for MOL-prescribed period of time and promise to rehire and actually rehired such workers as fulltime workers. Through Bounty payment, MOL promotes year-round employment of seasonal workers who are out of work especially in wintertime. Out of Board-picked-out 508 Bounty recipients, total 109 such employers however perfunctorily met the State Subsidy payment conditions such as part-time employment period qualifications solely for the purpose of receiving the Bounty, and never moved to year-round employment despite their ability to do so. MOL thus failed to produce sufficient Bounty payment effect. MOL based on the Board finding set employers' yearly goal of year-round employment according to the number of Bounty-covered workers, and also decided to reduce the Bounty in case of non-accomplishment of the goal.

While not questioning the rationale of the Bounty payment which follows the Japanese Government's very basic policy of promoting seasonal workers' year-round employment,

Board auditors evaluated whether the project purpose was actually achieved through Bounty payment. Since the Bounty payment project aimed at achieving seasonal workers' year-round employment, Board auditors used the "employment throughout one year period" as a performance measurement indicator.

8. Social Service Cost Assessment

As pointed out by the India SAI Principal Paper, social service project cost assessment has a number of dimensions and thus is complicated and difficult. Having traditionally emphasized regularity/compliance audit of social service revenue collection and benefit payment (see 4 above), overall cost evaluation/analysis of individual social service projects particularly social welfare projects is considerably a new area for the Board social service audit. As the case of India SAI, the Board so far has not conducted assessment of costs incurred on provision of social services vis-a-vis tangible and intangible benefits produced. Rather than separately evaluating incurred cost, the Board has often analyzed cost incurred for particular projects comparing it with the earned revenue. The Board in such cases has particularly analyzed causes for cost increase and revenue decrease, and recommended measures for cost reduction and/or revenue increase.

For example, the Board analyzed causes of former Japan National Railways' growing deficit by examining cost elements such as manpower cost, facility maintenance cost etc. comparing these elements with revenue elements such as passenger fares, user population etc. The Board in these cases conducted separate deficit analysis for cargo transport and passenger transport. In such analysis, the Board examination normally extends beyond financial elements, and covers, for instance, business policies such as manpower allocation, socioeconomic environment such as Japan's overall transportation environment including advancing super highway building and private sector home delivery service etc. In case of public enterprise audit, while analyzing how public interest such as fair service provision is secured, the Board is to conduct more strict entrepreneurial analysis particularly for privatized public enterprises now that these enterprises enjoy greater operational discretion than before.

Note: The Government-owned former Japan National Railway (JNR) was privatized in 1987 and divided into 6 passenger railway companies and one freight railway company.

9. Manpower for Social Service Audit

Besides accumulating performance audit expertise through its audit activities in various audit fields, the Board has continuously tried to acquire such expertise through many other channels and sources. For example, the Board in 1969 established Technical Advisor system to secure technical advisors exclusively in charge of giving auditors technical advice such as those for science, civil engineering, construction and others. In the area of social service audit, the Board for instance invited a medical doctor from outside to conduct deeper medical cost analysis. However, since the Board so far has largely concentrated on regularity audit of social service programs, expertise for social service performance audit, particularly those for evaluating effectiveness of various social services is yet to be fully developed. The Board presently accumulates such expertise through internal training in each of the social service Audit Divisions such as those in charge of auditing education, health and welfare, labor, railway and others. These Divisions from time to time impart to their staff members self-developed social service performance audit expertise on subjects they plan to evaluate. Since social service project evaluation often require analysis of enormous amount of computerized data such as those of public health insurance insured and public pension pensioners, how to conduct effective computer audit training is also one of the major challenges the Board is presently facing in this field.

7. Korea

**Country Paper
on
Sub-theme 3**

Audit of Social Service

Prepared by:
Board of Audit & Inspection,
Republic of Korea

6th ASOSAI INTERNATIONAL SEMINAR 1997

Topic :

SUB-THEME 3 : Audit of Social Services

Country Paper By : SAI - Republic of Korea

1. Introduction

Until the 1970s, the primary national goal of Korea was economic development. The government's efforts were focused on expanding social overhead capital, such as road construction, the rearrangement of arable lands, and the construction of multi-purpose dams. In addition, the government actively implemented family planning programs to prevent excessive population growth which can impede national economic growth. Even though the priorities of government policy were mainly set on economic development, an increase in income contributed to the improvement of social security in both direct and indirect ways.

Since the 1980s, the issue of social security has emerged as a main concern in national policy. This represents a change in national policy focus, and is evident in a change in official nomenclature. Korea's national development plan was changed from the "Five-year Economic Development Plan" which was updated every five years since 1962 to the "Five-year Economic and Social Development Plan" in the 1980s.

The focus on social security in national policy planning since 1980 was largely the result of national economic growth and its ability to serve as a base for the national social security system. With the improvement of the population's living standard resulting from economic growth, there has been increased public interest in the quality of life. Moreover, there has been an

increase in the people's need for social security and the need for the government to assume a greater role in expanding social security programs.

2. The Content of Major Social Security Policies

Children are guaranteed free access to elementary school through compulsory primary education, and the children of residents in rural areas and low income families are given free secondary education (middle school), as well. However, the high education level achieved by Koreans is largely due to the importance parents place on education rather than the result of governmental policy. The family planning program, one of the major policy directives of the 1960s and 1970s, was very successful in a short period of time, but since the 1980s the quantitative aspect of the program has been de-emphasized. Emphasis is now being placed on qualitative demographic factors.

The Major Social Security Policies in Korea are as follows:

(1) **Medical Insurance :** A medical insurance scheme was introduced in 1977, and it covered employees and their dependents in workplaces with more than 500 workers. In 1979, medical coverage was expanded to cover employees in workplaces with more than 300 employees, as well as

government and private school employees. Medical insurance coverage was eventually expanded to employees of even smaller workplaces and to self-employed residents in rural and urban areas. The government steadily paved the way for a national medical insurance scheme over years and, with the establishment of medical insurance for the whole nation in 1989, achieved universal coverage in this short of time period.

(2) **National Pension System :** From the 1960s a pension scheme covered only government employees, private school employees, and military personnel until the national pension scheme was established in 1988 to cover employees in workplaces with 10 or more employees. Coverage in the pension scheme has since been expanded to employees in workplaces with 5 or more employees, as well as farmers and fishermen. Furthermore, the government plans to extend coverage to self-employed persons in urban areas by 1998. Various pension schemes play an important role in guaranteeing income security for the elderly.

(3) **Workers Compensation Insurance and Unemployment Insurance :**

A workers compensation insurance scheme was introduced in 1962, the first year of the Five-year Economic Development Plan. It covers work-related injuries and income loss. Unemployment insurance was just introduced in 1995, and is still in an early stage of implementation and evaluation.

(4) **Public Assistance and Social Welfare Services :** In addition to a basic living stipend, livelihood protection recipients also receive financial assistance for medical care and education, priority in securing a rental housing, and employment opportunities through vocational training. Furthermore, in an effort to expand employment opportunities for the disabled, the government instituted a policy which requires governmental organizations and private companies to hire a certain percentage of disabled workers according to the size of their work force. For those who cannot work in the general workplace because of disability, the government provides support for protected workplaces.

(5) **Health and Hygiene :** The government's role in the public health sector has decreased, which is largely due to improved living standards and the extension of national medical insurance coverage to the entire population. For those in rural areas where population density is low and medical resources are scarce, however, public health centers are actively involved in providing primary health care, such as the disease prevention and out-patient care. Emerging public health issues are water pollution resulting from industrial waste, and the distribution of contaminated foods accompanying the recent surge in imports and processed foodstuffs. The government is presently formulating a strategy to reduce the number of hazardous factors affecting public health accordingly.

3. Social Welfare Policy Development and Implementation System

(1) Policy Development

Respective administrative branches of the central government are responsible for developing long- and short-term plans regarding major policies. On occasion, a temporary task force team established for a specific purpose may do basic planning, but usually a basic plan is finalized by the respective administrative branch which defines a plan's detailed course of action.

Local governments (self-governing cities and provinces, small cities and counties, and districts) develop their own policies, taking into consideration specific local characteristics and needs of residents.

However, since local self-government in Korea is still in an early stage of development, local governments depend on the central government for major planning. The primary role of local governments lay in the implementation of policy developed by the central government. This centralized policy development system may evolve into a decentralized system as local governments improve their planning capabilities. Local governments, however, will have to overcome their limited financial resources and administrative shortcomings in order to be able to plan independently.

There are two ways to enforce policies proposed by the central government. Either the National Assembly deliberates and votes

on a bill, or decrees are issued by the relevant administrative branch. Many important policies affecting people's lives are enforced by administrative decrees and executive orders.

(2) Policy Implementation

There are three different ways to implement social welfare policy.

First, the central government may provide full or partial funding, in which case local governments are responsible for implementing policy. Health and sanitation, public support for low income groups, and other social welfare services are provided for in this way.

Second, the central government may establish public organizations for specific purposes, financing all or part of the expenses of the organizations. The Medical Insurance Management Corporation, the Medical Insurance Association, Industrial Workers Health Insurance Funds, Regional Health Insurance Funds, and the National Pension Management Corporation are all examples of this method of social welfare policy implementation.

Finally, the central government may directly implement the policy. Imported agricultural products inspection and imported food inspection services are delivered this way.

(3) Management and Control

All of the central government's administrative branches, local

governments, and large public organizations have their own internal audit and inspection systems. The central government performs audits and inspections not only of itself but also of local governments and public organizations. Generally, the internal audit and inspection focuses on compliance with applicable laws.

The central government supervises local governments and public organizations by requiring formal reports and by providing directions and orders. (Local governments also perform the same type of supervision on lower level local governments and public organizations under their control). However, this type of supervision has a few shortcomings related to policy evaluation and management, including a lack of manpower, perfunctory supervision that focuses more on future plans than on current projects, and an unwillingness to fully expose weaknesses and drawbacks.

4. Audit by the Board of Audit and Inspection

Central government departments and agencies, local governments, government invested corporations, and construction projects are the primary units of work division for the operations bureaus of the Board of Audit and Inspection(BAI). Most of the audits of central government departments responsible for social welfare, such as the Ministry of Health and Welfare and the Ministry of Labor, are assigned to the Second Bureau. Each

bureau consists of six or seven divisions, each with about fifteen personnel.

The audit of social security programs is performed in two ways. First, the process from the policy development stage at the central level to the implementation stage at the local level is systematically examined. Likewise, the work or activities of the same nature performed by many departments or agencies are also examined. Second, as part of the general audit of the central and local governments, self-governing cities, provinces, cities/counties and districts, social security programs are examined.

(1) Audit Planning

Medium-term audit plans are prepared every three to four years and long-term audit plans are established every ten years. Short-term plans are made on a yearly basis. However, because short-term plans are often do not reflect much of the medium-and long-term plans, audit operations are mainly dependent on short-term audit plans. The short-term plan, which is made between December and January, includes the number of audits to be performed for the year, organizations to be audited, audit issues, audit emphases, number of auditors, and the audit period and dates. The audit emphases are determined by considering the past three years' audit results, current issues attracting social attention, and the length of time programs have been in effect since implementation.

In order to avoid unduly burdening the auditees and to avoid audit overlappings, a limit on the number of audits per auditee is imposed and the target's internal audit plans are taken into account. A detailed plan is devised based on the results of preliminary studies conducted by the primary auditor-in-charge on audit methods and relevant materials.

(2) Conduct of Audit

To efficiently utilize limited manpower in a given period, the BAI collects important documents, research papers, references, press reports and information gathered on the auditee prior to the beginning of the audit. When the scope of an audit is particularly broad, the BAI samples a specific area or organization for analysis and determines the direction and methodology of the audit in concrete terms. The audit, with some exceptions, is performed in one or more stages depending upon the characteristics and the size of the auditee. The audit includes one or more standards of legality, efficiency, economy, or effectiveness. Performance audits mainly focus on efficiency, economy, effectiveness and equity, but do not necessarily exclude an examination of legality.

The importance of the different standards of audit is often influenced by the corporate policy for operations which changes every several years, and also varies with the characteristics of each audit. Generally speaking, performance audits on specific issues or programs focus on efficiency, economy or equity rather

than legality while general audits covering all major business of auditees do not focus on any one of them in particular.

(3) Disposition of Audit Results

Audit reports are drafted after receiving written replies to audit findings from auditees. When issues seem to be in dispute, especially where they concern technical areas, a review by an expert is invited to improve the reliability of the audit findings. The draft of the performance audit report is finalized by the Council of Commissioners after a thorough review by the audit review and coordination division. The final report is sent to the audited organization, and it is asked to take actions as described in the audit report.

In the audit report, the BAI asks the audited organization to correct, pay attention to, take necessary action on the recommendations to, or receive notifications of problems described in the audit findings. The auditee must in turn inform BAI of measures taken. Because of the wide variety of audit findings and the complexity of causes for problems identified, simple explanations are not easy. Nevertheless, recommendations or notifications are made regarding problems related to efficiency, effectiveness or economy, while the audit is asked to take corrective measures or pay attention to problems related to legality.

(4) Report to the President and the National Assembly :

Audit reports which are related to important policy issues are reported to the President on an interim basis. These reports help the President to better understand state affairs and there by improve the effectiveness of the audit report by facilitating auditee's consent to the audit findings. Furthermore, major audit findings are included in the Report on the Examination of the Final Accounts of the State which is sent to the National Assembly annually.

The BAI also responds to National Assembly requests for materials related to audit results assisting in legislative deliberations in such matters.

(5) Constraints

It is advantageous for the BAI to review related programs or activities of central government departments and agencies horizontally and to examine the work flow from the central to local governments. However, there may be certain constraints on BAI auditors because they are not directly involved in the policy and implementation process. For example, if there is a great time lag between the recognition of problems, or the need for policy change, and the conduct of an audit in response, timeliness will be lost and the effectiveness will be reduced. Moreover, certain auditees or programs may go unaudited too long, or they may be audited so frequently that even their routine business may be impeded.

BAI staff members are rotated every two or three years. This provides auditors with exposure to different work areas, thus giving them a chance to develop a balanced perspective, and to hone their skills through rich practical experience. On the other hand, the rotation system seems to keep staff members from gaining expertise in a specific area. The work of auditees are often very specialized and not inter-related. For example, the responsibilities of the Ministry of Health and Welfare include such diverse fields as food, health, medical services, pension, social welfare service, and so on. Since it takes some time for an auditor to understand a specialized area systematically, an auditor's expertise may be limited if he is unable to prepare sufficiently. To supplement this lack of expertise, the BAI has been supported by seconded staff from auditees and outside consultants during the audit process. The utilization of seconded personnel and outside consultants, however, still has limitations.

To reduce the burden on auditees, the BAI restricts access to documents or visits to auditees prior to the actual audit, and limits the duration of the audit, with certain exceptions, to two weeks in the case of a general audit and three weeks in the case of a performance audit. This restriction may weaken the quality of the audit, especially where the field being audited is formidable such as social security. Audits of these fields require much time and manpower because they are complicated and time consuming from the early policy-making stage to the implementation stage. For instance, a social security program

needs a long time for delivery. It is planned centrally and implemented locally or by public organizations. It also takes a long time to measure the benefits of such programs.

For the improvement of the quality of audits, appraisal and feedback can be an effective means. Appraisal of audit performance is made in quantitative terms in most cases. For instance, the number of decisions (e.g., request for correction, attention, recommendation or notification) or the amount of additional revenue decided to be collected by the Council of Commissioners of the BAI serves as criteria for audit performance. The following appraisal criteria will contribute greatly to the improvement of the quality of audit, provided they are applied properly to the overall audit process and provided the appraisal results are reflected in audit planning and its operations.

- Have audit plans taken the importance and urgency of audit issues into account and have priorities been set accordingly ?
- Have auditors found problems in major program areas or activities of the auditee ?
- Have audit objectives been accomplished as the result of the audit ?
- Have any side affects, such as disagreement with auditees, taken place ?

6. Major Audit Cases

The following are some of the major audits performed in the area of social security.

<Audit of the Nation's Public Health Status, September 1993>

The purpose of the audit was to provide recommendations for the improvement of the regional health and medical service system. On-site reviews were made of immunization services, public sanitation, and maternal and child health care. For the audit 53 public health offices were visited. The audit results indicated that there were serious problems of waste in the budgets of public health offices. Budget waste was caused by the unnecessary continuation of services that were in low demand because of increase in the use of private health care institutions which arose after the expansion of the public health insurance system.

Case 1 : The Ministry of Health and Welfare had set the target rate of immunization unreasonably high for public health offices nationwide. As a result of the audit of public health offices in four sampled cities and provinces, it was revealed that public health offices filed false reports with respect to the number of persons immunized. According to the reports, a total of 350,000 persons were immunized, but the truth was that only 250,000 persons were immunized. The audit

also found that public health offices had dumped the excess of vaccine supplies. Another discovery was that the Ministry of Health and Welfare set an unreasonably high target number of examinations for infections caused by parasitic worms. As a result, two sampled regional public health offices filed false reports, claiming that the number of persons examined was 580,000 instead of the actual 300,000.

Based upon these findings, BAI proposed that the target rate should be made in accordance with the actual need. It is believed that these recommendations would prevent the recurrence of false reports by regional public health offices.

Case 2 : The Ministry of Health and Welfare began to establish Mother and Child Health Care (MCH) centers in 1981, and as of 1993 there were 89 centers in operation. The MCH centers provide health care services primarily for pregnant women, infants, and young children in farming and fishing communities. However, audit results indicated that visits to these centers decreased dramatically after the public health insurance system was expanded to cover the entire population in 1989. The under-utilization of MCH centers decreased their efficiency in terms of workforce and financial management. Accordingly, BAI recommended that arrangements should be made to convert excess facilities and human resources to other uses.

<Audit of the Implementation of the Employment Policy for the Disabled, June 1995>

It is estimated that the nation's disabled population is three times higher than the officially registered 300,000. BAI auditors examined policies and arrangements for expanding employment opportunities for the disabled in order to identify current problems and future directions. Specifically, a comprehensive review of the operation of the employment quota system was undertaken as well as an evaluation of employment, services, the provision of job opportunities and the training for disabled persons, and the operation of "protective workplaces" specifically designed for severely disabled persons.

Case 1 : It is mandatory for firms with more than 300 employees to fill at least 2% of its positions with disabled workers. If firms do not meet the minimum employment requirements, they must pay a fine which is proportionate to the number of positions which have yet to be filled with disabled workers. The law also states that at least 2% of the newly employed of the central and local governments should be disabled workers. However, findings suggest that in private companies the proportion of employed disabled workers was only 0.4% in 1992 and no improvement has been made since. In the public sector, among recruits hired between 1991 and 1994, the proportion of disabled workers was only 0.8%.

Accordingly, BAI recommended raising the employment rate of disabled workers in the public sector to 2%. Other recommendations included the establishment of yearly employment schedules and specific recruiting plans by job series and job group. For the private sector, the BAI proposed a financial incentive program to promote the employment of disabled workers in the sector. BAI also recommended establishing a mechanism which could provide information both on job opportunities offered by firms and job searches made by disabled workers.

Case 2 : The Ministry of Health and Welfare has provided part of the expenses for facilities, equipment and operation of protective workplaces in order to provide the disabled with job training and independent work experiences since 1987. The number of protective workplaces has increased continuously without considering operational efficiency. In 1994, 140 protective workplaces were in operation. As a result of a sample examination of 35 protective workplaces in four major provinces and cities, it was found that 65% of them had either ceased to operate or were operating inefficiently. Therefore, the BAI recommended shutting down workplaces with a minimum possibility of normal operation. In addition, facilities that were or could be in normal operation were asked to obtain qualified instructors.

< Audit of the Management of Public Pension Schemes, May 1996 >

The public pension system in Korea is composed of three types of public occupational pension schemes and the National Pension Scheme. The three types of public occupational pension schemes are the Public Employees Pension, the Military Personnel Pension, and the Private School Employees Pension, each of which was introduced in the early 1960s and 1970s. On the other hand, the National Pension was initiated in 1988 and is still in the beginning stage. The required contribution period for receipt of a pension is at least 20 years. Whereas the minimum age at which a beneficiary can begin receiving a pension under the National Pension Scheme is 60, there is no minimum age requirement for the other three public occupational pension schemes.

A recent study predicts that the funds of the Public Employees Pension and the Private School Employees Pension will be exhausted by 2030 if the operation of the pension schemes remain unchanged. The Military Personnel Pension is already exhausted and has been dependent on government subsidies since 1973. The National Pension is still in the developing stage and is presently accumulating funds. In the long run, however, the rate of increase of pension payments will be higher than receipts of pension premiums. This will lead to a deficit after 2030.

The BAI conducted an audit of the pension management system to identify causes of the ongoing and anticipated financial crisis, and offered some suggestions to improve the financial situation. Until now, each public occupational pension scheme has been audited by different divisions of the BAI, and the National Pension Fund was not audited for a long time. In May this year, the BAI audited the three pension schemes and the National Pension together and studied the operational systems of pension funds in advanced countries. The BAI received advice from pension experts for the analysis of financial problems and for the making of recommendations.

It is likely that the main reason for the financial crisis is that pension benefits were designed to be much higher than the premiums contributed in every scheme. In the public occupational pension schemes in particular, the structural weakness were as follows : First, benefits were calculated on the basis of the final salary level at retirement, even though the beneficiary's premiums were based on his actual wages while working. Second, there were no restrictions on the pensionable age, so that if the beneficiary retires early, his/her pension period will be longer than the contribution period. Third, the scope of remuneration figured into the calculation of benefits had been expanded to include bonuses and other allowances without increasing the amount of premiums, resulting in the provision of benefits without any connection to actual contributions. The BAI suggested that the contribution rate should be increased

progressively, and that arrangements should be made to extend pensionable age as the next step. The BAI also recommended that the pension benefits calculation base should be changed from the level of remuneration at the time of retirement to the average remuneration over the entire employment period.

8. Nepal

**Country Paper
on
Sub-theme 3**

Audit of Social Service

**Prepared by:
Office of the Auditor General,
Nepal**

AUDIT OF SOCIAL SERVICES

(SUB-THEME - 3)

**COUNTRY PAPER
FOR**

THE ASOSAI ASSEMBLY 1997 AT INDONESIA

**CONTRIBUTED BY
OFFICE OF THE AUDITOR GENERAL
BABAR MAHAL, KATHAMDU
NEPAL**

Audit of Social Services

"The social objective of the state shall be to establish and develop, on the foundation of justice and morality, a healthy social life by eliminating all types of economic and social inequalities and by establishing harmony amongst various castes, tribes, religions, languages, races and communities."

The Constitution of the Kingdom of Nepal, 1991

1. Introduction

- 1.1 The concept of development have changed significantly in recent years. Similarly, there is considerable shift in the approach of measuring results of development and considerable attention is paid to non-economic effects that contributes in sustaining benefits once derived and enabling people to ensure betterment of life. Development has been regarded as an integrated process that encompasses efficiency in the use of natural resources, higher productivity and rate of growth and social objectives like reduction in the incidence of poverty and unemployment, social and economic inequalities and improving the quality of life of weaker sections of society.
- 1.2 A welfare state has to ensure some sort of safety to people during the period of adversaries created by birth, age, natural calamities, differences in opportunities of development and so on. The objectives of welfare state can be materialized among other things by improving the socioeconomic status of backward communities.
- 1.3 Social welfare is an important aspect of social service. It plays important role in promoting social justice and delivering services such as primary health, basic education and social security. The eighth plan (1992-1997) states objectives of social welfare as:
 - to protect the interests of weak, helpless and socially backward sections of society;
 - to raise mass awareness in order to root out superstitious traditions of society; and

- to carry out activities which inspire people in increasing their spirit of cooperation in establishing to built system to address some common social problems, and
 - help people in time of severe hardships irrespective of their reason.
- 1.4 Ensuring equality in distribution of wealth and income among different section of society and sustaining the prosperity have received attention in the process of development. The objectives of development can not be achieved without meeting basic needs of people i.e., public health, nutrition, education, housing and safe drinking water etc. Development of human resources is now believed to be an effective measure of improving and sustaining quality of life which is the ultimate goal of development. It also promotes and ensures fairness and justice to people.
- 1.5 The eleventh congress of INTOSAI (1983 Manila, Philippines) discussed on the theme "*Audit of Hospital and Social Services*". The Second General Assembly and First International Seminar of the ASOSAI (1982, Seoul, Korea) discussed the theme "*The Role of Supreme Audit Institution in Social Development*". The objectives that results from the goal of social development, includes pursuit of health, education, housing and other schemes of welfare. The social functions have to be balanced with economic functions. A nation's wealth should be rationally allocated for both social and economic activities and managed properly. All these facts justifies the need of broad scope audit of expenditure on social programs.
- 2. Objectives and Scope of Social Services**
- 2.1 The common objectives of social services are to ensure the opportunity of education and quality improvement, health, nutrition, learning, cultural protection, quality of living, housing, social welfare etc. These activities are guided by the objective of improving the living conditions of individual by developing skill, raising the level of consciousness and ultimately enlarging opportunities of public choice.
- 2.2 Social services cover a wide range of activities and services. Its scope may differ among countries depending upon their stage of development, government policy and capacity to allocate resources to such services. However, it embraces the process of protecting interests of weaker sections of society, enhancing human talent

which helps identifying challenges and opportunities for progress and culminates in securing individual prosperity and building up the capability to changing circumstances.

2.3 The scope of social services may be broadly classified as (a) education, (b) health, population and nutrition, (c) drinking water and sanitation, (d) rural development, and (e) social security schemes. The programs launched to alleviate poverty also fall under the umbrella of social services although they might be of economic nature. The common premises enshrined in the documents related to social programs are as follows.

- Meeting basic needs of people is the fundamental duty of state. It encompasses social needs that promote both long and short term prospects for human well-being.
- Provision of basic education to all children as quickly as resources (both financial and other) permit; and ultimately, develop comprehensive system of education at all levels and for all age groups.
- Ensure more equitable distribution of opportunities and reduction of existing inequalities based on sex, economic status and geographical location.
- Encourage greater internal efficiency of the educational system such as reduction of the waste of resources caused by students drop-out or repeating grades through improved quality of education.
- Promote external efficiency of the educational system, through an increase in the relevance of schooling to the job market, so that students are equipped with the knowledge and skills needed to find employment.
- Develop and sustain institutional capacity to formulate and carry out educational policy and to plan, analyze, manage and evaluate education and training programs at all levels.
- Create employment opportunities for increasing labor force in rural areas to control excess flow of people to urban areas in pursuit of better economic opportunities.

- Promote measures that ensures redistribution of income and wealth to weaker sections of society for the peaceful transformation of economy. The increase in production alone can not sustain development without equitable distribution of the benefits of growth and development.
- Encourage public participation decision making process and managing public resources to reduce the inefficiencies and results of centralized decision making.
- Ensure access to safe drinking water and basic sanitation to all people as quickly as resource permits.

2.4 The general scope of social service as categorized in Nepal are as follows.

a. **Education** - It is a basic factor in development and sustaining its benefit. It contributes development as a important conducive factor. Education - investment in human capital-is the most important means to materialize development efforts. It increases the understanding capability, individual potentials and identify opportunities of betterment. Traditionally, education was considered as a means of raising consciousness which is a door to modernization. But now it has expanded to a great extent and destined to achieve various objectives because it has been realized that consciousness alone can not solve the basic problem facing humanity today. Education should be functional and job oriented besides imparting knowledge. The comprehensive approach to development underlines the significance of education for three interrelated ways, i.e.,

- o as a basic human need,
- o as a means of meeting other basic needs,
- o as an activity that sustains and accelerates overall development.

b. **Health, Population and Nutrition** - Health is the subject of prime concern to every individual. Development depends largely on physical and mental health of its manpower. Therefore improving general health standard of people remains a major challenge and concern to governments. Improving general health standard to fast growing population still remains a serious challenge to many governments. Rapid population growth slows down the pace of development. As improvement in the living standard of people is

basic to all kinds of development efforts, it is inevitable to maintain proper balance between population growth and country's pace of economic development.

Nutrition is fundamental to life, work and well-being. Inadequate nutrition is responsible for human and economic waste. Nutrients are required for survival, growth and reproduction, and for capacity to work, learn, and function. Improvement in nutrition, in turn, can expand student's learning capacity and hence the benefits that they will receive from education, including enhanced productivity and incomes will eventually benefit nations. The nutritional status of populace both influences and reflects the level and pace of development. Malnutrition and undernutrition adversely affect the national development process, cause serious deficiencies in national health standard, and increasing demand for health related facilities and curative measures.

c. **Drinking Water and Sanitation** - Supply of safe drinking water and sanitary disposal have long been considered as basic requirement for a civic society. It is also essential for safeguarding human health condition and to make possible a productive healthy life. Fast growth of urbanization in many developing countries have threatened the existing capacity of water supply and sanitation.

d. **Rural Development** - Majority of population in developing countries are living in rural areas and depend on agriculture for their livelihood. Therefore, rural development combined with improvement in agricultural productivity is one of the priority of development. Rural development is a strategy designed to improve the economic and social life of a specific group of people - rural poor. It involves extending the benefits of development to the poorest among those who seek livelihood in rural areas. Development planners have identified the non-farm sector as one of the promising area of trade off and emphasize the need to encourage promotional activities in this area. It supports the plan of releasing large majority of population from direct dependence on agriculture by imparting various skills and job-oriented (vocational) training to ensure livelihood of rural people from non-farm sector have remained a thrust of development plan.

The concept of Integrated Rural Development Project (IRDP) has received considerable attention in recent years mainly to formulate schemes of specific beneficiary oriented assistance, in a bid to bring them above poverty line. IRD projects give priority to fulfill

basic needs (education, health, drinking water) and increase production and employment opportunities in an integrated way. The IRD policy emphasizes improvement in agriculture by participatory management of programs for rural poor, building infrastructure for development and best possible use of local resources. Rural people suffer from various problems like low agricultural productivity (both livestock and agriculture), backward social condition due to illiteracy, poor health, lack of knowledge about environment, infrastructure base to enhance economic opportunities. These projects aims at raising production and productivity in agriculture and allied sectors as well as imparting assets and skills to increase the income level of vulnerable groups in rural area.

e. **Housing and Urban Development** - Housing is one of the basic element of human need. Ensuring safe and clean housing is state responsibility. Similarly, planned settlement has emerged as one of the major social challenges due to increased trend urbanization. Although, government investment is not that high in this sector, government regulates housing programs and supports autonomous bodies responsible for it by providing technical services.

3. Auditing Approach and Methodology

- 3.1 Audit of social services deserves special attention of the Office of the Auditor General of Nepal (OAG/N) in the context of increasing investment on this sector and its crucial interrelation with the long-term development strategy. These services are to be assessed considering both individual programs and aggregate achievement in this sector. There may be several programs to achieve a particular objective or one program might contribute to achieve multiple objectives. In this context, it becomes difficult to measure the effects of a particular program. In such situation it is necessary to evaluate whole series of programs or the total sectoral investment and performance with the help of social indicators and comparable social statistics.
- 3.2 Audit approach normally indicates that how audit will be carried out to achieve predetermined objective. Approach needs to be determined considering nature of audit entity and objective. There may be mix of more than one approach depending upon nature of audit entity. Systems approach is applied normally in case of policy issues. If certain policy has to be examined, auditor need to

look into the systems by which he can assure that appropriate systems are in place and operating properly. Performance measurement approach is applied mainly in evaluating effectiveness. Criteria for measurement or performance indicator should be identified to apply this approach. This approach is expected to evaluate the reliability and adequacy of objectives achieved.

Methodology is basic to the success of a function. Deciding about methodology assumes critical role in audit process. The common methodologies and steps or phases of performance audit as practiced in Nepal are as follows.

1. Planning - Audits are normally conducted in consistent with the professional standards. INTOSAI Auditing Standards state that the auditor should plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner. Government Auditing Standards published by the OAG/N in July 1996 also endorses the view and considers ways to strengthen planning process. The OAG/N has recently introduced the concept of strategic planning. Although it is in initial stage, strategic planning is considered as the macro plan of the entity to enhance overall efficiency and effectiveness of SAI. It guides entity level planning by specifying critical issue areas. Determining audit objectives has potential impact on the improvement in the quality of audit.

Determining the scope of the audit addresses the balance of issues of economy, efficiency, effectiveness in policy/program implementation and legislative compliance. The audit scope ensures that field work is clearly bounded and so assists in producing an audit of adequate coverage and cost. Scope is normally defined by stating what an audit intends to cover.

Criteria plays important role in ensuring quality of audit. It can be defined as reasonable and attainable standards of performance and control against which the adequacy of systems and practices and the extent of economy, efficiency and effectiveness of operations, programs, or activities can be assessed. Criteria reflect a normative (that is, desirable) control model for the subject matter under review. It is unrealistic to expect that activities, systems or levels of performance in economy, efficiency and effectiveness will always fully meet criteria. Satisfactory performance does not mean perfect performance but is based on what a reasonable person would expect, taking into account to entity circumstances. It can

often be useful during discussions with entity management about the audit to obtain their input to the development of criteria. Any disagreement with entity management about criteria can then be identified, discussed and, if possible, resolved at an early stage. It is essential to encourage ownership of the audit outcomes so that they will be implemented seriously. In Nepal, auditor faces challenges in determining criteria due to absence of clear performance indicator. It is more apparent in the case of social services.

2. Examination - The audit objectives and criteria are normally be tested during this phase. It involves the collection and documentation of relevant and reliable evidence considering audit objective, scope and criteria. Evidence is critical to the success of the audit and is a central concern from the planning phase to the end of the audit. Audit evidence should be sufficient to support audit findings, conclusions and recommendations. Reliable, relevant and sufficient audit evidence is fundamental for quality auditing. Evidence are collected and used to support audit findings. The audit findings, conclusions, opinions and recommendations must be based on evidence that meets the basic tests of sufficiency, competence and relevance. Sources of evidence may include; government policy statements and legislation; published program performance data; interviews; file examination; management reports and reviews; databases; external sources; SAI sources; observation; and surveys and questionnaires.

This phase also involves regular communication with the entity, the preparation of early discussion papers which identify and discuss issues that have emerged during the course of the audit, and a formal interview (the exit interview) at which the audit finding are discussed.

Working papers serve as the connecting link between the field work and the audit report. Thus they contain the evidence accumulated in support of the opinions, conclusions and recommendations included in the report and are themselves evidence that the auditor has conducted the audit in accordance with approved procedures. Working papers should be (a) complete and accurate; (b) clear and concise, (c) organized and ease of preparation of audit report, (d) legible to support findings, (e) relevant, and (f) easy of review.

3. Reporting - Clear, balanced and objective public reporting of audit observations is fundamental to enhance the credibility of audit. The published report is the product on which the SAI performance audit function is judged by the Parliament and the public at large. It is therefore crucial that much thought be given to the development of the audit report. At the conclusion of the examination phase the SAI may decide to prepare a draft report which allows the entity to comment on what would normally be the format of the final report. The audit findings are to be presented in a logical fashion. The development of audit findings, and the formulation of recommendations based on those findings, are critical in audit process. In developing audit findings auditor should systematically explain matters such as: (a) audit criteria (what should be); (b) audit evidence (what is); (c) audit finding (compare what is to what should be); (d) assess the effects of the finding; (e) determine the causes of the findings; and (f) develop audit conclusions and recommendations with estimation of likely impacts.

Audit observations and evidence are compared with the audit criteria to identify audit findings. Potential findings identified by auditor during preliminary study or from other source are verified during examination phase. Once an audit finding has been identified, two complementary forms of assessment take place - the assessment of the significance of the finding and the determination of the causes of the lack of performance. The effect of a finding may be quantifiable; for example, the effect of expensive processes, expensive inputs or unproductive facilities can be estimated in dollar terms. Additionally, the effect of inefficient processes, for example, idle resources or poor management, may become apparent in terms of time delays or wasted physical resources. Qualitative effects as evidenced in a lack of control, poor decisions or lack of concern for service may also be significant. The effects should demonstrate the need for corrective action. The effect can also have occurred in the past, be occurring now or possibly occur in the future. To make a finding stand, the auditor should be certain that, if the effect occurred in the past, the situation has not already been remedied to prevent it from recurring.

The auditor should identify the cause of a finding, as this forms the basis for the recommendation. The cause is that which if changed, would prevent similar findings. The cause may be outside the control of the organization under audit, in which case the recommendation should direct attention outside the

organization. The development of recommendations for improvement in administrative or operational performance is an important feature of performance audits. Recommendations should be developed where unfavorable findings are made and significant adverse effects have been identified. While recommendations focus on the improvements needed rather than how they should be achieved, it is appropriate to indicate broadly what issues might be examined by management when seeking solutions.

Findings are presented to entity management for comment as they arise. In this way entity responses can be documented and analyzed. Where the entity disagrees with the audit findings and recommendations, the reasons for such disagreement are fully analyzed. SAls have a requirement under existing regulation to seek comment from the entity. The contents and the wording of recommendations may also be discussed with audit entities. As any material errors could be potentially damaging to the credibility of a particular report and to the SAI, due attention should be paid to the accuracy, logic and clarity of findings.

4. Follow-up - The follow-up is an important aspect of auditing. One of its objectives is to add to the impact of our reports. It may serve two purposes i.e., (a) increase the likelihood that entity management will implement the recommendations that were agreed; may be valuable in guiding the actions of parliamentary committees, and (b) provide feedback to the Parliament on the effectiveness of auditing. It can also provide a basis for assessing and evaluating the SAI's own performance including validating cost savings and other benefits projected at the time the audit was tabled. Follow-up activities are directed to encourage the implementation of recommendations, rather than finding examples of lack of action.

4. Common Problems in Evaluating Effectiveness of Social Services

4.1 Auditing of social service faces critical challenges due to following reasons:

- o abstractness of its achievement or effectiveness,
- o long gestation period to measure achievement,
- o problem in determining clear performance indicators,

- o multiplicity of factors influencing social development, and
- o multiplicity of organizations providing similar social services in same location.

It is sometimes very difficult to quantify the impact of social programs like education, health, welfare etc. As it may take years to determine the impact of such programs, some secondary evaluation criteria are needed to be applied to evaluate performance of social projects.

4.2 The common issues to be determined in connection to the audit of social services are:

- appropriateness of programs were determined;
- responsibilities to different agencies involved in execution were clearly defined;
- physical targets were achieved in time,
- the system of monitoring and feedback is sufficient and operating efficiently.

5. Identification of Indicators and Criteria

5.1 Although it is very difficult to determine indicators and criteria in terms of social programs, these are very essential to evaluate the effectiveness of a project. Most of the social programs have non-economic indicators. Performance indicators of social programs serve several purposes including;

- a. projecting a clear socio-economic perspective of the impact of the development in social and human terms,
- b. providing information for tracing and controlling development benefits,
- c. providing an early warning system on past and future social problems that may negate the very objective of development if not , rectified immediately.
- d. a set of beliefs and values which rationalize economic activities in economic terms,

- e. improvement in the quality of human beings in terms of knowledge, skills and abilities,
- f. control in human fertility and change in population growth,
- g. saving and investment of capital and saving ratio and channels.

5.2 Effectiveness of social programs should be measured in terms of its contribution in:

- fostering social equity by providing equitable access to opportunities,
- uplifting the quality of life of the people so as to promote total human development,
- enhancing the living condition of general population.

For example, the effectiveness of rural development program can be measured on the basis of following indicators.

- (a) **Output** - Improvement in the productivity of land, livestock and other resources,
- (b) **Utilization of natural resources** - Growth of non-farm activities including agro-based industries, preservation of non-renewable natural resources, promotion of renewable resources.
- (c) **Technology** - Use of modern equipment and appliances for farming and rural industries to save time and improve quality of products.
- (d) **Employment** - Increase in employment opportunities.

Similarly, the broad objectives of health, family welfare and nutrition program may be as follows. Evaluation of accomplishment of these objectives will help a great extent in judging the effectiveness of these programs.

- * Increase in average life expectancy,
- * Decrease in infant mortality,
- * Decrease in crude death rate.

The quantitative aspects of these services are to find out the availability of physician, hospital bed and nursing staff per thousand population. Control of common diseases such as malaria and tuberculosis are also another indicators of public health programs.

6. Concluding Remarks

- 6.1 Social services are essential functions of state. There is increased focus on the responsibility of government to provide basic social services to people as a part of fundamental obligation to people. Contemporary governments are being constantly asked to demonstrate better performance and enhance effectiveness in managing public programs and services. It is more so in the case of social services due to the lack of quantifiable indicators and obligation of state.
- 6.2 Despite critical challenges in auditing, due to the lack of reliable and relevant performance indicators, information and awareness of technical personnel towards value of auditing, SAI has to pay special attention to the audit of this sector and encourage managers to improve performance by indicating potential weaknesses and means to correct them.

9. New Zealand

**Country Paper
on
Sub-theme 3**

Audit of Social Service

**Prepared by:
The Audit Office,
New Zealand**

THE ASOSAI ASSEMBLY 1997
INDONESIA

SUB-THEME III

AUDIT OF SOCIAL SERVICES

COUNTRY PAPER: PREPARED BY NEW ZEALAND
NOVEMBER 1996





INTRODUCTION AND SUMMARY

This paper describes the way in which the auditing of social services is undertaken in New Zealand. First, it summarises the range of social services provided by the State and gives some information on current issues. It then places audit activities in the context of recent governmental reforms. Finally, it describes the nature of the work being undertaken at present. An appendix to the paper contains a description of the method by which particular areas of government operations are selected for audit attention.

BACKGROUND

New Zealand has a well-developed system of social services and, by international standards, a long history of experience in administering them. For example, government-supported work schemes for the unemployed were introduced in the 1880s and the first social security benefit, the old age pension, was introduced in 1898. The nation now enjoys a comprehensive system of social services, provided directly by the State or in partnership with voluntary welfare agencies. Its key features include:

- ♦ income support in cases of sickness, invalidity, unemployment and sole parenthood;
- ♦ supplementary income support for families with low incomes;
- ♦ superannuation for the aged;
- ♦ a State scheme to provide all citizens with medical and income-related compensation for accident injury;
- ♦ State-provided and State-funded social work and child protection services for those in need;
- ♦ State assistance with housing for citizens with a low income;
- ♦ State subsidised health services for all;
- ♦ State-provided and State-funded education for all children until age sixteen, and heavily State-subsidised tertiary education.

Most of these social services have been in place for over fifty years. Their original architects envisioned a society where the State would provide a good minimum level of security for its citizens "from the cradle to the grave".

In common with most Western countries, the cost of social services has risen sharply over the last twenty years. There is now generally a more conservative attitude towards their provision and an increasing political focus on the issues of effectiveness and value for money.

REFORMING THE MACHINERY OF GOVERNMENT

Improvements in the design and administration of social programmes in New Zealand must be seen in the context of a wider range of initiatives aimed at achieving better value from Government spending. Since 1986, New Zealand has undertaken a programme of governmental reform and deregulation which is virtually without precedent in comparable Western countries.

One important aspect of the reform was to make fundamental changes to the way in which government agencies (including social agencies) manage themselves and report their activities. Instead of appropriating money for the purchase of agency *inputs* (such as staff and equipment), the New Zealand Parliament now appropriates money for the purchase of agency *outputs* (the goods and services which an agency produces).

To implement the new approach, chief executives of government agencies have been given much greater freedom to manage their operations. They now are free to choose the most economical mix of inputs needed to produce agency outputs. Such choices must be (and are) underpinned by much improved management information systems, including good output cost information.

As a result of obtaining and exercising greater management freedom, the professional capabilities of public sector managers have improved markedly. As a consequence, very significant efficiencies in agency performance have been realised.

IMPROVED ACCOUNTABILITY

Greater management freedom has been accompanied by a greater emphasis on the accountability of managers. Government agencies must provide Parliament with detailed and audited financial accounts (including a full balance sheet) prepared on an accrual basis. Most of the larger government agencies must also provide an audited statement of service performance, in which their actual performance is compared with targets previously accepted by Parliament when making its appropriations.

The mandate of the New Zealand Auditor-General requires that he audit the statements of account (both financial and service performance) of government agencies, and also that he investigate issues concerning the efficiency and effectiveness of government expenditure.

In the recent past, most audit attention has been given to financial management and statements of account. Following the reforms, there have been substantial improvements in the quality of the accountability information provided to Parliament. For example, in relation to the 1995/96 fiscal year, *all* government departments received unqualified audit opinions on their financial statements and statements of service performance.

A challenge for the future is to ensure that the performance measures used by government agencies are appropriate for the purpose and are informative to Parliament. The Audit Office has been developing standards for appropriateness. The issue is also being addressed by the New Zealand Society of Accountants, which may decide to promulgate mandatory standards for performance measurement and reporting.

PERFORMANCE AUDITS

The New Zealand Audit Office undertakes special studies and performance audits of the operations of government departments, including those providing social services. Such studies are carefully selected using a relatively sophisticated method described in Appendix 1.

The Auditor-General has considerable statutory independence in choosing the subjects of such studies, and may address any virtually and aspect of departmental operations. In general terms, work is undertaken in areas where:

- from a public welfare perspective, the likely outcomes of public spending will be sub-optimal; and
- well-targeted audits are likely to result in cost-beneficial improvements to those outcomes, and
- the matters subject to audit are already, or are likely to be, of immediate interest to Parliament

In the recent past, for example, performance audits have been conducted in such areas as the Department of Social Welfare's control of benefit fraud and abuse and the Department of Labour's provision of assistance to unemployed people. Audits are currently underway to review information management by the Department of Social Welfare's social work services and aspects of the rehabilitation services provided by the Department of Corrections.

EFFECTIVENESS OF EXPENDITURE

The next area of challenge in the auditing of social services is to confirm that spending on social services provides value for money. In New Zealand, the effectiveness of social service programmes have generally been evaluated by the social agencies themselves. The first programme evaluation unit was established in the Department of Social Welfare in 1981 and has operated continuously ever since. Most social agencies now either conduct their own evaluations or commission evaluations by outside agencies.

The New Zealand Audit Office does not conduct programme evaluations *per se*. However, it does concern itself with the evaluations conducted by other agencies. In particular, it may seek to ensure that evaluations are conducted in a professional manner, that they address the most important areas where assurance is needed, and that recommendations arising from evaluations that are accepted by the agencies affected are actually implemented. A special Audit Office study of these issues is currently underway.

AUDIT PLANNING AND SELECTION IN NEW ZEALAND

- 1 Over the last three years, the method used by the Audit Office for audit planning has developed significantly. Although it is still evolving, it has advanced to the point where it can reliably identify suitable matters for audit attention where:
 - from a public welfare perspective, the likely outcomes of public spending will be sub-optimal; and
 - well-targeted audits are likely to result in cost-beneficial improvements to those outcomes, and
 - the matters subject to audit are already, or are likely to be, of immediate interest to Parliament.

- 2 The method is as follows:
 - ♦ The monies approved by Parliament for public spending (the Estimates of Appropriation) are reviewed item by item. For each item an estimate is made of the extent to which the likely outcome will be sub-optimal. To restate this in technical language, an estimate is made of the *expected loss in welfare*, where the terms "expected loss" and "welfare" have their usual economic meanings. These estimates are made using the method of cumulative probability.
 - ♦ Sub-optimal outcomes from different appropriations can arise from common causes. A range of such causes have been analysed and placed into broad categories known as *risk factors* by a process analogous to failure modelling. To illustrate, poor quality decisions about a social programme and inferior public services provided by that programme may both have resulted from weak *information management* (a particular risk factor). The expected loss associated with each appropriation item is attributed to and apportioned between one or more risk factors.
 - ♦ From another perspective, different expenditure items often have common characteristics which may make it useful to combine them when assessing audit priorities. For example, different government grants may be administered by different agencies, each of which receive separate appropriations for the purpose. However, rather than auditing each agency's performance separately, it may be useful to look at them collectively.
 - ♦ The estimates of expected loss are therefore clustered in two ways; by risk factor and by common appropriation characteristics. These are combined to produce a list of possible sources of expected loss, ranked from highest to lowest. Items in the list may be:

- an individual appropriation item which does not have significant characteristics in common with other items, or
- a cluster of appropriation items with common characteristics; or
- a risk factor which causes expected loss in a significant number of appropriation items which may or may not have common characteristics.

◆ The largest sources of expected loss are then examined in more detail. A judgement is made about whether or not an audit intervention would be likely to improve organisational performance in such a way as to reduce the expected loss. In those cases where an audit seems useful, an estimate is made of its *expected payoff*, using a standard payoff matrix. If more than one possible audit can be identified, the expected payoff is estimated for each audit. At the same time, the cost of the intervention is also estimated.

◆ The penultimate step is to assign a weighting to each payoff estimate which reflects the likely level of Parliamentary interest in the area subject to audit. The weighting is a multiplier with values between 1 and 2. A higher value reflects an assessment that, other things being equal, Parliament would attach a higher priority to that issue. Using multiplicative weightings in a confined range between 1 and 2 achieves the following objectives.

- Weighting never results in a reduction in expected payoff. Thus, cost-beneficial audits are never rejected simply because Parliament's interest in them seems limited.
- Weighting increases the probability that audits will be conducted in areas to which Parliament attaches greater priority.
- The upper bound on the weighting means that the selection of audits is not dominated by considerations of Parliamentary interest. No matter how great that interest, audits that are not cost beneficial are not pursued.

- 3 The foregoing steps result in a list of possible audits that can be ranked in terms of the weighted payoff per dollar cost of each audit. In general, any of the first fifty audits could easily be justified on cost-benefit grounds (typically by a factor of more than ten to one). The final selection is made having regard to a range of other factors which include operational and tactical considerations.
- 4 In the event that a particular audit cannot proceed or is delayed for reasons not foreseen during the planning process, the method provides a very large pool of possible alternatives with which to replace it.
- 5 The Office has also developed computer software which greatly assists this planning process. The software presents the user, on cue, with a variety of useful information about appropriation items and the financial circumstances and performance of government agencies. It performs the necessary calculations for risk and payoff estimation and automatically generates ranked lists of expected loss and weighted expected payoff.

10. Pakistan

**Country Paper
on
Sub-theme 3**

Audit of Social Service

**Prepared by:
Office of the Auditor General,
Pakistan**

COUNTRY PAPER

for ASOSAI Seminar
(*Sub Theme -III*)

AUDIT OF SOCIAL SERVICES

CONTRIBUTED BY
the SAI of Pakistan

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.



COUNTRY PAPER
(Sub Theme -III)
Audit of Social Services

1. INTRODUCTION

The world has been changing at a faster pace in 1990s than it did in 1980s. The political and economic transformation, the onrush of globalisation, the spread of environmental concern, and concepts like women in development & sustainable development have even effected countries like Pakistan very rapidly. A new world is emerging in Pakistan due to these sweeping changes. Pakistan is still engulfed in the same set of challenges - poverty, health care, limited opportunities for education and employment. More than three-quarters of humanity lives in the developing countries. More than one billion people - about one-third of the total population in the developing countries - live in poverty. Their annual per capita consumption is less than \$400.

The efforts of the developed countries in alleviating poverty can not be ignored. They are assisting the developing countries to develop much-needed human and institutional resources, reforming economies, increasing the participation of women, making development environmentally sound, meeting basic needs of energy, helping people help themselves. It is felt very strongly that there is a need for better global management so that all people present and future can share the benefits. Keeping these challenges in view it has become imperative on all the Supreme Auditing Institutions of the developing countries in particular to ensure better governance and efficient management of their resources.

One essential step towards achieving sustainable development in Pakistan is the economically efficient management of our natural resources. Traditionally, the economic analysis of projects and policies has been developed to help Pakistan make more efficient use of scarce resources. In 1950s and 1960s the focus of economic growth was on growth and increases in out put, based only on the concepts of *economic efficiency*. The beginning of 1970s, the growth in increasing numbers of poor in the developing world, and the inadequacy of benefits to these groups, led to major efforts to directly improve *income distribution*. The development paradigm shifted towards *equitable growth*, where *social* (distributional) objectives came to be recognised as distinct from and as important as economic efficiency.

2. PRESENT SCENARIO IN PAKISTAN

Pakistan has maintained vigorous GDP growth on an average of 5.7% over 1982-83 to 1992-93. This growth reflects strong performance in agriculture averaging 4% annually, in manufacturing averaging 7%, and in energy. However, the rate of annual growth in population has been 3% faster than many large countries in Asia. Pakistan had a population of 112 million in 1990 with a per capita income of \$400, inhabiting in 800,000 square kilometer area about the size of Spain, Italy or British Columbia. Its population density 114 per square kilometer has almost doubled the 1988 average of low-income

economies (78 per square kilometer). About 29% of the population lives in urban areas. Population growth is estimated at 3.1% a year.

Limited educational attainment, poor health status, and high fertility in Pakistan reflect weaknesses in social services specially in primary education, primary health care, family planning, and rural water supply and sanitation. Social Development indicators have been very poor reflecting long standing problems in providing adequate basic health & education services. Participation rates in primary education have increased only slowly in the past two decades (53% of the age group in 1985), and remains well below the average for low-income countries. Pakistan's overall economic performance in the 1980, remained strong, with real GDP growth averaging 6.3 % through 1988. The annual per capita income has grown only half as fast as GDP and poverty is widespread. Most families are large, poorly educated, undernourished, and unhealthy.

Pakistan's higher population growth rate and poor record in social development not only kept the pace of development very low but also contributed negatively towards improvement of income distribution. There has been an increase in average incomes and social sectors in the past decade. Nevertheless, Pakistan's literacy rate of 26% ranks among the lowest in the world, and few countries have poorer literacy rate for rural females than Pakistan's 6%. Educational facilities are unevenly distributed and generally favour urban areas. Although health indicators have improved over the past twenty years, they generally remain far below the expected levels for countries of comparable income, specially for women and girls. Infant mortality and life expectancy indicators are similarly poor. Health coverage is limited and heavily focussed on urban areas and hospital-based curative care. There is a need to develop an educated, healthy populace and reduce its rapid population growth.

3. PROGRAM FOR BALANCED SOCIAL DEVELOPMENT

Social Action Program (SAP)

The social indicators in education, health, nutrition and others lag considerably behind many of the developing countries due to neglect. The Government of Pakistan launched Social Action Program, with the hope that the social returns would be high in priority areas such as primary education, nutrition, primary health, population welfare, rural water supply and sanitation. Initially it was launched for a period of three years 1993-1996 but later it has been extended for five years 1993-98. Social Action Program had been designed to improve weaknesses in basic social services which had proved to be major shortcoming and a constraint on development. Investment in social services would surely improve economic productivity, reduce poverty, and promote healthier and educated families.

In Pakistan, the provincial governments are responsible for primary education, primary health care, and rural water supply and sanitation and are as such primary implementation agencies. The Federal Government provides policy guidance, coordination, and province's

development budgets. The provinces cater for their recurrent budgets, including most salaries and inputs like books and medicines etc. Pakistan's Population Welfare Program is financed by federal government and run jointly by the federal government and provincial government.

The objectives of Social Action Program are:

- a) *removal of poverty;*
- b) *incorporation of gender concerns; and*
- c) *improved rural access and environmental quality.*

The implementation responsibility laid with the provincial governments with the involvement of private sector, NGOs and the community in general. The program was to improve basic social services in Pakistan through improvement in planning, budgeting, implementation and monitoring mechanism.

4. THE AUDIT STRATEGY

Our Mandate

The Auditor General of Pakistan takes oath in terms of Article 168 of the Constitution of Islamic Republic of Pakistan and performs his functions in accordance with the Audit and Accounts Order 1973. Under the Constitution the Auditor General of Pakistan submits reports relating to Accounts of the Federation to the President, who presents it to the National Assembly and relating to the Provinces to the Governors of the Provinces, who lay it before the Provincial Assembly.

The Auditor General of Pakistan audits the expenditure from revenues and transactions relating to debt, deposits, sinking fund, suspense accounts and remittances balances of the Federation and of the Provinces. He also audits the receipts of such departments of the Federation and the Provinces as may be indicated by the President or the Governor.

He examines the trading, the manufacturing, the profit and loss accounts and the balances sheet kept by a Federal or Provincial department. The audit of account of stores and stocks maintained by a specified Federal or a Provincial department also fall within his purview. The accounts of any authority or body established by the Federation or a Province are also to be audited by him. Additionally, by specific government policy decisions, the Auditor-General has been entrusted with the responsibility of evaluating the performance and auditing the accounts of industrial and commercial public sector enterprises.

Recent Audits

Recently, the office of the Auditor General of Pakistan has been examining social services initiatives taken by the Government with a view to fostering improvements in governance.

Our examination of social services in Pakistan encompassed an extensive review of the literature, including official documents, together with briefings by, and discussions with the Executive and a series of interviews conducted with senior government officials and other knowledgeable individuals. The work has also benefited from the advice and suggestions of several reviewers, planners and the Social Workers.

The operation of the Social Action Program are highly decentralized, so we had to carry out our Audit in Networks and Provincial levels.

Audit Approach

A fair and comprehensive auditing approach was used while developing a methodology for audit of Social Services which is useful not only for the Tax Payer but also fulfills the objectives of Social Services being introduced in Pakistan. This strategy was also to serve the purposes of the executive and satisfy the requirements of Pakistan Audit Department (PAD). Therefore, it had to be developed in such a way so that Audit had certain degree of assurance that the Financial Information System developed for Social Services is accurate and complete. PAD also wanted to check whether all internal controls are existing and there are systems in place to ensure that the resources in the provision of Social Services are being spent in the most efficient and effective manner.

Maximum reviews of the Accounting systems were carried out for capturing major internal control features and determine the extent, nature and timing of substantive tests on the transactions that flow through the systems. All issues were to be followed up that come to the notice as well as potential issues that could be known.

We examined the conditions prevailing in the country in the Social Sectors and the practices being followed in ameliorating the condition of the people. Result based auditing techniques were used so that we could bring to the notice of the management the actual achievements of results. We pointed out qualitative as well as quantitative results to the management by using Comprehensive Audit approach. Direct reporting was relied for getting better value for money in the Social Services. In achieving this essential information regarding the Social Services was gathered and included in our reports along with our opinions.

Systems Auditing approach has also been used with the purpose so as to add credibility to the government's financial reporting and to improve the financial administration of Social Services in Pakistan. Attest Audit addressed only the first part of our objective - "to add credibility to the financial reporting." In this we examined & evaluated the systems with a view to placing reliance on the system for assurance purposes.

We refrained from negative reporting to the executive and resolved to constructive auditing and fair and balanced reporting to make our reporting positive. In order to recognize the good as well as the bad achievements in the provision of Social Services. The positive context for specific deficiencies found were also pointed out to the executive.

The criteria developed had to be reasonable so that we could assess whether due regard to economy, efficiency and effectiveness has been demonstrated in the administration of resources while providing Social Services. We also ensured that the criteria are appropriate and relevant so as to make it an integral part of Comprehensive Audit process and Value for Money Auditing Standards.

5. AUDIT PROCESS

Our Audit process involved:

- *identification of all significant activities, operations and risks whose management was vital to the success of the Social Action Program, and documenting these issues.*
- *deciding which "issues" were well managed, and therefore did not require further attention, and which were not well managed, and therefore constituted "audit issues".*
- *development of preliminary Criteria Statements for each audit issue of Social Services.*
- *conducted a systems audit by comparison of the way in which the audit issue was managed with the way in which we thought it needed to be managed.*
- *made recommendations to eliminate inadequacies in the systems and related management practices of Social Services.*
- *we also compared achievements to ensure that results are achieved and the beneficiaries of the program get the benefit from the intended results of the Social Sector Program.*
- *we evaluated whether the program achieved what was expected; what had happened as a result of the Social Action Program & were there any better ways of achieving results.*

6. AUDIT OF SOCIAL ACTION PROGRAM (SAP)

The Government of Pakistan launched Social Action Programme, with the hope that the social returns would be high in priority areas such as primary education, nutrition, primary health, population welfare, rural water supply and sanitation. Initially it was launched for a period of three years 1993-1996 but later it has been extended for five years 1993-98.

The Social Action Program Project-I - SAPP-I (1993-96) addressed the needs of primary education, basic health, population welfare and rural water supply and sanitation. Overall planned investment size of the SAPP-I was Rs.127.4 billion and the actual expenditure

aggregated Rs.106.3 billion, indicating utilization of 83.4 percent. However, when compared with actual budgetary allocations of Rs.113.7 billion made during SAPP-I period for the programme, utilization came to 93.5 percent. In physical terms, when judged in the context of output indicators, results were pretty satisfactory. Primary schools participation rate improved from 84.8 percent to 89 percent for boys and those of girls from 53.7 percent to 57 percent; life expectancy of female improved from 61.2 to 62.9 years; contraceptive prevalence rate improved from 14 percent to 22 percent; infant mortality rate decreased from 86 to 82 per thousand live births, rural water supply coverage increased from 27 percent to 55 percent and that of rural sanitation from 13 percent to 23 percent. What is more important is that an edifice of institutional framework has been raised through a number of policy reforms undertaken during the period.

SAPP-II has been formulated for four years (1996-2000) on the consideration that the impact of SAPP-I has been satisfactory and that the status of human development in Pakistan being comparatively lower than the other low income countries, need be raised. Total investment size of SAPP-II has been set at Rs.270 billion with the share of development financing at Rs.94.2 billion and that of non-development at Rs.175.8 billion. The investment size has been projected at an annual nominal compound growth rate of 15 percent. The financing of investment is projected on the basis of gross GOP financing of Rs.240 billion and net financing of Rs.214 billion after taking into account reimbursements of Rs.26 billion from donors for SAP Project. The balance of Rs.30 billion is proposed to be provided by donors for financing of ongoing and new foreign aided projects in social sectors.

We observed that there had been endemic problems common across social services and different areas of the country. These problems were:

- *in implementation of social services;*
- *in design of social services; and*
- *level of effort had been very low.*

Till recently these problems had been addressed in piecemeal with disappointing results. To improve the coverage, quality and effectiveness of services delivery in these areas, an implementation strategy had been adopted. SAP also provides an essential framework for implementation.

Progress - An Overview

The real impact of SAP can best be judged by output indicators. During SAPP-I, Primary School participation rate increased from 84.8% to 89.0% to 57.0% for boys and girls respectively. In the primary health care, infant mortality rate per 1000 live birth registered a decrease from 101 in 1992-93 to 86 in 1995-96. The female life expectancy also increased from 61.2 to 62.9. The percentage of population covered for rural water supply increased from 47% in 1992-93 to 55% in 1995-96, while the sanitation coverage

increased from 13% to 23% during the same period. Contraceptive prevalence rate improved from 14% to as much as 22%.

7. CONCEPT OF AUDIT OF SOCIAL SECTORS

We planned to derive our audit assurance mainly from substantive tests and placed minimal reliance on the internal controls. While developing substantive audit procedures and tests compliance auditing was also done to give us an indication that Social Services Departments are conscious of the internal controls. The weaknesses or failures are being pointed out to the management on timely basis through Monitoring Reports.

While auditing the effectiveness of Social Services, our concern had been with the nature and quality of measurements and with the quality and appropriateness of reports based on the program's effectiveness measures. We examined the timing and quality of the measures. We wanted to ensure that these measures are reflecting all the program objectives and effects. It was important for us to check whether management is doing that on an ongoing basis, periodic basis or both. These measures had to be reliable, objective and valid. We resorted to statistical sampling techniques to ascertain accuracy of these measures.

8. SCOPE OF AUDIT

The audit process involved traditional audit elements, along with testing of management assertions as reflected in the strategy, and Social Sectors performance evaluations. There were four key decisions, namely to:

- *audit social services assertions of what it intended to achieve as stated in its Social Action Program strategy;*
- *reliance on the monitoring and evaluations as part of the audit;*
- *define the outcomes expected to flow from the audit process; and*
- *find audit issues and develop audit criteria.*

Its directions and guiding principles are auditable assertions about the way the executive has managed the affairs in promoting social services in Pakistan.

Our Expectations

Some features of a well-managed organization are only implicit in its strategy documents and corporate program framework. We also expected to see that the Social Action

Program:

- *has accounted well for its funds and for the results it has achieved;*
- *provided the executive with timely, reliable and relevant financial and program information to assist them in decision making and in accounting to Parliament; and*
- *is managed with due regard to economy and efficiency.*

Executive's Expectations

The expectations of the executive were that the audit would provide an opportunity to evaluate its performance and improve the delivery of the program. This clearly indicated that the executive wished to improve certain practices through evaluations and performance appraisals. This is how we could ensure that results are achieved and the beneficiaries of the program get the benefit from the intended results. It was a time consuming exercise.

While we started the evaluations and used comprehensive auditing techniques like Value for Money Audits we did not have the resources or time to pursue such an effort systematically. Now the government has officially appointed the Auditor General of Pakistan to monitor the activities of Social Action Program. A good indicator of managing with due regard to economy and efficiency is being able to demonstrate awareness of costs. This means that Social Services Management should know accountability for performance, both within the organization and outward, to Parliament and the public; demonstrate awareness of costs; and demonstrate orientation toward results in the design and management of the projects it supports and in the activities it engages in.

We expected to find that the Provincial Departments were delivering the Social Services and had the following:

- *clearly defined roles and responsibilities for administering the programs relating to social services;*
- *adequate priorities, plans, procedures and information to fulfill their roles and responsibilities on the Social Action Programs; and*
- *procedures were in place to monitor & evaluate progress on the attainment of the program objectives and to report to the Parliament on the costs and results of expenditures and activities against plans.*

9. BETTER GOVERNANCE FOR SOCIAL SERVICES

Several half hearted attempts have been made to improve social services. In most of the cases, these attempts have failed to achieve their full objectives. In part, this has been due to a disjointed or ad-hoc approach, or to other implementation failings, and lack of commitment on the part of the politicians. Certainly there is a need for fundamental changes that are widely accepted. However, the desired results had not been obtained, largely because the necessary commitment from key players did not exist or because the social services were not adequately integrated with fiscal realities and with broader government objectives. Given these problems, the messages had not been communicated, social services projects had been badly managed, and the behavior of both the politicians as well as senior bureaucrats too often had contradicted Social Services objectives. The projects planning had not been coherent and consistent with the needs of the society.

Many initiatives had been undertaken with only limited success. The inertia of the bureaucracy and lack of political will had been too much to overcome. However, led by a small group of ministers in key portfolios who saw the need for fundamental change, with strong support from certain officials, the social services began in the mid-1980s were designed to address the needs of the people and their problems effectively. The success of these social service reforms is attributable in part to the fact that they were an integral part of the broader economic and social policy programs on which the government had embarked. The strong political commitment that was present from the start has continued to be much in evidence throughout the last decade, even with intervening changes in government. But other factors were equally important, notably the coherence of the social services and the leadership of key officials who oversaw its development and articulation, and who drove its implementation.

SAP's Funding

The SAP-I was launched in 1992-93 initially for four years, ending June, 1996. But later on, it was transformed into a five year time horizon, with a total allocation of \$8 billion for the Eighth Five Year Plan period 1993-98. The program envisaged that 75% of the required funds, that is, \$6 Billion, were to be provided locally while the remaining 25% were to be provided through foreign assistance by the donors. Presently, there are four donors who had committed for SAP funding, namely, International Development Agency (IDA), Asian Development Bank (ADB), Overseas Development Agency (ODA) of United Kingdom (UK) and Dutch Government.

The main responsibility of implementation rests with the Provincial Governments, and Federal Agencies in coordination with the Federal Ministry for Population Welfare. In Azad Jammu & Kashmir (AJK), Northern Areas (NA), Federally Administered Tribal Areas (FATA), and Islamabad Capital territory, the program is implemented and administered by the respective administration.

The District Social Action Boards (DSABs) administered within a district are made responsible to identify sites for the projects with help of local communities, NGOs and political representatives and monitor them in accordance within the approved criteria. The DSAB also arranges for feasibility studies and cost estimates of the projects, avoiding duplication of projects with the People's program. The activities of implementation/monitoring are undertaken by the DSABs through the line departments, ensuring that completed projects are economically, socially and technically viable.

EDUCATION

Education is one of the areas covered under Social Action Program, which is being addressed in collaboration with donor agencies like World Bank, Asian Development Bank and UNDP. It focuses on countrywide issues covering primary education, teacher education and adult literacy rate. It has been decided to introduce co-education at primary level in all provinces except Punjab where the impact on the enrollment is to be studied before taking a formal decision. A number of decisions have been taken to attract female teachers. These include initiating a mobile teachers training program for female teachers in remote areas, relaxation in qualifications and age requirement and posting of female teachers near their homes.

In the Province of Punjab, 70 percent of the vacancies for primary school teachers have been filled. In North West Frontier Province (NWFP), recruitment to many newly created posts has also been made. In Sindh and Baluchistan appointment of teachers is in progress. In all provinces, education foundations to assist NGOs and the private sector have been established. To involve the community, teacher - parent committees have been established. Private engineering firms have been engaged to design schools and supervise construction and maintenance of schools.

The objectives of Education Sector were :

- a) *To accelerate construction of schools to improve access to education, particularly in rural areas.*
- b) *To reduce gender imbalance, focus be given to enhance girls' enrollment by creating more institutional facilities for them as well as by recruiting and training more female teachers.*
- c) *A scientific criteria of selection of sites through school mapping and using Education Management Information Systems (EMIS) data.*
- d) *To improve the working of existing schools through filling vacant teacher posts and adopting a more rational transfer and posting policy.*

e) *Improve quality of education through higher provision of non-salary quality-enhancing inputs.*

f) *For better managing school system, adoption of a decentralized financial and administrative policy.*

During SAPP-I period Rs.69.7 billion (Rs 12.9 billion on development and Rs.57.0 billion on recurrent) were spent against target of Rs.81.7 billion showing utilization of 85.3 percent. As a percentage of GDP, the expenditure increased from 1.13 percent in 1992-93 to 1.32 percent in 1995-96. A notable increase in the expenditure is in the non-salary component. The non-salary component as percentage of current expenditure on basic education increased from 1.62 percent in 1992-93 to 6.81 percent in 1995-95.

During the year 1993-94 SAP had a target of setting up of 5322 new primary schools. 1831 were to be for boys and 3401 for girls in the first year. The enrollment was to be of 909 thousand out of which 503 thousand were to be boys and 386 thousand were to be girls.

Our Findings:

We observed that the primary education suffered from recruitment bans, high absenteeism, and excessive or improper transfers to urban areas. Some 2,000 rural schools stood idle because their teachers arranged transfers to urban areas while continuing officially to occupy rural posts. Primary education does not involve the parents or the communities enough; nor is private competition much encouraged resulting in an inefficient, poor quality and insensitivity to the local requirements of the community.

The better schools tend to be overcrowded and many are under-used. Some 3,000 rural schools have fewer than 10 students, in addition to 2,000 with none. Many parents keep their children as they do not find it worthwhile to incur the expenditure of poor-quality schooling. Many parents have been reluctant to educate the girls because others (in-laws) would reap most of the benefits. Our findings suggested that parents would send their children to schools if they offered decent-quality, culturally sensitive education.

BASIC HEALTH CARE

The SAP strategy for primary health care was to improve the quality and access to service delivery rather than expansion in physical infrastructure. The programme focused on promotional, preventive and curative services by giving more priority to communicable disease including immunization and by including family planning in basic health care.

The major achievement in the health sector was the establishment of a process of policy dialogue and reforms at the provincial level, beside improving the availability of financial resources. The following measures were to be taken:-

- a) *Adoption of primary health care policy.*
- b) *Efficiency improvement through strengthening of basic health care facility and planning capability.*
- c) *Providing higher allocation to non-salary budget for quality inputs.*
- d) *Providing more attention to strengthening and upgradation of existing basic health services rather than to expand more new facilities.*
- e) *To reduce the gender imbalance, recruitment and training of more female medical staff.*

During SAPP-I period, the health sector budget improved dramatically. Against target of Rs.19.8 billion, Rs.19.2 billion were utilized (97% utilization). In the total utilization the share of current budget is almost 60 percent. This helped in the re-organization of staff and provided incentives particularly female staff. The access further contributed towards improving supplies of medicines and upgrading/consolidating health facilities.

In primary health care 197 Basic Health Units (BHUs), 243 Urban Health Centers and 52 Rural Health Centers (RHCs) have been constructed. 656 BHUs and 211 RHCs were upgraded. 12.72 million children have been immunized and 46 million packets of ORS were distributed. 30 new basic health units, 7 new rural health centers and 63 new dispensaries were to be constructed and 73 rural health centers were to be upgraded. Life expectancy is low & mother mortality rate is the highest in the world. Nutrition is inadequate.

The maternal mortality rate has been 500 per 100,000 live births, largely because many of the pregnancies are too early, too late, or too close together. There are only two countries in the world with a higher percentage of low birth weight babies than Pakistan's 25%. Although Pakistan's infant mortality rate has fallen from 148 in 1960 to 90 in 1994, the progress has not been as significant as the average low income countries. Girls are specially vulnerable.

Our Findings:

We observed that the weaknesses of primary health care were that we need to improve maternal and child health. We observed that over 90% of local council areas had Basic Health Unit or other health facility, but they seldom work efficiently and effectively. Most of them fail to deliver quality basic care and reach out to the communities. Many of them are not provided with medicines regularly, contraceptives,

or immunization supplies. The Basic Health Units are not staffed reliably. They do not have trained female health workers. Most of these BHUs are under-used or abandoned as they fail to meet the users' needs.

We observed that the Basic Health Units are inefficient as they have turned to be hard-to-manage, complex structures with weak backup and supervision for the smaller facilities. There have been inadequate personnel policies and practices, and logistics for supplies have been insufficient. Delays in release of funds, bans on new recruitment, and excessive staff turnover have multiplied these problems.

POPULATION WELFARE PROGRAM

The population Welfare Programme was a major component of SAPP-I. Its objectives were to:

- a) Improve existing services through better planning, management and decentralization of activities at the provincial level.*
- b) Improve quality of services through community based out-reach program in rural areas.*
- c) Using health outlets for delivery of services to rural and urban areas.*

As a result of policy reforms and delivery of services, population growth rate (2.8%) has slowed down. Rs.3 billion were spent during SAPP-I. The overall increase in expenditure as largely shared with provinces (Rs.2.1 billion) which had helped the provinces to manage and achieve their physical targets and pay salaries.

The process of policy reforms and institutional changes introduced in the areas of decentralization, involving communities, NGOs and private sector have contributed to the delivery of services. In the rural areas, village based family planning worker scheme attracted major attention and its number increased from 1561 in 1992-93 to 6101 in June, 1996. Similarly concerted efforts were made to strengthen programme monitoring with a view to enhance staff presence, opening of facilities, supplies of contraceptive and medicine.

22,860 Traditional Birth Attendants were trained and 44,060 Lady Health Workers were recruited, trained and deployed. The Population Welfare Program during the year concentrated on both consolidation and expansion of services. The service delivery increased by 30%. To increase coverage levels, Registered Medical Practitioners, Hakims, Homeopaths, family planning village based Lady Health Workers and Traditional Births Attendants were getting involved in the family planning activities.

Our Findings:

We found out that even though 40% of the women wanted to avoid pregnancy, the Family Planning services have been extremely weak. Family Planning is supposed to provide all health facilities but it lacked them. Mobile service facilities for provision of technical supervision, family planning and mother child health was insufficient at grass root level. There was a need to increase service delivery through Family Welfare Centers and Mobile Units for provision of contraceptives surgery alongwith whole range of family planning methods, reproductive health and education etc. We also observed that the target group for family planning education has only been females whereas male should also be educated and motivated for family planning.

RURAL WATER SUPPLY & SANITATION (RWSS)

Rural water supply coverage was planned to be raised to 56 % of the population. Rural sanitation services will be available to 16 % of the population. Satisfactory rural water supply and sanitation reduce the high risk of diarrhea and other water-borne diseases, and thus complement basic health services. In rural water supply 53.2% and in sanitation 23.6% of population was covered. The aims were:

- a) Adoption of a unified policy of rural water supply.*
- b) Adoption of community-based approach particularly for operational and maintenance side of complete scheme.*
- c) Rationalization of user charges to cater for the O & M costs of existing schemes.*

The basic focus was to improve performance, utilization and sustainability of RWSS system and ease financial dependence on government. In addition, the programme also aimed to expand access and improve quality of service in the sector. Improvement in rural sanitation was to be achieved by increasing the share of RWSS budgets devoted to sanitation.

Community participation was the main instrument of strategy to achieve the objectives. The objectives were to be achieved by adopting a uniform policy for establishing and financing RWSS to avoid subsidization of costs; The community was to be involved in design and operation of schemes, to evolve effective cost recovery mechanism and finally to ensure the transfer and sustainability of schemes by the community.

During SAPP-I, against target of Rs.20.2 billion, were actually spent in RWSS sector showing utilization of 71.2 percent. Priority was given to the completion of on-going schemes as compared to the new ones.

Our Findings:

We observed that there is a need to motivate communities to organize themselves for taking responsibilities of Water Supply and Sanitation Schemes. It was felt that a unified policy/criteria is required for mechanized and non-mechanized water supply and drainage schemes for urban & rural areas. Rehabilitation of the existing water supply and sanitation schemes should be done in phased manner. Sanitation facilities for the slum areas should be provided.

SPECIAL EDUCATION AND SOCIAL WELFARE

Special education and social welfare arose from the need to plan and develop services for the disabled and other needy persons of the society to rehabilitate them as useful members of society. Social development in terms of provision of facilities to the socially neglected, unattended and under-privileged strata of population i.e. orphans, widows, disabled, poor, aged and physically and mentally handicapped is important in the effort to rehabilitate them as useful members of society. Government regards them as a class in the greatest need of attention and help. A Social Service (Medical) project and community development project have been set up for proper delivery of services.

Our Findings:

We observed that facilities for socially neglected strata of population were lacking and need to be improved. There is requirement of community participation in this area. Orphanages, Schools for provision of special education, homes for widows, old and disabled members of the society need to be established with greater fervour and zeal. NGOs should also be involved in developing this area.

10. OVERALL FINDINGS

1. Project Costs, Financing, and Sustainability

The first three years of the five year SAP were to cost about \$4 billion including increments totaling about \$1.5 billion over comparable earlier expenditures. The Government was expected to contribute \$3 billion of total (about 76%). An agreement was reached between IDA for providing some assistance. The Government had undertaken to increase its share of incremental cost financing from 46% in 1993-94 to 59% in 1995-96 and 69% in 1997-98, subsequently. We observed that the participation of community had increased and thus made this project sustainable and recover costs.

II. Improving Implementation

We observed that the essentially basic social services tend to operate inefficiently. There had been poor planning and budgeting techniques, delays in releases and expenditure of allocated funds by misplaced political influences. Ban on recruitments had also been a cause of delay in the implementation of social services in certain areas. There had been irregularities in construction. The sector-specific and province-specific projects are usually slow and achieve less than planned. There had been insufficient participation of the community being the beneficiaries. However, the Government is protecting social-sector budgets in its fiscal retrenchment program and mechanism has been instituted to release social-sector funds on time. Thousands of more teachers have been hired and health workers have been hired despite overall bans on recruitment.

III. Improved Program Design

We found that there is a need to focus social services in Pakistan more intensively and consistently on basic or primary levels. Also the quality of social services had to be improved and focused for providing access to girls and women. The Social Action Program has increased its attention to provision of inputs like books and medicines and to adopt measures that have in other countries.

IV. Increased Level of Effort

Realistic plans have been developed and expenditures on basic social services are likely to rise from 1.7% of GDP in 1991-92 to 2.6% in 1997-98. The Government's share of incremental costs were to rise from 46% in 1993-94 to 59% in 1995-96. The budgets have shown increases.

V. Political Will

The Social Action Program has reinforced political commitment to the social sector by its scope and by its reliance on annual assessments to determine funding. The Government has given it high priority that there is a special wing in the Planning Division and the Auditor General of Pakistan has been appointed to monitor this program.

VI. Operation of the Project

We found out that there exists a continuing policy dialogue, phased funding and competition of resources among provinces and sectors based on performance. An appraisal of first three years has been done by the Auditor General's office.

VII. Inherent Risks of the Project

We found that there were some inherent risks in the project. Firstly, the Project focused on few core issues to improve the performance of basic service programs and projects. Secondly, that the intended results may not be achieved or will be seriously delayed. We feel this risk can be covered through intensive monitoring. This is also being covered through a phased release of funds emphasizing prior actions and monitorable targets. Another risk is that the Government commitment will weaken. This risk is also being addressed by the phased funding and annual agreements with the donors. Importance is being given to oversight responsibilities to coordinating committees that include the highest levels of federal and provincial government. We pointed out that another inherent risk in this project is that the recurrent costs of the Project heavily dependent on donors. These recurrent costs are the basic costs of basic social services.

VIII. Benefits of the Project

The community participation in basic services resulted in better management of services and they were better maintained. Communities felt a greater sense of ownership and would be likely to contribute to their costs. More political support has grown and thus enhancing Government commitment to investments in social services.

There had been some gains in social services that are mutually reinforcing. The healthy, well nourished children are better able to learn. The improved health results in promotion of economic productivity.

11. OVERALL ASSESSMENT

Our overall assessment noted that the quality of Social Services had improved over the years. The staff had positive approach and their opinion about social services had also changed. We observed that initiatives to improve management systems were under way but that some further improvements were required. We made several recommendations and observations. The process for communicating the policy direction and priorities needed to be reviewed to ensure that they are taken into account in program and operational planning and implementation stages.

The Government's strategy for Social Services is well known, and planning is organized around the strategy. Whether the direction is sufficiently precise or focused. The government needs to define social services programs, their components and objectives, and to establish criteria for selecting projects for evaluation, so that the results can be generalized to conclusions about effectiveness of Social Action Programs. The issue of determining effectiveness of social services is still not given much importance. Comprehensive Audit's status should be introduced & developed to ensure independent

and objective reporting, particularly in those areas dealing with financial matters in Social Action Programs so as to get real value for money.

One of guiding principles for Social Action Program is "an efficient delivery of program". This is an essential precondition for managing with regard to efficiency is possessing knowledge of costs. We examined whether the SAP is being managed with a knowledge of costs and whether it applied that knowledge while taking their decisions making. Program effectiveness and staff morale are two examples of other important considerations.

Improved Monitoring

We were of the view that an effective monitoring and evaluation system is required to :

- I. Assess progress in implementation of the agreed policy and institutional measures in support of the SAP;*
- II. Verify the adoption and implementation of the agreed policy and institutional measures in support of the SAP; and*
- III. Evaluate the impact of the SAP on the quality of social services and the extent of their accessibility to the population at large.*

We feel that the existing monitoring and evaluation system needs to be organizationally streamlined and its capacity enhanced. This would enable us in tracking the progress and implementation of SAP. It will help to make the program very effective.

There should be system in place that could pinpoint the actual beneficiaries under the SAP and determine they benefit. We must be able to determine that whether SAP leads to improvements in access to basic services increases for the poor and other disadvantaged socio-economic groups.