

6th Global Forum on Reinventing Government
Towards Participatory and Transparent Governance
24 – 27 May 2005, Seoul, Republic of Korea

CAPACITY DEVELOPMENT WORKSHOP AIDE MEMOIRE
AUDITING FOR SOCIAL CHANGE



UNITED NATIONS NATIONS UNIES
DIVISION FOR PUBLIC ADMINISTRATION AND DEVELOPMENT MANAGEMENT
DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS



THE BOARD OF AUDIT AND INSPECTION OF THE REPUBLIC OF KOREA

1. Background on the 6th Global Forum

The 6th Global Forum on Reinventing Government is a partnership initiative between the Department of Economic and Social Affairs of the United Nations and the Government of the Republic of Korea, to be held in Seoul from 24 – 27 May 2005. The Forum will focus on “Towards Participatory and Transparent Governance.” The Prime Minister of the Republic of Korea offered to organize and host the 6th Global Forum.

During the first two days, on 24 and 25 May, discussions will take place in plenary sessions on the following main dimensions of participatory and transparent governance – (1) Government Sector: Government Reform for Enhancing Governance Capacity; (2) Political Sector: Political Reform for Participatory and Transparent Governance; (3) Corporate Sector: Market Economy and Corporate Governance; (4) Local Government Sector: Local Autonomy and Participatory Democracy; and (5) Civil Society Sector: Civil Society and Cooperative Governance.

On day three and the first half of day four, on 26 and 27 May, the United Nations system, in partnership with institutions outside the UN, is organizing nine parallel capacity development workshops on different aspects of participatory and transparent governance.

One of the workshops will focus on the role of **Audit** in fostering transparent and accountable governance. The theme of the workshop will be “**Auditing for Social Change**.” The Board of Audit and Inspection (BAI) of the Republic of Korea and the Korean Association for Public Administration (KAPA) are the local partner institutions.

The need to improve governance and public administration systems and processes –

including the state capacity to cope with the challenges and opportunities of globalization – is widely recognized.

The United Nations Millennium Summit Declaration calls for human rights, the promotion of democracy and good governance including efficient and effective public administration as important vehicles in achieving these goals. Good governance is a necessary condition to achieve each of the Millennium Development Goals (MDGs) – the eradication of extreme poverty and hunger, the achievement of universal primary education, the promotion of gender equality, the reduction of child mortality, the improvement of maternal health, combating HIV/AIDS and other diseases, ensuring environmental sustainability, and the promotion of global partnership for development. Governments in developing countries and international development partners have, therefore, significantly increased their financial support to strengthen governance systems and processes that are participatory, transparent, and accountable.

Transparent governance implies openness of the governance process through clear procedures, access by citizens to information and accountability of individuals and organizations handling resources and/or holding public office for their performance. There are three dimensions of accountability – financial accountability for the use of power and authority to report on intended and actual use of resources; political accountability through a system of checks and balances among the executive, legislative and judicial branches; and administrative accountability through controls internal to the government including civil service standards and incentives, and administrative reviews and oversight. Lack of transparency increases corruption in governance. High levels of transparency promote integrity in governance.

Accountable governance requires the independence of the judiciary, effective systems of checks on the executive power, freedom of the media, and a vibrant civil society. It also requires institutional mechanisms at the national and local government levels for holding public officials accountable, effectively functioning parliaments that provide mechanisms for the representation of different segments of the society, independent and qualified Supreme Audit Institutions (SAIs) and internal audit and anti-corruption bodies, and free and fair elections held at regular intervals.

2. Workshop on “Auditing for Social Change”

2.1 General Background

The main aim of the workshop is to discuss how the audit function, both external and internal, can be made more open and participatory and indeed, how audit can be used as a tool for citizen empowerment for promoting transparency and accountability in the government.

The overall thrust is to explore innovative ways of engaging the audit community more pro-actively in ensuring that impact is achieved for the public good not only as a result of audit recommendations, but also as a result of the processes involved such as results-based methodology, improved relations with the legislative oversight bodies and the

media and increased involvement of beneficiaries of social programmes, including civil society, in the audit process.

The workshop should explore a number of issues outlined below in 2.2, through a combination of advance background papers, presentation of papers, a panel and general discussions. A focus on best practices, lessons learned, and methodological tools and techniques will be emphasized.

In accordance with accepted auditing standards, an auditor may probe the information and data used leading to policy decision-making and formulation, but must refrain from examining and commenting on the policy decision *per se*. An audit cannot therefore directly call for a policy change, but rather comment and formulate recommendations on the processes leading up to policy decision-making and formulation. In that sense, a policy change or formulation can be an unintended effect of an audit. However, performance audit's analysis of policy/programme or project implementation almost always has an impact on policy issues.

Notwithstanding the above, increasingly state-of-the-art auditing calls for an examination of management, business, financial and information processes and systems. The results of such examinations may lead to recommendations for improvement and change. In that context, the modern auditor can indeed become a catalyst for change: a lot of effort has been put in the last decade into the concept of “managing for results.” Auditors have had to shift their focus to “auditing for results;” i.e., reviewing whether the processes and systems are in place to “manage for results” and whether results have indeed been achieved and to what degree. Therefore, the functions of audit, evaluation, and monitoring have to complement each other where achievement of results is concerned.

Usually the audit planning cycle is based on risk assessments which are linked to materiality and/or significance of a programme activity, administrative function or system. The audits planned are then carried out to verify compliance with audit criteria agreed to with the audited entity and which vary according to the type of audit. The ultimate goal is to provide assurance on whether the public expenditure was used for the purpose intended/voted and, depending on the audit mandate, to assess the performance aspects related to the expenditure (for instance whether the expenditure was made with due regard to economy, efficiency, and effectiveness). The external and internal auditor is expected at all times to provide an unbiased opinion on public sector activities and expenditures.

However, the key is how “significance” and “risk” is defined by the auditor and the audited entity. Some public sector audit offices, whether external or internal, can play a crucial role in assisting their audited entities to define and interpret the notion of “significance” and to categorize “risk levels.”

Given the fact that 189 countries have subscribed to meeting the MDGs by 2015, our proposition is to ensure that the audit community in the public sector and international organizations include in their own priorities the audit of progress and results towards achievement of the MDGs and their targets, and this within the boundaries of their

respective mandates.

Increasingly, the audit function has taken an interest in governance as an integral indicator of the managerial health of the management of an organization, whether private or public. In that respect, audit standards regarding the structure, composition, role, and impact of Audit Committees have been promulgated by several audit standard bodies. The workshop could explore to what degree Audit Committees are currently being utilized to ensure proper scrutiny of pro-poor programmes and projects, and how both governments and civil society could exploit this mechanism for greater transparency.

The workshop will also address how the traditional boundaries of audit can be respected while the function adopts a more pro-active stance in examining public sector and international social programmes leading to the achievement of MDGs. In addition, the workshop will discuss how some forms of empowerment of and participation by civil society in the audit of social expenditures could make a difference.

The advent of performance audit has blurred the boundaries between financial and compliance audit disciplines, and social empowerment may be a step further towards involvement by the beneficiaries of a programme, project or policy in the course of performance audits through some form of participation, for example, by audits including direct contact with the citizens through surveys or participation.

Leading experts from around the world will be invited to share their thoughts on the changing role of Audit.

2.2 Issues for Presentation and Discussion

Possible lines of enquiry that will be explored in background papers and during the deliberations at the workshop include the following:

1. Audit and Planning and Budgeting

The workshop will explore how audit can contribute to better planning and budgeting to achieve results in social programmes, particularly the UN Millennium Development Goals. Participants will discuss whether the Supreme Audit Institutions (SAIs) – and sub-national audit institutions (e.g. provincial, state) have the independence, mandate, and resources to contribute to scrutiny of all material and high-risk areas of public spending and revenues, including in pro-poor programmes and expenditures.

The question that will be discussed is how the audit function could effectively feed back into the planning and budgeting cycle; and whether there is a role for people participation in the audit of budget formulation and implementation.

In addition, there will be a discussion as to what degree government financial systems and fiscal data support a comprehensive oversight and risk-based scrutiny of public spending in the social areas.

Some best practices and lessons learned in terms of methodology and techniques will be presented.

2. Audit and Civil Society

This issue should explore how audit can become a tool to empower citizens at the grassroots level, through partnering with civil society. There will be discussions as to what degree civil society has had an impact on fiscal transparency and good governance, and the role that audit could play in this respect.

The participants will also build upon the results of an Expert Group Meeting organized in 2004 by UNDESA and dealing with the role of citizen participation in pro-poor budgeting. They will discuss the potential role of civil society organizations in demanding and fostering fiscal transparency.

Case studies illustrating methodology for participatory scrutiny and community-based audit will be presented.

3. Audit and Legislative Oversight

The increasing importance of legislative oversight of the executive branch reflects the growing complexity of government activities and program delivery mechanisms. Parliaments are getting more engaged in overseeing the budget and its execution. Parliamentarians are also key actors in supporting pro-poor spending and programmes and in furthering democracy. The oversight function of legislatures is essential in ensuring that governments develop and implement programmes which are in the public interest, and in holding the state to account for its spending.

Legislative governance systems for financial accountability and oversight vary substantially according to the country's constitution. However, common challenges point to the need to consolidate and share best practices and lessons learned in effective legislative financial oversight with regard to areas of governance, mandate and committee functioning. The workshop will explore how audit could become a better tool for promoting legislative oversight and accountability of budget decisions, public spending, and government programmes.

Lessons learned and best practices on the relations between the SAI and legislative committees will be presented in order to promote fiscal transparency and scrutiny of public spending.

The following questions will also be discussed:

How can legislative oversight committees open up to public opinion and input, media reporting and other stakeholders to establish a common understanding of public interest issues?

Is there scope to engage public interest and citizen dialogue in parliamentary financial oversight, especially in areas of pro-poor spending and taxation?

Can parliamentarians be sensitized to focus on the quality of audits; and to examine the impacts achieved through audits rather than to analyze specific cases of irregularities?

4. *Audit and the Media*

In the last decade, the world has seen the mushrooming of “alternate watchdogs” that often get more public attention than the audit community. Alternate watchdogs include the media, transparency and anti-corruption organizations. The workshop will explore what the impact of “alternate watchdogs” has been on fiscal transparency.

The participants will also discuss the pros and cons of the audit community to adopt a media-shy attitude, as is often the case. The media is interested in “horror stories” uncovered through audit – which have great “media value” – as opposed to reviewing impacts achieved through quality audits. One question that will be looked at is how the audit community can effectively use the media through strategic communication to steer them away from mere horror stories towards the underlying causes and the impacts that can be achieved through audits.

Finally, the workshop will address opportunities to empower the citizens through media involvement in publicizing audit results.

5. *Audit and Pro-Poor Governance*

Participants will discuss the main challenges of auditing, evaluating and monitoring pro-poor governance and the United Nations Millennium Development Goals (MDGs) with a focus on outcomes. Special attention will be given to the issues of national priorities vis-à-vis the MDGs and the institutional framework that drive the planning, budgeting, implementation and monitoring of MDGs, as well as the role that audit can or has the potential to play in the process.

In that regard, the following questions will be explored:

Can coordination of audit efforts amongst national, regional, local and self-governing bodies be achieved for comprehensive oversight of results achieved?

And can audit become more engaging and an empowerment tool for the citizens?

How can audit methodology become complementary to evaluation and monitoring techniques in order to better measure results and progress towards achieving the MDGs?

The issue of what resultant legal and administrative changes are necessary to evaluate and audit MDG progress and impact for and by the citizens needs to be deliberated.