The Conflict between Auditing and Evaluation in Korea

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I. Introduction

Research Problem

- Change in information needs from inputs to outputs
- Shift from regularity to performance auditing
- Blurring the audit-evaluation boundary
- Conflict due to functional redundancy in performance evaluation

<Figure 1> Interrelationship between Performance Auditing and Institutionalized Evaluation

Change in information needs from inputs to outputs

Performance Auditing

(Quasi-External)

Board of Audit and Inspection (BAI)

Institutionalized Executive Evaluation

(Internal)

(The Executive)

Office of the Prime Minister (OPM)

Rationale for the Study

- Limitations of existing literature on the relationship between auditing and evaluation (Chelimsky, 1985; Rist, 1989; Leeuw, 1992; Davis, 1990; except Gray & Jenkins, 1993)
  - Limited to simple comparison
  - Using the concept of evaluation as a scientific research

- BAI as the Administration type SAI belonging to the President

Research Questions

- How the conflict between performance auditing by the BAI and institutionalized evaluation by the OGPC in OPM has been developed since the Kim Dae-Jung Government (1998) in Korea?
  ※ OGPC = Office for Government Policy Coordination
- How the dynamics of conflict handling modes has been operated?
- How to establish a collaboration linkage for conflict resolution?
II. Definitions

Traditional Conception

Dimensions of managerial accountability*

- Fiscal/regularity
- Process/efficiency
- Program/effectiveness

Accountability signals

<table>
<thead>
<tr>
<th>Auditing</th>
<th>Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Weak/Moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td>Weak</td>
<td>Strong</td>
</tr>
</tbody>
</table>

* Based on Day & Klein (1987)

Source: Rist (1989: 367)
- What type of auditing?

### Audit criteria

<table>
<thead>
<tr>
<th>Objects audited</th>
<th>Audit criteria</th>
<th>Financial auditing</th>
<th>Non-financial auditing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial aspects</td>
<td>Regularity</td>
<td>Financial regularity audit</td>
<td>Financial performance audit</td>
</tr>
<tr>
<td>Non-financial aspects</td>
<td>3Es*</td>
<td>Non-financial regularity audit (Supervision)</td>
<td>Non-financial performance audit</td>
</tr>
<tr>
<td>Traditional regularity/compliance auditing</td>
<td>Modern performance auditing</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*3Es: economy, efficiency, effectiveness

- In this study: auditing = performance auditing by the BAI

- Historical Background of the BAI
  - Board of Audit(1948)
  - Commission of Inspection(1948)

Board of Audit & Inspection (1963)
According to the law

Scientific truth, explanation

Whatever helps the Clients ‘improve’

Source: Pollitt (1999: 210)
What type of evaluation?

<Table 3> Typologies of Evaluation Discourse: Integrating Fact and Value

<table>
<thead>
<tr>
<th>Level of evaluation</th>
<th>Type of discourse</th>
<th>Evaluation function</th>
<th>Evaluation target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specific/empirical</td>
<td>Technical-analytical discourse</td>
<td>Empirical verification</td>
<td>Outcomes</td>
</tr>
<tr>
<td></td>
<td>Contextual discourse</td>
<td>Situational validation</td>
<td>Objectives</td>
</tr>
<tr>
<td></td>
<td>System discourse</td>
<td>Societal vindication</td>
<td>Goals</td>
</tr>
<tr>
<td></td>
<td>Ideological discourse</td>
<td>Social choice</td>
<td>Value</td>
</tr>
<tr>
<td>Abstract/normative</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Using qualitative method, descriptive statistics, expert judgement, client satisfaction, social process, administrative procedures etc.

Source: Kim (2003: 60)

<table>
<thead>
<tr>
<th>Evaluation approach</th>
<th>Scientific inquiry</th>
<th>Evaluative inference*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Evaluator's status</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>Analytical evaluation by govt.</td>
<td>Private analytical evaluation</td>
</tr>
<tr>
<td>Private</td>
<td>Judgemental evaluation by govt.</td>
<td>Private judgemental evaluation</td>
</tr>
<tr>
<td></td>
<td>Institutionalized evaluation</td>
<td>Informal evaluation</td>
</tr>
</tbody>
</table>

* Using qualitative method, descriptive statistics, expert judgement, client satisfaction, social process, administrative procedures etc.

Source: Kim (2003: 60)

- **Analytical evaluation** = evaluative research (Suchman, 1967), evaluation research (Nachmias, 1980), program research (Cordray & Lipsey, 1986)
- **Judgemental evaluation** ⇒ evaluation (Suchman, 1967; Nachmias, 1980), program evaluation (Cordray & Lipsey, 1986)
In this study: evaluation = Institutionalized evaluation by the OPM
III. Conflict Development

- Process Model of Conflict Development

< Figure 4> Stages of Conflict Development between Performance Auditing and the Executive Evaluation

1. Public management reform (environment)
   - Change in information needs from inputs & process to output & outcome

2. Latent conflict (conditions)
   - Functional redundancy in performance evaluation

3. Perceived conflict (cognition & affected)
   - Tension arising from potential competition for evaluation initiative

4. Manifest conflict (behavior)
   - Availability of conflict handling mechanism

Source: Modified application of Pondy (1967)
Recent Public Management Reform (Environment)


- **Direction**
  - NPM-based reform ⇒ "Small and efficient government"
  - Emphasis on performance, competition, consumer-orientation

- **Measures for small government**
  - Reorganization of public agencies
  - Strengthening deregulation
  - Reducing public employees
  - Privatization of state-owned enterprises

- **Measures for efficient government**
  - Informatization and e-government (MIC)
  - Management-by-objective (MGAHA)
  - Accountability-based agency system (MGAHA)
  - Performance-oriented budgetary system (MPB)

Rho Moo-hyun Government (2003-)

- **Direction**
  - Guiding value: innovation, participation, decentralization
  - Emphasis on performance evaluation, participation of civil society and professionals, balanced regional development


- **Direction**
  - NPM-based reform ⇒ "Small and efficient government"
  - Emphasis on performance, competition, consumer-orientation

- **Measures for small government**
  - Reorganization of public agencies
  - Strengthening deregulation
  - Reducing public employees
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  - Accountability-based agency system (MGAHA)
  - Performance-oriented budgetary system (MPB)
Latent Conflict Stage (Conditions)  <1998 - 2000>

Institutionalized Evaluation by the OPM
- Introduced agency comprehensive evaluation system (1998)
- Introduced local government joint-evaluation (1998)

<Table 5> Components of Agency Comprehensive Evaluation

<table>
<thead>
<tr>
<th>Contents of evaluation</th>
<th>Management capability</th>
<th>Policy activities &amp; performance</th>
<th>Target group perception</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agency capability assessment</td>
<td>Policy process assessment</td>
<td>People's satisfaction assessment</td>
<td></td>
</tr>
<tr>
<td>Program evaluation</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Modification of Kim (2003: 64)
Performance Auditing by the BAI

- Performance auditing movement in Korea
  - 1983-1984: Efficiency & effectiveness audit
  - 1994-present: Performance audit
    - Focusing on system audit in 2004
- Strengthen evaluation through performance auditing

<Table 6> Relative Importance of Performance Auditing in the BAI in 2002

<table>
<thead>
<tr>
<th></th>
<th>Regularity auditing</th>
<th>Performance auditing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of auditing</td>
<td>189</td>
<td>86</td>
<td>275</td>
</tr>
<tr>
<td>Man-days devoted</td>
<td>12,683 (8.9%)</td>
<td>129,702 (91.1%)</td>
<td>142,385 (100%)</td>
</tr>
</tbody>
</table>

Note: The ‘general audit’ was treated as a regularity audit while ‘performance audit’ and ‘special audit’ were counted as performance audit.

Source: Song (2003: 6)
Perceived Conflict Stage (Cognition & Affected) <2000 – 2003>

- Increasing complaints from evaluatee agencies for excessive/duplicated evaluation
  - “Regular works are seriously interfered due to evaluation.”
  - ‘evaluation for evaluation’ syndrome

- Considerable pressure imposed to reduce evaluatee’s loads
  - PCGDI (Presidential Commission on Government Innovation and Decentralization)

- BAI ⇒ Identity as both evaluation and audit institution
  ⇒ Preparation for evaluation initiative

- OPM (OGPC) ⇒ Ready to defend its position as central evaluation agency
  ⇒ Accumulation of role justification
IV. Conflict Handling

Conflict Handling Dynamics

Consideration of OPM’s position (Evaluation)

Accommodating to evaluation

Compromising

Avoiding

Collaborating

Consideration of BAI’s position (Auditing)

Accommodating to auditing

Source: Modified application of Thomas (1976: 900)

- Direct intervention by the President Rho in 2003 → Manifest conflict stage
- Prime coordinator: Yoon, Sung-sig (Chairman of the PCGID)
Accommodation to Auditing: Manifest Conflict  <2003.3-2004.10>

- **Key variable for evaluation initiative**
  
  Construction of national evaluation infrastructure (NEI)
  ※NEI: foundations needed for strengthening national evaluation capacity including evaluation systems, research, training, network, culture etc.

- **Accommodation Measures**
  
  - 2003.3: Assigned the role of NEI Construction to the BAI (President)
  - 2003.5: Declared its pivotal role for national evaluation (BAI)
  - 2004.6: Decided to establish 「Evaluation Research Institute」 under the BAI (President)
  ※ 2005.5: The bill passed the National Assembly
Reasons for the Accommodation

- President Rho's strong perception of auditing as a management function rather than supervising role

<Table 7> Number of BAI Chairman by Former Career, 1963-present

<table>
<thead>
<tr>
<th>Former career (total)</th>
<th>Military(5)</th>
<th>Lawyer(5)</th>
<th>Professional bureaucrat(2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of chairman</td>
<td>4</td>
<td>1</td>
<td>1* (economic)</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>4</td>
<td></td>
</tr>
</tbody>
</table>

* Present Chairman, Jeon, Yun-chul: Former Minister of Finance and Economy, and Minister of Planning and Budgeting.
Temporary Compromising  <2004.10 - >

Changing Situation

- 2004.6: Appearance of the Strong Prime Minister, Lee, Hae-Chan
- Slow progress in NEI construction work by the BAI (?)

Readjustment Measures(2004. 10)

- OPM: In charge of NEI construction work
  - Prime Minister ⇒ Chairman of the National Evaluation Committee
  - Minister of OGPC ⇒ Head of the National Evaluation Infrastructure Establishment Corps(2004.11)
- 'Basic Law of National Evaluation' passed Cabinet Meeting
  ⇒ Expected to lay the bill before the National Assembly in June, 2005.
Prospects: On-going Conflict
Temporary Compromising but unbalanced game

* OAEC = Office for Analysis, Evaluation and Coordination (Assistant minister) under the OGPC (Minister) in the OPM (Prime minister)

<table>
<thead>
<tr>
<th></th>
<th>BAI</th>
<th>OAEC *</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head</td>
<td>Chairman (deputy Prime Minister level)</td>
<td>Prime Minister</td>
</tr>
<tr>
<td>Number of personnel</td>
<td>More than 900</td>
<td>About 40</td>
</tr>
<tr>
<td>Legal status</td>
<td>Quasi-external</td>
<td>Internal</td>
</tr>
<tr>
<td>Group character</td>
<td>Coherent (collective solidarity)</td>
<td>Heterogeneous (rapid turnover)</td>
</tr>
<tr>
<td>Statutory power</td>
<td>Strong</td>
<td>Weak</td>
</tr>
<tr>
<td>Independence</td>
<td>Strong</td>
<td>Weak</td>
</tr>
<tr>
<td>Research institute</td>
<td>Yes(expected)</td>
<td>No</td>
</tr>
</tbody>
</table>

Directing towards complementary relationship
V. Towards Collaboration

- Linkage Model for Collaborating

- Figure 6

- Based on Gray & Jenkins (1993)

- Differential Linkage
  - Goal
  - Functional
  - Methodological

- Integral Linkage
  - Logical
  - Organizational
  - Informational
  - Social

- Budgetary Process
- Policy Process
Differential Linkage

<table>
<thead>
<tr>
<th>Differential Linkage</th>
</tr>
</thead>
</table>

### Table 9 Comparison of Auditing and Evaluation

<table>
<thead>
<tr>
<th>Goal differentiation</th>
<th>Functional differentiation</th>
<th>Methodological differentiation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Image of government</td>
<td>Primary Goal (destination)</td>
<td>Main Function (control)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Functional attribute (formalities)</td>
</tr>
<tr>
<td>Regularity auditing</td>
<td>Financial machinery</td>
<td>Compliance Accountability (correction)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Verifying financial records (negative)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Legal control (formal)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Normative inference (what?)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Review criteria</td>
</tr>
<tr>
<td>Performance auditing</td>
<td>Input-output system</td>
<td>Performance Accountability (correction)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Inspecting &amp; assessing program (negative &amp; positive)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>External managerial control (formal)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Normative &amp; analytical Inference (what &amp; why?)</td>
</tr>
<tr>
<td>Executive evaluation (Evaluation practice)</td>
<td>Administrative machinery</td>
<td>Effective Management (improvement)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Assessing policy &amp; organization (positive &amp; negative)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Internal managerial feedback (formal)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Evaluative &amp; analytical Inference (why &amp; what?)</td>
</tr>
<tr>
<td>Analytical evaluation (Evaluation research)</td>
<td>Policy process</td>
<td>Proving program (explanation)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Assessing program (positive)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Scientific inquiry (informal)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Causal Analysis (why?)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Intended effectiveness</td>
</tr>
</tbody>
</table>

* appropriateness, logicality, legality, timeliness, feasibility, democracy, strategy, consistency, adaptability, acceptance, responsiveness, adequacy, equity etc.
Integral Linkage

Logical Integration
- Mutual consistency of the results
  - Auditing the problematic evaluations (BAI)
  - Audit exemption for the good evaluation results (BAI)
  - Request in-depth self-evaluation if necessary (BAI)
  - Request audit for the problematic cases (OPM)

Informational Integration
- Shared data, information and communication system
  - Information sharing and cooperation in
    - Selection of projects reviewed
    - Development of performance indicators
    - Improvement of evaluation techniques
    - Integrated evaluation information management system
Organizational Integration

- Systematic arrangement of government structures and processes
  - Establishment of *Evaluation Cooperation Committee* composed of evaluation-related ministries and the BAI
  - Linkage with budgeting as an integral part of performance evaluation
  - In-depth study for full-scale redesigning national audit-evaluation system

Social Integration

- Homogeneity of culture, background, skill and experience of the personnel involved
  - Shared on-the-job training
  - Personnel exchange program
  - Amalgamated approach blending two cultures
VI. Final Remarks

- **Administrative control device:**
  - Harmonization of differentiation and integration
  - Institutional learning mechanism

- **For Auditing (BAI)**
  - More liberalization of traditional auditing
  - Image of the BAI: *from power to professionalism*

- **For Evaluation (OGPC)**
  - Strengthening independence to compensate ‘internal evaluation’
    - led by outside experts
    - politicization of evaluation
  - Participant and transparent evaluation
    - decentralized and open evaluation system
  - Evaluation as *performance management process*
  - Supporting self-evaluating capacity of agencies
    - meta-evaluation

- **Limitations of the Study**
## References


Thank you for your attention!!