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# CONCEPTUAL PAPER: RISK BASED INTERNAL AUDIT (RBIA), A STRATEGIC TOOL FOR IMPROVING FINANCIAL AND PERFORMANCE ACCOUNTABILITY IN HEALTH CARE DELIVERY IN DEVELOPING COUNTRIES

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## **CONCEPTUAL PAPER: RISK BASED INTERNAL AUDIT (RBIA), A STRATEGIC TOOL FOR IMPROVING FINANCIAL AND PERFORMANCE ACCOUNTABILITY IN HEALTH CARE DELIVERY IN DEVELOPING COUNTRIES**

by

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### **ABSTRACT**

The healthcare sector in developing countries is bedeviled with many problems, healthcare expenditure is rising in developing countries, but the corresponding increase in the efficiency of healthcare providers is disappointing. The reasons for these failures are multifaceted ranging from corruption, implementation problems of healthcare projects, lack of effective monitoring etc. Dissatisfaction with healthcare delivery systems in developing countries has heightened the call for strengthened accountability. Improved accountability in healthcare delivery systems in developing countries will ultimately lead to; improved healthcare service delivery, reduced corruption and increased efficiency in the use of resources. Internal and external audit reviews of control procedures are done in isolation. This paper argues that existing methods of assessing and enhancing accountability are ineffective and proposes Risk Based Internal auditing as a tool to improve financial and performance accountability in healthcare delivery systems in developing countries. A risk-based internal audit approach, will align a healthcare service provider's risk profile with the strategic objectives of the provider and ensure only high risk areas are focused on. This approach as proposed in this paper, is intended to offer to the international community, donor agencies and governments of developing countries, an alternative way of enhancing accountability and an improved version of social accountability that is initiated by the development partners in developing countries.

**KEYWORDS:** Accountability, Financial & Performance Accountability, Risk Based Internal Audit, Healthcare Sector, Developing Countries.

### **I. INTRODUCTION:**

Healthcare is the primary concern of every nation around the world and international organizations as such. "Health it is said is wealth", with this understanding most nations both

developed and developing nations are striving hard to improve the health status of the citizenry by the establishment of healthcare systems that are accessible, affordable and meets acceptable standards. In 1978, the World Health Organisation made the following bold declaration amongst others concerning health:

- Health is a fundamental human right and that the attainment of the highest possible level of health is a most important world- wide social goal.
- People have the right and duty to participate individually and collectively in the planning and implementation of their health care.
- Governments have a responsibility for the health of their people which can be fulfilled only by the provision of adequate health and social measures (WHO, 1978).

Governments, the World Health Organization and other international organizations, in the spirit of social justice (WHO, 1978) have pursued the agenda of “health for all” since the Alma-Ata declaration, the evidence is seen in increased healthcare expenditure over the years. Available statistics indicate that healthcare expenditure in low-income countries have increased from \$14.4 per capita in 2004 to \$21.6 per capita in 2009, representing an increase of 53% over the period. Over the same period contributions from external sources to health financing in these countries have also increased on average by 14% annually. Aid from external donors, bilateral, multilateral partners and foundations to healthcare in low-income countries increased from \$3.1 per capita to \$5.3 per capita (WHO, 2012). Increased healthcare expenditure is not only peculiar to developing countries but is a global phenomenon, for example healthcare expenditure of the United States of America (the biggest spender of healthcare) as a proportion of Gross Domestic Product (GDP) was about 16.3% in 2007 , 17.6% in 2010 and projected to hit 19.5 % of GDP by 2017 (Kumar, Ghildayal, & Shah, 2011), (WHO, 2012). Consequently, the healthcare industry has come under immense pressures to justify the millions of dollars of investments by improving operational effectiveness which translates into service quality and patients satisfaction (Gomes, Yasin, & Yasin, 2010). Increasingly , there is a call from the international community and the tax payers for effective monitoring and accountability of service providers and public officials. The tax payer and donor agencies who fund healthcare in developing countries are concern about the inefficiencies in healthcare delivery considering the investments made in healthcare (Agarwal, Heltberg, & Diachok, 2009). While healthcare expenditure is rising in developing countries, the corresponding increase in the efficiency of healthcare providers is nothing to write home about. Many times failures abound in healthcare delivery in developing countries even though monies are been pumped in to the health sector year in year out. The reasons for these failures are multifaceted ranging from corruption, implementation problems of healthcare projects, lack of effective monitoring etc. The result is abysmally low quality services or no services at all in some extreme cases (Agarwal, Heltberg, & Diachok, 2009) (Thomas, 2009). Accountability mechanisms exist, all in a bid to improve performance in healthcare delivery in developing countries, yet the situation persists. The problem is not lack of accountability and the solution is not in calling for more accountability, but how do we improve existing accountability mechanisms in healthcare delivery. The researcher holds the opinion that, the pursuit of enhanced accountability is a mirage using the traditional tools of internal and external audit reviews. The traditional accountability measures

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rely heavily on internal audit and external audit reviews of control procedure without reference to a robust risk management framework of healthcare delivery systems in developing countries. A risk based internal audit approach, will align a healthcare service provider's risk profile with the strategic objectives of the provider and ensure only high risk areas are focused on. Many accountability relationships exist in the healthcare delivery systems (BRINKERHOFF, 2004) and a large number of quality measures to assess performance (Chassin, Loeb, Schmaltz, & Wachter, 2010). This overwhelms institutions responsible for assessing accountability mechanisms and the result is often ineffective monitoring, and inefficiencies are carried over from year to year and from regime to regime.

## II. SIGNIFICANCE OF THE PAPER:

The paper will contribute to the body of knowledge on risk based internal audit and accountability in healthcare delivery. The study should particularly be of significance in that it will:

- Offer to the international community and governments an alternative approach to improving financial and performance accountability in healthcare delivery in developing countries.
- Ensure that there is value for money and judicious use of resources in healthcare delivery systems in developing countries.

## III. REVIEW OF RELATED LITERATURE:

The following principles of accountability define the existence of accountable relationship, delegation of authority/mandate, performance evaluation/monitoring, information flow, answerability and sanctions (Lindberg, 2009). Accountability is evasive and confusing (Schedle, 1999) as reported in (BRINKERHOFF, 2004) and if care is not taken will suffer at the expense of its own success (Baez-Camargo, 2011). Accountability is a much contested concept today, its meaning may vary significantly amongst scholars and practitioners. What then is accountability ?.

### ➤ What is accountability?

Traditionally accountability has a strong association with political science and financial accounting. Accountability in contemporary political discussions, is taken to mean the following; transparency, equity, democracy, efficiency, responsiveness, responsibility and integrity (Bovens, 2007). In accounting, accountability is often referred to financial prudence, and accounting in accordance with regulations (Normanton, 1966; Barton, 2006).

In the light of public service provision, accountability can be understood as 'the spectrum of approaches, mechanisms and practices used by the stakeholders concerned with public services to ensure a desired level and type of performance' (Paul, 1992). Similarly, Claudia Baez-Camargo defined accountability as a process within a principal-agent relationship through which the behavior and performance of the agent is evaluated against predetermined standards by the principal and where misdeeds are sanctioned (Baez-Camargo, 2011).

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To clearly understand what accountability is, one must answer this question; accountability for what? Until that question is answered, assessing and pursuing improved accountability is futile and baseless effort. Derick Brinkerhoff specifies three elements of accountability, financial accountability, performance accountability and political/democratic accountability (BRINKERHOFF, 2004). This paper emphasizes on the first two elements of accountability, that is accountability for financial resources committed to governmental institutions, service providers and accountability for agreed-upon performance targets. The point of departure from existing literature on assessing and improving accountability in the health sector is that this paper argues for Risk Based Internal Auditing in place of the traditional internal audit and external audit reviews of control procedure.

#### **IV. ACCOUNTABILITY IN HEALTHCARE DELIVERY:**

Dissatisfaction with healthcare delivery systems both in developed and developing countries has heightened the call for strengthened accountability. Patients/customers and donor agencies are dissatisfied with cost and quality, access, availability, financial mismanagement and corruption, lack of responsiveness etc in healthcare delivery systems (Brinkerhoff, 2003).

The areas of accountability in healthcare are as many as six activities: professional competence, legal and ethical conduct, financial performance, adequacy of access, public health promotion, and community benefit (Emanuel & Emanuel, 1996). Different accountability models emphasize different areas of accountability, (Emanuel & Emanuel, 1996) identified three models of accountability in healthcare; 1) the professional model, where the individual physician and patient participate in shared decision making and physicians are held accountable to professional colleagues and to patients; 2) the economic model, where the market is brought to bear in health care and accountability is mediated through consumer choice of providers; and 3) the political model, where physicians and patients interact as citizen-members within a community and in which physicians are accountable to a governing board elected from the members of the community, such as the board of a managed care plan. These models will work perfectly well in the developed nation's perspective where the structures and systems are all in place but not in developing nations.

In developing nations, as (Nurunnabi & Islam, 2012) have put it "Bangladeshi healthcare professionals are not liable for medical practice and even medical services are not delivered as promised or advertised". They have developed a model for Bangladesh based on four accountability dimensions or relationships:

1. Professionals who are directly involved in patients care such as doctors, nurses, pathologists, technicians, etc.
2. Administrators and managers who manage healthcare organizations,
3. Legal enforcement and ethical issues, i.e. the responsiveness of the law to medical malpractices, and
4. Government (Ministry of health) as one with oversight responsibility over healthcare activities.

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Their study observed that, there exist weak accountability amongst all four accountability dimensions and accountability gaps were also identified. The study recommended the following to improve accountability; participation of patients in policy making, strengthen of legal requirement and enforcement, effective monitoring and systems scrutiny using audit trails.

Participation of citizens (patients) in policy making to improve accountability, as recommended by (Nurunnabi & Islam, 2012) , and in line World Bank social accountability requirements (Agarwal, Heltberg, & Diachok, 2009), can only be effective where patients have accurate information. Their participation will only be a mere formality without them being empowered with the right information. For this reason, this project explores the possibility of a feedback mechanism to citizens using RBIA, for the purpose of effectively participating in policy making and demanding accountability from Government and service providers.

Improved accountability in healthcare delivery will strengthen governance of healthcare organizations in developing countries. It is argued that improved accountability in healthcare will reduce the opportunity space for corruption to occur and governance outcomes of health systems like responsiveness, equity and judicious use of resources will be positively affected (Baez-Camargo, 2011). Again a joint study sponsored by Christian Aid, Save the Children, and Humanitarian Accountability Partnership report in Kenya and Myanmar also observed that including accountability mechanisms in developmental projects contributed to the sustainability of projects and improved project quality (Featherstone, 2013).

## **V. RISK BASED INTERNAL AUDIT AND HEALTHCARE DELIVERY:**

Risk Based Internal Auditing is a kind of auditing approach based on determining and evaluating, organizations risk characteristics, through strategic analysis and risk assessment and designing the auditing process in line with risk matrix or risk map (Ayvaz a & Pehlivanli, 2010). In risk driven audits, internal audit energies are directed towards high risk areas, audit engagements performed are both effective and efficient (Colbert & Alderman, 1995) . Risk based internal audit operates on the platform of a robust integrated risk management framework. Therefore a risk based internal audit approach in healthcare will creates a consciousness of risks amongst manager and employees at all levels (Brian & René, 2006), patients, government officials and donor organisations. Again an integrated risk management framework will help organisations by providing an enterprise wide view of risk, improving information for decision making, reducing unwanted and costly surprises, and contribute to long term value creation and protection (Mritunjay, 2012).

The business environment of healthcare organizations is very complex and pervasive risks cut across all facets of healthcare systems (Kapi & Abhilash, 2013), yet to the best of my knowledge limited research is been done on the use of risk based approaches in healthcare systems. There is a huge knowledge gap in the academic literature on the use of risk based internal audit as a tool to improve accountability in healthcare delivery in developing countries.

In March 2004, the Government of Kenya formally adopted a Risk Based Internal Audit approach following a forum for the Controller and Auditor General and Permanent Secretaries.

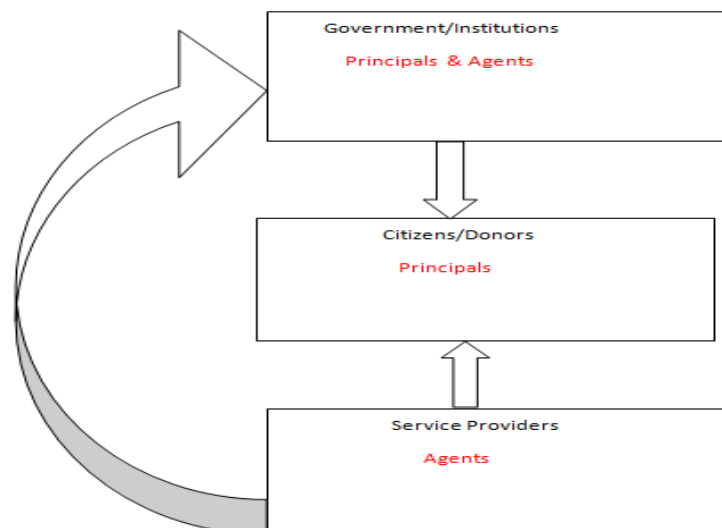
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This was in response to a joint IMF/World Bank report that highlighted the weaknesses of Kenya’s internal audit function (Financial Management Anchor, 2008). Same source outlined the following as some examples of the Kenyan success story; a risk based approach in payroll audit has helped Internal Audit identify and resolve significant weaknesses in the civil service payroll system, eliminating ghost staff and streamlining payments, has resulted in cost savings. Again in the Ministry of Education(Free primary education), an efficient allocation of limited internal audit resources as a result of adopting a risk based audit approach has also ensured a wider coverage of 18,000 primary schools and introduction of innovative community-based accountability arrangements have been achieved. In the health ministry risk based internal audit approach has helped build confidence of senior management regarding the effectiveness of oversight control over widely dispersed health facilities and is playing a key role in ongoing decentralization of the management of health facilities in the Ministry of Health.

**VI. THEORETICAL AND CONCEPTUAL FRAMEWORK:**

The agency theory has principally been used in studies of either auditing or accountability, but not auditing and accountability together. Previous research has used the principal-agent theory in studies of auditing and others have used it in analyzing accountability and delegation in central government (Nyman, Nilsson, & Rapp, 2005). This research project will use the principal-agent theory in analyzing auditing and its effect on accountability. A principal-agent relationship exists when one person or entity (agent) acts on behalf of another (principal).

Within the accountability relationships in healthcare, there exist complex or multiple Principal-agent relationships (Nyman, Nilsson, & Rapp, 2005). Government and governmental institutions are both principals and agents, principal in their dealings with healthcare service providers and agents in their relationship with citizens and donor agencies. Service providers are agents, accountable to both citizens and government, with a mutual accountability to donor agencies. Fig1: Principal/Agent and accountability relationships

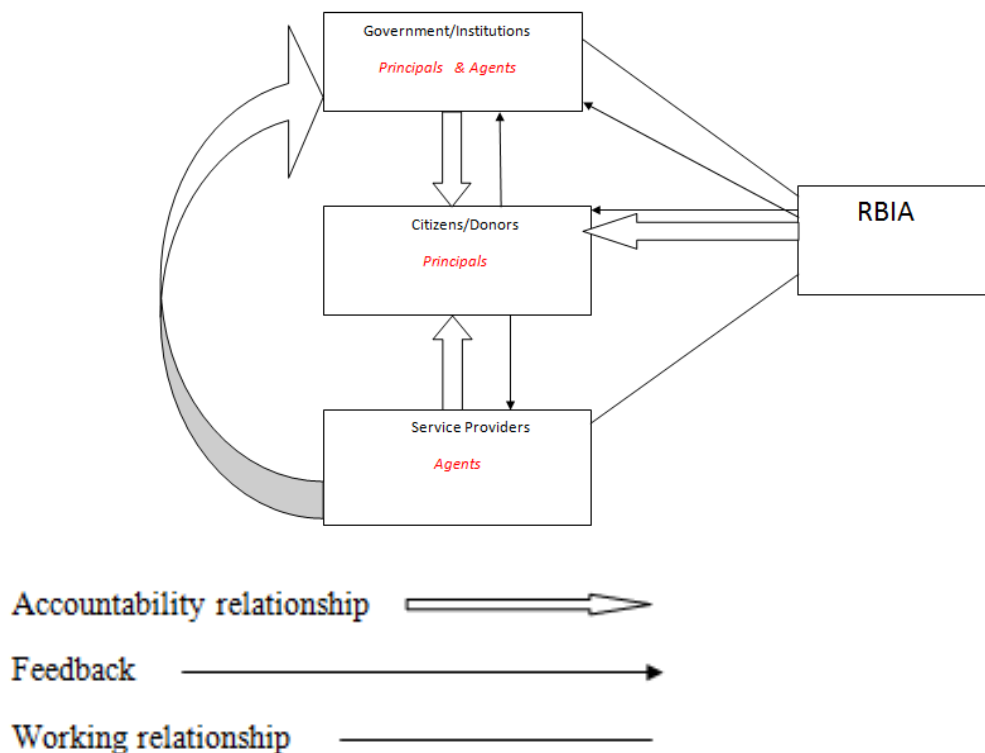


Source: Based on World Bank accountability relationships framework (2004)

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Information asymmetry may result from the principal –agent arrangement of the firm and consequently loss of control by the Board. To reduce asymmetry of information and ensure goal congruence, it is imperative that the Audit Committee will require a strong system of internal control and an internal audit function as a review and monitoring mechanism (Goodwin-Stewart & Kent, 2006). Healthcare delivery systems are characterized by strong asymmetries among providers, users, and oversight bodies in terms of information, expertise, and access (Brinkerhoff, 2003). This project argues for a strong and independent agent using risk based internal audit approach to supply the feedback or as Yandell put it to supply the signals to the principals (Yandell, 1988) in order to reduce information asymmetry and improve accountability.

Fig 2: Strengthening accountability through RBIA



## VII. CONCLUSION:

Existing literature has failed to agree on what accountability is. Accountability has assumed different meaning by different researchers; some see accountability as a state or quality, a process, a spectrum of activities. For some accountability is synonymous with transparency, equity, democracy, efficiency, responsiveness, responsibility and integrity. Accountability, despite its popularity is illusive and ill-defined, no clear output is defined, thus making it difficult to hold any person/s or institutions responsible for non performance.

The key to enhancing accountability in the healthcare sector, is an unambiguous definition of the objectives of healthcare delivery systems and identification of risks that will limit the



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realization of the objectives in healthcare delivery in developing countries. This requires a concerted effort of all accountable entities and stakeholders in healthcare delivery deliberating and assessing the likely risk that may militate against the achievement of the objectives. The whole process of risk identification should be driven and facilitated by independent internal audit units, who themselves are agents and responsible to civil society (see fig 2). With existing accountability mechanisms using traditional internal and external auditing, reviews are done in isolation and independent of healthcare systems strategic objectives and risks.

Finally, further research and empirical testing of the above proposition to confirm or refute the use of Risk Based Internal audit approaches as a tool to improve financial and performance accountability in healthcare delivery systems in developing countries.

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