GOVERNMENT AUDIT IN KOREA

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A. The Board of Audit

Prior to 1945 the Japanese Board of Audit examined and verified all accounts of the central government including those of the Korean Government General. It may well, therefore, to take a glance at the Japanese Board of Audit. Article 72 of the Meiji Constitution provided:

The final accounts of the expenditures and revenues of the State shall be verified and confirmed by the Board of Audit, and they shall be submitted by the Government to the Imperial Diet, together with the report of verification of the said Board.

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

In accordance with this provision the Board of Audit Law was promulgated in May 1889. Article 1 of this Law in turn provided: “The Board of Audit shall be responsible to the Emperor, and be independent of the Ministers of State.” The independence of the Board, however, was not complete. The Board was subject to the exercise of the Cabinet’s managerial powers. Civil service rules applied to Board personnel, the budget of the Board was required to be channelled through the Minister of Finance, and regulations relating to the Board were promulgated in the form of imperial ordinances.(1)

The Board was originally made up of three divisions; each division in turn consisted of four sections. The accounts of the Korean Government General were audited by the Third Section of the Third Division.(2) In 1937 the Board was expanded from three divisions and twelve sections to four divisions and fourteen sections. The Second Section of the Fourth Division audited the accounts of the Oriental Development Corporation(3) and the Korean Government General.(4) During World War II, the Japanese Government began to realize that the Board of Audit hampered its military operations. As a result, laws and ordinances simplifying accounting and auditing procedures in the government were promulgated in 1942, and the size of the Board of Audit was reduced to three divisions and fourteen sections in 1943. The job of auditing the accounts of the Korean Government General and the Ori-

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(2) Ibid., p. 124.
(3) The Oriental Development Corporation was “the huge exploiting arm” of the Japanese government in Korea. The aim of this Corporation was to encourage the settlement of Japanese colonists in Korea. (George M. McCune, Korea Today, Cambridge, Mass.: Harvard University Press, 1950, p. 40).
(4) Ohkurasho, op. cit., p. 222.
ental Development Corporation was transferred to the Third Section of the Third Division.\(^{(5)}\)

During the period of American Military Government, which extended from September 1945 to August 1948, the audit of expenditure and revenue accounts in the government was performed by the Bureau of Audit, located in the Ministry of Finance.\(^{(6)}\)

The Republic of Korea was proclaimed on August 15, 1948, following rapid passage of the Constitution and Government Organization Law and election of the President by the National Assembly in July. Article 95 of the Constitution provided:

The final accounts of the expenditures and revenues of the State shall be audited by the Board of Audit.

The final accounts shall be submitted by the Government to the National Assembly, together with the audit report of the Board of Audit.

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

The Chairman of the Board of Audit was appointed on September 4, before the establishment of the Board of Audit. In accordance with the above constitutional provisions, the Board of Audit Law was promulgated on December 4, 1948.\(^{(7)}\) The original Board of Audit bill, which was drafted under the leadership of the Chairman, would have established a Korean counterpart of the General Accounting Office in the United States. The

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\(^{(5)}\) Ibid., pp. 304-307.

\(^{(6)}\) Sung Whan Kim, Simkewon Bup Cheokcho Haisul (A Commentary on the Board of Audit Law), Seoul: Shim Woo Whae, 1956, p. 6.

\(^{(7)}\) December 4, 1948, Law No. 12.

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bill, however, was extensively revised in the National Assembly, and the Board of Audit became an agency similar to the Japanese Board of Audit. It was placed under the President of the Republic, who was the chief executive, rather than under the National Assembly.

The Board of Audit was a dual organization. On the one hand, there was a quasi-judicial Board of Inspectors, composed of a chairman, his deputy and five inspectors. They were appointed by the President for five-year terms. On the other hand, as Chart I shows, there were four bureaus under the direction of the chairman and his deputy. The Board of Audit was comparatively small, consisting of 96 employees including the chairman. This small body conducted a post-audit of all the public accounts. Accounts audited or scrutinized by this Board included the following:

1. The consolidated final accounts of the expenditures and revenues of the state.
2. The accounts of the central government including field services.
3. The accounts of the local governments.
4. The accounts of various bodies receiving subsidies from the government.
5. The accounts of wholly and mixed owned government corporations.
6. The accounts of properties managed by the government.
7. The accounts of the Bank of Korea relating to the disbursement and receipt of the government funds.
8. And other accounts audited under special laws. (*11)

After the April Revolution of 1960, the National Assembly amended the Constitution to replace the presidential with the parliamentary form of government. There were also some efforts to amend the Board of Audit Law, and to find a proper place for the Board of Audit. These efforts, however, got nowhere. It should be noted that under the parliamentary form of government, placing the Board of Audit under the President was not so unreasonable, since he was not the chief executive any more, and the only power of any significance which the President retained was the nomination of the Prime Minister, subject to confirmation by the House of Representatives.

On September 9, 1961, after the military revolution of May, 1961, a new Board of Audit Law was promulgated, which superseded the old Law enacted in 1948. As a result, the Board of Audit was now placed under the Supreme Council for National Reconstruction, which served as the legislative and to some extent the executive branch of the Government. This move did not quite fit into the Anglo-American tradition, which placed the auditing agency under the legislative branch of the government, (*12) but it was certainly a break with the Korean-Japanese tradition.

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(10) Chi Chan Kim, *Whakekumsa Jedo ch kwanhan Yungoo,!* (A study on Auditing). Master’s Thesis submitted to the Graduate School of Public Administration, Seoul National University in 1962, p.73.
(11) Article 11, Board of Audit Law of 1948.
There was also a reorganization of the Board itself. The office of the Deputy Chairman of the Board was replaced with that of the Secretary General, and the planning, legal, and engineering sections were created. (See Chart II)

The Constitution of 1962, which was drafted under the direction of the Supreme Council for National Reconstruction and approved by the people as a result of the referendum held on December 17, 1962, provided for merger of the Inspection Commission with the Board of Audit. (13) In accordance with this provision, the Board of Audit and Inspection Law was promulgated on March 5, 1963. (14)

The Board of Audit and Inspection is also a dual organization. On the one hand, there is the Board of Inspectors, composed of a chairman and six inspectors. On the other hand, there is the Secretariat under the direction of the Chairman and the Secretary General.

The Chairman is appointed by the President, with the consent of the National Assembly, and the Inspectors are named by the President upon the advice of the Chairman. They are all appointed for four-year terms, and may not be dismissed or transferred against their will. They are removable under only three circumstances, namely, by an impeachment, by a criminal trial, or when one is unable to perform his duty due to a long illness. (15)

The Secretariat, as Chart III shows, is made up of the General Affairs Section, three offices and five bureaus. Each bureau is divided into five sections.

As will be seen from Table I, the Board of Audit and Inspection is a large organization, numbering 665 employees including the Chairman.

This is a considerable increase in comparison with 173 employees in 1960, 240 in 1961, and only 96 in 1949. (16) The increase was due to the merger of the Inspection Commission with the Board of Audit in 1963 and to the expansion of its functions in the 1960's and 1970's.

It goes without saying that one of the most important functions of the Board of Audit is

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(13) Paragraph 1, Article 93, Constitution of 1962.
(14) March 5, 1963, Law No. 1286.
(15) Article 72, Constitution of 1972 and Article 8, Board of Audit and Inspection Law of 1963.
(16) Chi Chan Kim, op. cit., p. 73.
Chart III  Board of Audit and Inspection
January 1, 1979

Chairman

Board of Inspectors

Secretary General

Deputy Secretary General

General Affairs Section

Office of Planning

First Bureau

Second Bureau

Third Bureau

Fourth Bureau

Fifth Bureau

Office of Law

First Section

Second Section

Third Section

Fourth Section

Fifth Section

Office of Engineering

First Section

Second Section

Third Section

Fourth Section

Fifth Section

Third Section

Fourth Section

Fifth Section

Fourth Section

Fifth Section

Source: Board of Audit and Inspection

Table I. Number of Personnel of the Board of Audit and Inspection

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Personnel</th>
<th>Year</th>
<th>No. of Personnel</th>
<th>Year</th>
<th>No. of Personnel</th>
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<tr>
<td>1949</td>
<td>96</td>
<td>1960</td>
<td>173</td>
<td>1970</td>
<td>540</td>
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<tr>
<td>1950</td>
<td>96</td>
<td>1961</td>
<td>240</td>
<td>1971</td>
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<tr>
<td>1951</td>
<td>67</td>
<td>1962</td>
<td>292</td>
<td>1972</td>
<td>672</td>
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<tr>
<td>1952</td>
<td>115</td>
<td>1963</td>
<td>292</td>
<td>1973</td>
<td>672</td>
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<tr>
<td></td>
<td>(before merger)</td>
<td>1963</td>
<td>(after merger)</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>115</td>
<td>381</td>
<td>1974</td>
<td>672</td>
<td></td>
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<tr>
<td>1954</td>
<td>111</td>
<td>1964</td>
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<td>1975</td>
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<td>1959</td>
<td>173</td>
<td>1969</td>
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</tr>
</tbody>
</table>

Source: 1949~1960 Chi Chan Kim, op. cit., p.73
1961~1979 Board of Audit and Inspection
to examine and verify the final accounts of expenditures and revenues of the state before they are submitted to the National Assembly. In addition to this function, the Board is required to audit the following matters:

1. The accounts of the state.
2. The accounts of the local governments
3. The accounts of the Bank of Korea, and the accounts of wholly owned and mixed owned public corporations more than 50 per cent of whose stocks are owned by the state or by the local governments.
4. Other accounts to be audited under special laws, \(^{(17)}\)

Furthermore, the Board of Audit and Inspection may audit the following at the request of the Prime Minister or when the Board decides to be necessary.

1. Acquisition and alienation of cash, articles and securities handled for the state or for the local governments by institutions other than government agencies.
2. The accounts of various bodies receiving subsidies from the state or from the local governments.
3. The accounts of those who received subsidies from the bodies receiving central or local government subsidies.
4. The accounts of mixed owned public corporations less than 50 percent of whose stocks are owned by the state or by the local governments.
5. The accounts of corporations whose stocks are owned by the wholly and mixed owned public corporations.
6. The accounts of corporations whose repayment of debts is guaranteed by the state or by the local governments.
7. The accounts of institutions established by laws other than the Civil Law or the Commerce Law and whose top management is appointed by the state or by the local governments.

8. The accounts of those who received contracts from the central or local government agencies, from wholly or mixed owned public corporations, or from other agencies whose accounts are audited by the Board of Audit and Inspection. In this case, however, the audit is limited to the accounts relating to the contracts. \(^{(18)}\)

**B. Auditing Procedures**

As soon as a fiscal year ends, the government ministries and agencies prepare the reports of final accounts on expenditures and revenues and submit these reports to the Minister of Finance by March 20. \(^{(18)}\)

On the basis of these reports, a comprehensive report covering all the financial operations of the fiscal year, receipts as well as disbursements, is prepared by the Bureau of Treasury of the Ministry of Finance and submitted, along with the separate ministerial accounts, to the President through the Council of State and later to the Board of Audit and Inspection. These voluminous documents provide the materials which this Board uses in conducting a thorough post-audit of government expenditures and revenues.

It should, however, be noted that the auditors of the Board are not just waiting for these documents to arrive. They receive at regular intervals all statements, reports, and documents necessary for their audit from each ministry and agency. In addition to the examination of these documents, statements and reports, auditors are sent to the ministries and agencies to conduct a field audit. Unlike the British Exchequer and Audit Department, the Board of Audit and Inspection does not

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\(^{(17)}\) Article 22, Board of Audit and Inspection Law

\(^{(18)}\) Article 23, Board of Audit and Inspection Law.

\(^{(19)}\) Article 40, Budget and Accounting Law.
maintain auditing staffs in the various ministries and agencies. The field audit has been limited to inspections and investigations of a police nature. In any event, it is safe to say that the audit is almost completed before the final accounts are submitted to the Board of Audit and Inspection.

Upon the conclusion of its audit, the Board of Audit and Inspection verifies the final accounts, subject to whatever comments it wants to make, and prepares the report, which is presented, along with the final accounts, to the National Assembly.

The final accounts and report of the Board of Audit and Inspection are referred to standing committees for their examinations. This is followed by the comprehensive examination by the Committee on Budget and Final Accounts, whose recommendations are usually adopted by the Assembly.

In this process, neither the final accounts nor the report of the Board are the object of much interest. Thus, the approval of the accounts and report of the Board of Audit and Inspection tends to be a perfunctory performance occurring in the closing hours of the session.

In addition to the functions mentioned above, the Board of Audit and Inspection is authorized to take the following steps at the conclusion of the audit:

1. When shortages appear in the accounts, the Board of Audit and Inspection is empowered to take the necessary steps to recover the money.
2. If the accounts are not in order, the Board of Audit and Inspection may inform the superior of the officer in charge or the minister of that fact and ask for disciplinary action.
3. If the Board discovers any departures from laws and ordinances, it may ask the minister or head of agency for remedies.
4. If any legal, administrative or procedural defects are discovered, the Board of Audit and Inspection may request the Prime Minister or the Minister concerned to correct the defects.
5. Should legal action against individuals be indicated, the Board is required to present the information to the Ministry of Justice.

C. Conclusion

According to Joseph P. Harris, four elements are necessary to perform an effective independent audit:

1. There should be an auditing agency which is independent of the executive, preferably responsible to the legislative body.
2. It should be a post-audit. The auditor should not take any part in decisions on transactions which he is subsequently to audit.
3. It should be comprehensive and intensive as well as prompt, "so that the results of the audit will be laid before the legislative body while they are still timely.
4. There should be a special legislative committee to receive the auditing agency and to examine it "with a view to making such recommendations for legislative action as seem warranted."

As for the first element, in the thirty years of its existence the independence of the Board

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(20) Chubb, op. cit., p.173.
(21) The same phenomenon may be found in the Japanese Diet. See Shosaburo Sugimura, *Jaisei Ho (Finance Law)*, Tokyo: Yuhigaku, 1969, pp.120-121.
(22) Articles 31 to 35, Board of Audit and Inspection Law.
of Audit in Korea has almost always been threatened. Under the presidential form of government, the Board of Audit was placed directly under the President, who was the chief executive, not a figurehead. Thus, the absurdity of the following provision of the Board of Audit Law of 1948 is obvious: “The Board of Audit shall be directly responsible to the President, and be independent of the Council of State.” (24) The President was the Chairman of the Council of State.

Under the parliamentary form of government, which prevailed in Korea from August 1960 to May 1961, the Board of Audit was quite independent of the executive although it was still under the President, who was a figurehead. The military government placed the Board of Audit under the Supreme Council for National Reconstruction, which, as previously noted, served to some extent as the executive as well as the legislative branch of the Government. Here again, the independence of the Board was not complete. More than this, the Constitutions of 1962 and 1972 place the Board of Audit and Inspection under the President, who is the chief executive.

Furthermore, until 1962 the Chairman and other Inspectors were appointed or five-year terms, but under the Constitutions of 1962 and 1972 their terms are shortened to four years. To ensure the independence of the auditing agency, as Mansfield points out, the tenure of the Chairman of the Board should be such as to protect him from undue dependence on the appointing authority, especially if that authority extends also to the transactions to be audited. This means a fairly long term, with restrictions upon removal....(25)

In short, unlike the General Accounting Office in the United States, the Korean Board of Audit and Inspection has never enjoyed complete independence.

Secondly, it is fortunate that the Board of Audit and Inspection has never had controlling or accounting functions. It has concentrated on the audit of the expenditure after it has been incurred, rather than complicated checks before expenditure takes place.

As for the third element, the audit conducted by the Board of Audit and Inspection has been comprehensive in scope and intensive as the auditor deems necessary. The submission of the report of the Board to the National Assembly, however, has not been to prompt. The report of FY 1977 was submitted to the legislative body in September 1979.

Finally, in the Korean National Assembly there is a Committee on Budget and Final Accounts. This Committee, however, is too preoccupied with authorization of the budget to pay much attention to the final accounts or to the report of the Board of Audit and Inspection.

This writer believes that a separate Committee on Public Accounts, which is patterned after that of the House of Commons in Britain, should be established in the National Assembly. It is also urged that this committee, in close cooperation with the Board of Audit and Inspection and the Ministry of Finance, which is responsible for the final accounts, should make the National Assembly’s ex post facto control over the execution of the budget more effective.

(24) Article 1, Board of Audit Law of 1948.