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### New Public Management and Modernization of Administration as a Challenge for Public Sector Audit

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#### From standard to performance: the French Regional Audit Chambers, witnesses and actors in public management reforms

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Decentralisation, the development of contractual policies and European interventions, the emergence of a performance culture within public administrations and the evolution of accounting standards have radically changed methods of public action as well as external audit practices arranged by the Regional Audit Chambers. The audit offices with judicial status in France (the Court of Audit and the Regional Audit Chambers) have been both actors in and witnesses to these reforms, from which they have drawn conclusions for their internal organisation and operation, and they have taken them into account in the course of their external auditing function.

These changes find expression in the three main areas of operation of the Regional Audit Chambers: the audit of the quality of public accounts, the audit of performance and the evaluation of public action. They reveal an institutional balance transformed by the appearance of new actors exerting an influence, with the auditing function being significantly redefined.

#### 1- The audit of the quality of public accounts

##### *An international system of reference for public accounts*

The requirement for true and fair and reliable accounts which was brought to bear after the financial crises in the mid-1990s has also been extended into the public sector. Evidence of this is provided by the ongoing movement towards public-sector accounting being brought more closely in line with private-sector accounting, with this already having been applied to municipalities (1997) and the *départements* (2003). In compliance with the guiding principles for the development of an international reference system for public accounts (the IPSAS International Public Sector Accounting Standards) within the IFAC, this development - which also has its effect on the State - finds its principal expression in the move away from cash basis accounting to a system of accrual accounting, within the framework of a patrimonial approach to the financial situation of public entities.

##### *Budgetary control*

In 1982, decentralisation saw a new mission being entrusted to Regional Audit Chambers, namely the control of budgetary measures. Being exercised in part along with controls on the legality of the *préfets*, this budgetary control is intended to guarantee that basic budgetary

principles are respected: true and fair accounts, guaranteed by the proper evaluation of receipts and expenditure, balanced budgets and the accurate allocation of expenditure to the body responsible for it.

According to the 2003 report into the activities of the audit offices with financial status in France, almost half of applications to the Court of Audit or the Regional Audit Chambers (328 out of 822) result from demands in respect of including an obligatory expenditure in the budget of a community, in particular submitted by companies or communities sharing the financial burden for a public service within inter-municipal structures.

Along with the control of budgetary measures, the value of which was recognised by all of the involved parties on the occasion of the review produced in 2003, the Regional Audit Chambers fulfil a complex function: they represent a regulatory factor and ensure the supervision of the overall compliance with standard budgeting practices, while also acting as reference bodies for consultancy and arbitration.

#### *Regularity audit of financial statements*

To a greater extent than in budgetary controls, carried out on referral to the audit offices, it is within the more current context of auditing the financial management of local communities (regions, departments and municipalities) and their public bodies that the Regional Audit Chambers assess the regularity of financial statements. This audit is, however, of just as much relevance to the accountant responsible for allocating and paying expenditure and recovering receipts, as it is to the source of the order, the authorising or commitment officer, responsible for initiating operations and putting in place the procedures to guarantee their follow-up.

As a result of their twin mission of judging on public accounts and auditing the financial management of authorising officers, the Regional Audit Chambers have a full picture of all the dimensions in terms of quality and truthfulness of accounts, in particular in associating charges and products with the financial year, and attaching a truthful valuation to these, as well as the accuracy of postings to the budget and to the appropriate body. Nevertheless, accountants' responsibility is not subject to jurisdictional sanctions as far as keeping accounts is concerned. In recent years, audit chambers have reinforced the controls they apply in this sector. The public report to be published in 2005 will provide an update on these checks on the reliability of local government accounts, by analysing the various shortcomings revealed by the audit chambers (delays in identifying losses, charges carried over or spread to an excessive extent, inadequate knowledge of assets, etc.).

#### *Outlook*

The auditing of local government accounts is undergoing rapid development in France: the switchover to accrual accounting is clouding the traditional separation between the commitment officer and the accountant; the jurisdictional sanction when the public accountant is declared liable, the traditional mission of audit offices acting as judicial authorities, is facing legal limits (those circumscribing the control exercised by public accountants) as well as in practical terms, associated with the development of risk-based approaches and the internalisation of audits. These developments translate into a reduction of the extent to which the responsibility of accountants is invoked: in 2003 audit offices declared 425 debit balances with the subsequent repayment orders from among 24,100 accounting judgments, representing a rate of 1.8%, down to half the figure for 1999 (3.6%).

The role of the various parties concerned is likely to develop further, within an accounting context which is still not complete: in particular the consolidation of accounts, control of the risks attached to satellite accounts and integration within inter-municipal structures call for fresh progress in the process of standardising accounting.

## **2- Auditing public performance**

### *From checking regularity to performance auditing*

The audit of the financial management of public organisations represents the core activity for Regional Audit Chambers. In 2003 this took the form of the submission of 645 audit reports being passed on to the managers of the bodies audited, and 395 other administrative interventions. Following the example of the developments identified in most external auditing bodies since the 1980s, this auditing activity is being progressively increased from simply checking that administrations are acting correctly and legally, to auditing their performance.

Within French Regional Audit Chambers, the development of this mission is marked by a number of significant stages. Publishing the conclusions of the audit, instituted in 1990, brings local administration into the field of public debate. Furthermore, with the law passed on 21 December 2001 the management audit acquired a legal definition: it is based on "the regularity of administrative actions, the economic use of the resources and the evaluation of the results achieved in comparison with the objectives set by the deliberating assembly or body. The appropriateness of these objectives cannot be the subject of the observations issued on the basis of audit findings".

The diversity of the subjects for analysis by regional audit offices reflects the increasing range of the area of competence of local communities. Even if concentrated on the main legal and financial risks, such as the truthfulness of financial statements, public procurement, the management of human resources or the outsourcing of public services to private operators, it still touches on all areas of local public activity.

### *Development of practices*

Theory and practice have consistently specified and reinforced the contradictory procedures guaranteeing the transparency and rigor of performance audit, the implementation of which illustrates the diversity of the parties involved in local public administration. Companies, associations, economic and social partners of various origins, and even private individuals are therefore at present addressees of audit observations issued by Regional Audit Chambers, in order that their written or verbal responses can be collected so that definitive conclusions can be drawn.

Finally, auditing methods are in a process of far-reaching renewal. Access to digital data and the use of surveys are bolstering the validity of findings and making it possible to identify the weaknesses of a procedure, in public procurement or in collection, for example. Making use of management reference systems from a benchmarking perspective supports auditing strategies which are better targeted on the priority aspects, analyses management in its development or in comparison with other entities, and provides authority for comparative thematic approaches.

With their main partners, administrators and accountants, audit offices with financial status in France have recently become committed to a voluntary process of modernisation, centred on the digitalisation of data, sharing information and the harmonisation of audits.

These trends are indicative of a change in perspective, away from checking regularity and towards performance evaluation, which looks set to transform most aspects of public management.

### **3- Evaluation of public actions**

#### *Evaluation and control*

Since the 1990s, the emergence of the idea of evaluation has contributed towards modifying the practices of auditing bodies. In the same way that a number of general inspectorates have extended the definition of their missions, the audit offices have adapted their practices to allow them to invest their entire area of competence.

The evaluation of the guaranteed social integration minimum income (social assistance with time limit created in 1998) illustrates the way in which perspectives have been widened. If verifying regularity remains relevant (to check on the absence of any irregularity and that the community is fulfilling its legal obligations), the question of the effectiveness and the reality of the social and economic integration of those disadvantaged sectors of the public targeted by this policy properly dominates the questions asked within the study. The methodology applied covers the main areas of the evaluative approach: relevance (do the actions meet the identified requirements?); efficiency (are resources distributed in accordance with the actual burdens on the services? are there more economic management methods in existence within other communities?); effectiveness (do the contracts represent genuine instruments of insertion?). Regional Audit Chambers have the advantage of being able to carry out these evaluations more closely to the ground, at the same level at which the results can be evaluated.

#### *Development of practices*

The changes applied to the work of French audit offices have made a significant mark on their means of communication: hence, since 1991 the Court of Audit has been publishing reports on individual subjects to supplement the annual report produced since 1832 (and published since 1838). These specific public reports which are generally the result from joint studies carried out by the Court and the Regional Audit Chambers throw light on a variety of public policies. This joint intervention between audit offices ensures complete control of the entire area of activity of an ever-wider variety of bodies involved in public policies, as well as significant geographical cover. Administration of water and sewage services, the education system, industrial catering establishments, departmental roads and highways, guaranteed social integration minimum income, urban policy, the management of domestic waste and casinos have in this way been covered by publications in recent years.

The development of joint surveys and the integration of the evaluative approach have significantly changed practices among audit offices. A joint programme, scheduled to cover a number of years has therefore been produced annually between the Court of Audit and the Regional Audit Chambers to allow the subject for studies to be selected. Tasks are supervised by steering groups and coordinated by the liaison committee between the Court and the chambers, which ensures their follow-up and determines what interest there is in their publication. This sees audit office magistrates being integrated to an ever greater degree within a network of exchanges facilitated by electronic communication and the joint intranet linking all of the audit offices with financial status in France.

## **Conclusion**

The performance culture is contributing towards a far-reaching change in administrative concepts and practices. By focusing on results, it transforms and stimulates public action. It develops a culture of moderation and a principle of transparency. It prompts external auditing institutions to apply the same changes. The most recent developments, in particular the current implementation of the new organic law in respect of budget laws and the new stage of decentralisation are going to produce further noticeable change in the way audit offices function. They are themselves induced to define their objectives and their performance measurement indicators, and to specify the means by which their audits are to be improved in terms of efficiency and effectiveness.

With public communication being subject to constant development, the audit offices have thus contributed to bringing public management into the democratic debate, in compliance with Article 15 on the Declaration on Human and Civil Rights of 1789 which they have taken as their watchword.