

How to audit a coalition agreement? (summary of presentation)

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New Public Management (NPM) is an umbrella term that refers to different dimensions of administrative and management reform in the public sector like for example privatization, marketisation (contracting out, vouchers etc.), decentralisation to agencies or local government, output orientation and quality-systems. These reforms certainly have an impact on public sector audit. In fact, exactly this influence was an object of an international research some years ago by academics and central government auditors from France, Finland, the Netherlands, Norway and the United Kingdom. In their book 'Performance or Compliance' (Oxford University Press 1999) they described the interactions between performance audit and NPM.

They described how NPM and, in particular, performance audit share the same value-emphasis. The previous administrative systems stressed the correct allocation of finance to the appropriate budgetary 'lines', the economical use of inputs, and the conformity of actions with prescribed procedures. The new approaches claim to give more flexibility with respect to inputs and processes in return for stronger monitoring and evaluation of performance i.e. outputs and outcomes. Performance audit has developed as a complement to traditional audit, just as the NPM claims to add managerial efficiency and effectiveness to the traditional bureaucratic values of prudence and procedural correctness. The parallels between the development of public-sector managerialism and the development of performance audit are intimate. In his powerful 1997 pamphlet 'The audit society' Michael Power underlined that performance audit and NPM both proceed from the same set of values, both are entwined within the same reform ethic, both first tentatively manifested themselves during the 1960s and 1970s, but put their roots down more deeply and widely during the fiscally more austere 1980s.

Nevertheless, it is my opinion that these authors, mainly social scientists, underestimate the impact of NPM on financial audit. If I just mentioned the introduction of an NPM tool as accrual accounting, it is clear that financial audit is modernising as well.

In the Netherlands, most dominant in all these NPM reforms is the shift to output orientation. Just spending the budget to its limit in line with the procedural requirements no longer satisfies. Results have to be produced. Or at least, that is the dominant tendency nowadays. They must be measured, reported and accounted for and finally be audited. And there it is where we come in. For a performance auditor, the inclusion of measurable objectives in a policy is a sine qua non for a successful audit. How many auditors have not enthusiastically started a performance audit of a certain policy, only to find out at the end that policy goals had never been properly set? Or that the original clear set of objectives had been brutally mixed into a fuzzy political compromise?

The city government of Rotterdam, however, has a relatively long history of focussing on the production of SMART results. Results which are Specific, Measurable, Actual, Relevant and which have to be obtained in Time. Being the city with the largest port in the world, local government and other landlubbers prefer the use of nautical terms. Therefore in 1997, the city executive started with the introduction of the so called 'beacons'. For those who do not sail: a beacon is a fixed sign at sea which helps the captain to set his course. As an instrument of management reform it is supposed to compare the promised results in the near future with the zero setting at the start. Is there any progress during the years? In Rotterdam, the special way in which beacons were planned, made it a unique instrument. While all other cities and central government have introduced the output orientation into the annual budget cycle, Rotterdam has connected it with its most important political paper: the full term coalition agreement. The 1998-2002 city government promised at the start of the term to realise 41 beacons within four years. The beacons varied from the growth of employment with 10,000 extra jobs in the region to the construction of extra 7 kilometres of bicycle track in the city each year. In 2000 the Rekenkamer started a self-initiated audit. We wondered what progress had been made by mid-term. Several councillors were surprised and a bit annoyed that we addressed that topic; they never ever talked about it. Which was exactly one of our reasons for initiating this particular audit. In the end we found out that out of the 41 beacons, 7 were well on course, 12 were delayed and for 22 their situation was unknown. So we published our report under the title: 'Beacons in the fog'. The executive hurried to respond with a strategy paper: 'Beacons out of the fog'. But they were running out of time: elections were coming up.

Their successors in 2002 once again chose to make their voters specific promises although they abolished the term 'beacons' and shifted to 'measurable goals'. As the mayor told me while I was visiting the executive's meeting:

- I will never want to hear that word anymore, Mr Mul!
- But Mayor, I replied, a so-called measurable goal has exactly the same managerial significance as beacons had until now. We can use a bit of consistency in local government.

However, it was clear that I underestimated the political importance of an Orwellian shift in rethorics, once the new executive is in power. Their coalition agreement consists of 6 top priorities, 56 priorities and 87 objectives. Top priority number one is safety. One of the 56 priorities is neighbourhood safety. While one of its objectives is to keep the neighbourhood clean at a certain level. Both neighbourhood safety and cleansing have been transformed into measurable goals. Each year the executive reports what progress has been made regarding the actual performance. The city council has requested the Rekenkamer Rotterdam to audit this report each year and to state whether the results which are presented are true and fair. In this way the Rekenkamer provides assurance about the non-financial results from the annual report. Auditing the performance as it is reported to the council by the auditee, comes very close to a traditional financial audit of the accounts in the annual report. In fact, they are complementary; we have filled the gap.