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Public Sector Modernisation: Modernising Accountability and Control

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1. Introduction

How governments keep control over large and complex operations and how they are held to account has changed over the past 15 years because of technological innovations, changes in the size of government, and the introduction of performance budgeting and management. This paper looks at the challenges and changes under way to control systems in OECD member countries. It is an interim report. More comprehensive information on the topic will be gathered in a survey to be completed in 2005.

What is control? While the term seemingly translates easily among languages, there are wide variations in what is meant by the word control. For the purposes of this paper, control means ensuring that an organisation is operating as intended. Systems of control provide internal and/or external assurance that the management systems are operating well. Traditionally, they focus on ensuring that funds are properly accounted for and regulations complied with. In modern management, control systems can extend to the quality of performance information, and internal control can cover the processes for strategic and performance management.

What are the main trends in control? The main story of control in OECD member countries is the move from *ex ante* to *ex post* control, and the development of stronger processes of internal control. Simplistically, the *ex ante* to *ex post* trend is from a system where transactions (payments) were approved prior to commitment from a controller outside the spending ministry, to one where internal management makes many financial and non-financial resource allocation decisions, which are externally checked after the event. This move puts a new burden on managers to implement processes to achieve effectiveness, reliability and compliance. In practice it means trading the inefficient but relative certainty of checking the regularity and legality of individual transactions to the more efficient and relative uncertainty of verifying the proper operation of systems.

The trends to *ex post* controls and managerial flexibility do not mean there is less control – in fact there are more and more varied controls. Up to 50% of the work of external auditors is now performance audits. Many more financial and non-financial reports are produced. *Ex ante* internal controls are being replaced with *ex post* internal audits. New and more complicated auditing and accounting regimes (*e.g.* accruals) are being put in place.

What has prompted these trends? There is no one event that prompted this move, nor one reform that brought countries to this stage. Rather it was the steady accumulation of many influences and the gradual evolution of systems. The changes include: the growth in size and complexity of government; technological advances; a focus on performance; and increased delegation of decision making and the use of service delivery entities outside direct government influence.

What are the current challenges for control systems? Despite the many changes in control systems, there are challenges ahead. For example, the move to formalise performance in budget and management systems has unresolved difficulties. Performance information is more often than not unaudited and unused. Governments are delegating more service delivery functions to entities outside direct ministerial control. With third party providers, the responsibility for the programme is further from those who are held to account for the funds. Many countries are trying to give managers more flexibility to achieve performance goals, but political systems deal poorly with mismanagement of funds and have lower tolerance for risk.

What are implications of control changes for accountability? As control becomes *ex post*, accountability becomes more important. If decisions are audited after the fact but the audit is not made available to the public and/or if there is no body obliged to ensure corrective action is taken for non-compliance or malfeasance, then the control purpose is not being served. If there are more controls, it means there is more information generated. The formalisation of performance, and of controls of information generated, runs the risk of creating too much information and obscuring the most important controls of public service behaviour, which are those values that public servants have internalised.

Many reformers expected that with new public management approaches, formal controls would be reduced and managers would be more free. This has not happened as envisaged. What has resulted is both more managerial freedom and more formal control – but the nature of control is changing because of the complexity and ambition of the contemporary public management agenda. There is in fact a gap between those ambitions and what control has so far been found feasible. Consequently, control systems are in transition. Gaps between management ambitions and control eventually have to be closed if governments are not to be at risk. How much this will be by improving control, or by limiting management ambitions, remains to be seen.

The OECD Public Sector Modernisation Series reviews the impact of modernising influences on public governance in OECD member countries over the past two decades. This paper, which is part of the series, looks at control systems in transition.[1] In the past two decades, new technologies, privatisation and new forms of management have changed the way governments operate, but have also created a need for new ways of making governments accountable for what they do. Who takes control of ensuring that the public service is spending its money on the tasks assigned to it and carrying out the job efficiently? And how do governments exercise that control over large and complex operations?

This paper covers the key elements of control systems in OECD member countries, the broad changes under way and the challenges resulting from those changes. It is part of a broader study looking at how control systems have changed and what the effects are on wider systems of accountability. In modern societies governments are accountable for the use they make of public resources. This accountability in OECD member countries is based on a democratic mandate, spanning government's promises to the public, its management behaviour and the expected outcomes. While there are suggestions of what helps promote accountability, the paper focuses principally on control systems.

2. What is accountability and control?

The terms accountability and control at first glance seem straightforward. Linguistically, they are words and concepts that seemingly are easy to translate. For example, the word control in English translates easily to *contrôle* in French and *kontrol* in German and is used universally as a term in budget execution systems. However, the English meaning evokes an active authority to manage, whereas the French meaning implies a more passive oversight and other terms in French like *direction* and *responsable* fill out the meaning of the English word control. As a concept, given the country, control can run the gamut from an *ex ante* to an *ex post* system from one that focuses purely on financial transaction or to a wider set of procedures that is often described as management control. Accountability, too, is a difficult term across languages. For many languages, the translated equivalent of accountability is limited to a strict meaning of the accounting system or is thought of as a reporting obligation. Other cultures use accountability to mean broader concepts like how those entrusted with the powers of state are held responsible for their actions. These differences in meaning, concept and practice must be acknowledged for an international dialogue to occur.

For the purposes of the work undertaken by the OECD, the terms accountability and control will be wider, more encompassing terms. Accountability is the obligation to present an account of and answer for the execution of responsibilities to those who have entrusted those responsibilities. Control[2] is broadly defined as a process designed to provide reasonable assurance regarding the effectiveness and efficiency of operations, reliability of reporting and compliance with applicable laws and regulations. For the purposes of this paper, we distinguish between external control and internal control, and between *ex ante* and *ex post* control. External control means the audit process performed by a central and often independent audit agency.[3] Internal controls are the management processes, regulations and structures that provide senior management assurance of the legality, regularity, efficiency, effectiveness and economy of actions. *Ex ante* controls refer to those requirements which must be approved or pre-specified by a supervisory body before implementation. *Ex post* controls refer to checks after implementation. Internal or – more broadly – management controls refer to systems of control within an organisation, and they can be of an *ex ante* or *ex post* nature.

3. What are the trends in control?

The main story of control in OECD member countries is the move from *ex ante* to *ex post* control, and the development of stronger processes of internal control. Simplistically, the *ex ante* to *ex post* trend is from a system where transactions (payments) were approved prior to commitment from a controller outside the spending ministry, to one where internal management makes many financial and non-financial resource allocation decisions, which are externally checked after the event. This move puts a new burden on managers to implement processes to achieve effectiveness, reliability and compliance. In practice it means trading the inefficient but relative certainty of checking the regularity and legality of individual transactions to the more efficient and relative uncertainty of verifying the proper operation of systems. The rise of internal control has freed up external auditors and controllers to adapt their processes to focus on governmental performance. The tendency is that there is more work for both, rather than internal control influence coming at the expense of external control. *Ex ante* controls have been generally reduced but they remain important because of the move to performance goal setting and for sensitive spending and large spending projects (*e.g.* large IT systems).

The tendency to more internally controlled management applies to all OECD member countries, but countries are at different points on a spectrum. At one end are the heavily *ex ante*, externally controlled systems in classic continental European systems like in France, Italy and Spain where delegated treasury controllers and quasi legal "courts" of auditors approve and oversee spending. At the other end are the Westminster and Nordic countries that are externally controlled but on an *ex post* basis. Each country seems to have moved relative to its starting position. Some countries have abandoned external delegated financial controllers in favour of internal auditors but have been slower to relax input controls, while others have delegated and decentralised more decision-making authority and are confronting challenges in employing risk management and more complex management controls.

There is no one event that prompted this move, nor one reform that brought countries to this stage. Rather it was the steady accumulation of many influences and the gradual evolution of systems. These influences and changes include:

- the growth in the size of government, including the sheer magnitude of transactions;
- the growth in the complexity of government (*e.g.* government trying to correct social problems);
- the emergence of technology to improve the efficiency and oversight of the transactions;
- the growing focus on the performance of government rather than simple conformance with law;
- the increasing delegation of decision-making power to governmental units closer to clients;
- the use of entities outside of direct government control to deliver services, including agencies, lower levels of government and other third parties (*e.g.* banks).

These changes have been set against a backdrop of maturing economies and the need to limit aggregate government spending. One notices that many of the changes in budget rules have been accompanied by or resulted in changes to accounting regimes, structural changes, managerial freedom and the like. Each change has posed challenges to accountability and control systems.

4. How have countries confronted the changes?

Generally, there have been more and more varied changes to the internal control process than to external controls. For example, internal audit and other internal management processes have replaced *ex ante* control while management information has changed to line up organisational objectives.

External control units have seen relatively fewer reforms and are more homogenous because of the deep constitutional and statutory basis of their work and the existence of international norms for auditing. As most OECD member countries have incorporated performance in their budget and management systems, value-for-money and performance audits by external auditors have become virtually universal. This move to value-for-money auditing has been partly in response to strengthened internal control. As internal control has dealt more with financial reliability and compliance, audit offices have played a much larger role in promoting government accountability – notably by strengthening their links with legislatures.

Table 1 shows some reforms made in a selection of countries in the last 10 years. The paper continues with a closer look at changes in internal and external control systems.

Table 1. **Control reforms over the last decade**

	Reforms in internal control	Reforms in external control	Reforms in reporting	Other reforms
Denmark	Chief executive contracts (1995). Controller units (1996).			Pilot project for accrual accounting and budgeting.
Germany	Replacement of pre-audit offices by internal control.			Budget pilot project (output-oriented).
Ireland	Accounting officer's statement on internal financial controls. Review of internal control systems. Creation of audit committees.		Management information framework.	Risk management to be introduced. Expenditure review initiative.
Italy	The traditional financial control by the Ministry of Finance is moving from a sanction type to a "collaborative" kind of *ex ante* control. Efficiency and effectiveness controls have been introduced since 1993 (management and strategic control). Management controls are performed at the departmental level of each ministry, while strategic control is at the ministerial level.	*Ex ante* external control by the SAI has been reduced to a few issues (regulatory acts, contracts above EU levels, budget reallocations). *Ex post* performance-based control has been introduced.	Performance reporting (efficiency, effectiveness and economy) is made by internal control bodies to the ministers. The SAI is experimenting with an *ex post* aggregation of financial data based on broad policy goals. The Ministry of Finance reaggregates traditional financial information by centres of responsibility.	
Japan	Evaluation of ministry/ agency policies (necessity, efficiency, effectiveness).	Enforcement since 1998 of 3E audits (economy, effectiveness, efficiency).	Information disclosure law (2001).	Information disclosure system (citizens' enhanced access to information).
Slovak Republic	Adoption of the Act on Financial Control and Internal Audit.			Programme budgeting.
Spain	Co-ordination of internal audit offices under a central organisation. Verifying of attainment of objectives extended to the whole general State budget (from 2005).	Extended to aggregate accounts of the State public sector.	Compliance with objectives.	Objectives-based budget.
Sweden	Results-based control in central government. Internal audit function in main government agencies.	New supreme audit institution merging the parliamentary auditors and the audit office that previously belonged to the executive branch.	Objectives and results dialogue between the responsible minister and the agency's director general.	Creation of a commission to assess improving internal audit by creating a central body.

Table 1. **Control reforms over the last decade** *(cont.)*

	Reforms in internal control	Reforms in external control	Reforms in reporting	Other reforms
United Kingdom	Accounting officer's statement on internal control. Risk management embedded in management of government bodies. Treasury's programme of work to enhance government's handling of risk.	Statutory right to access recipients of grants, bodies delivering public services, some non-departmental public bodies (not limited companies) and contractors working for bodies audited by the SAI.		Resource-based financial management system. Public service agreements.
United States	Chief financial officers to oversee all financial management activities.	Increased focus on review of major federal programmes and anticipating long-term issues.	Reporting on compliance with federal financial and accounting standards. Performance and accountability report.	Government Performance and Results Act.

Source: Case studies and expert meeting discussion, November 2003.

4.1. Changes in internal control systems

Wide international acceptance of the goals for internal control are articulated in the COSO model which states that "internal control is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: 1) effectiveness and efficiency of operations; 2) reliability of financial reporting; and 3) compliance with applicable laws and regulations."[4]

While the goals of internal control are broad, most countries focus on the latter two goals of regularity and legality of spending. Indeed internal control is mostly a financial process while only a few countries are now branching out into management control, performance audits and risk management techniques.

4.2. Internal control is primarily financial control

As shown in Table 2, control on transactions – commitment and payment procedures, accounting procedures and financial statements – continues to constitute the core of the executive's activity. All OECD member countries have internal control units but most have moved away from *ex ante* transaction controls to *ex post* audit. For the most part internal audit exists and is mandatory. The OECD/World Bank budgeting survey shows that of 28 countries queried, only three OECD member countries – Iceland, Sweden and Turkey – currently do not use internal auditors, and in three other countries – the Czech Republic, Germany and Greece – the use of internal audit is not widespread.[5]

Table 2. **A snapshot of internal control systems**

	Unit responsible for execution	Level of control co-ordination	Reporting destination	Typology
Denmark	Spending ministry	No	Managers; external controls	Financial audit
Germany	Spending ministry	Department	Head of department	*Ex ante* budget ; financial audit
Ireland	Spending ministry	Department	Management; accounting officer; audit committee	*Ex ante* control; financial audit; risk management to be applied
Italy	Ministry of Finance; spending ministry	Ministry of Finance; spending ministry	Ministry of Finance; ministers and managers; technical committee at the Presidency of the Council of Ministers	*Ex ante* control ; financial and compliance audit ; management and strategic control
Japan	Spending ministry	Ministry	Head of department; rarely minister	Financial audit
Slovak Republic	Ministry of Finance; spending ministry	Ministry of Finance	Ministers; cabinet	*Ex ante* control; financial audit
Spain	Ministry of Finance	Central unit in Ministry of Finance	Managers; ministers; Ministry of Finance; cabinet	*Ex ante* control; financial audit; evaluation of programmes (a few)
Sweden	Agencies	Management unit	Agencies' management	Value for money; compliance
United Kingdom	Spending ministry	Department	Accounting officer	Management control; internal audit; risk management
United States	Spending ministry	Department/ agency	Head of department/ agency; chief accounting officer	Management control; financial audit

Source: Case studies and expert meeting discussion, November 2003.

4.3. Moving beyond financial control

For those countries that have moved beyond financial control, more sophisticated management controls are used as complementary add-ons rather than substitutes for the financial processes. There are meaningful differences, though, in the extent to which countries use effectiveness and efficiency audits as well as risk management techniques. Moreover, to whom the control bodies report and the degree of decentralisation of the internal control units varies markedly from country to country.

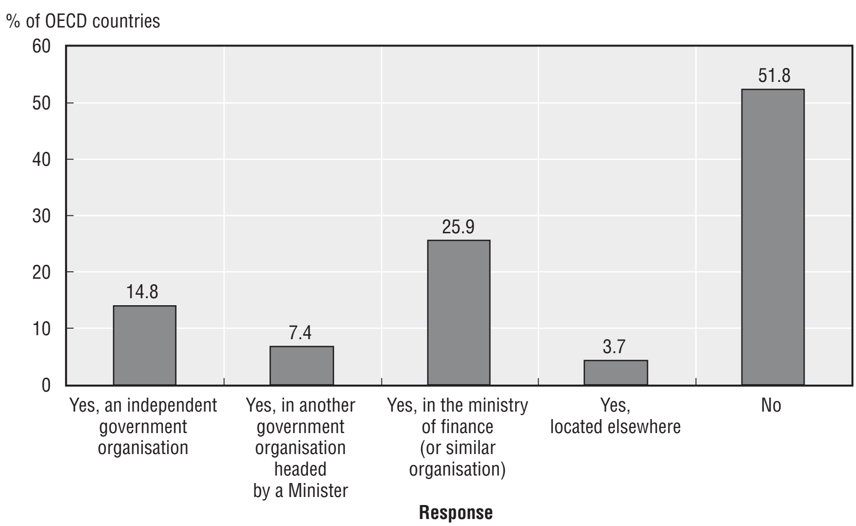
There is a steady increase in the volume of performance information. However, the quality and use of performance information is not necessarily monitored by the internal control entities. While in most countries, performance information is incorporated in the formal budget formulation process, it is not always taken into account when making decisions about budget allocations. When internal control incorporates non-financial aspects, one finds a performance-oriented audit closer to financial performance or value for money (economy, effectiveness and efficiency) than results auditing. Thus countries moving away from financial control to wider management control regimes tend to focus on programme effectiveness rather than whether the performance data is accurate.

Recently, a few countries (Australia and the United Kingdom) have formalised risk management techniques into their management control structures and other countries have become actively interested in this development (Ireland and Japan). These countries had more elaborate internal controls as a starting point and have gone the furthest in relaxing input controls and managing by performance and contract. However, most countries follow a more classical approach of external audit risk assessment, since individual managers lack a global view of risks, both financial and non-financial.

4.4. Co-ordination of internal control

One issue encountered by countries is how to relate internal and external control. Because internal control is responsible to management, its independence, impartiality or objectivity can be called into question. According to Figure 1, half of OECD member countries have created central coordination, policy and/or monitoring units to oversee the departmental internal control systems. Half of these units are located in the finance ministry. These range from units that actively audit internal auditors, to small units which set standards and co-ordinate specific overlapping issues. Some countries have explicit links

Figure 1. **Is there a Central Office for controlling and monitoring audits?**



Source: Question 4.1.I. OECD/WB Survey 2003.

between the external audit institutions and internal control units. The supreme audit institutions (SAIs, see section 4.7.) evaluate internal control systems in deciding on the extent and depth of their own auditing work.

4.5. *Ex ante remains important*

While there has been a trend to *ex post* control, *ex ante* control still exists in important ways. Top-down budgeting requires stronger *ex ante* control, with input rationing, rules, control systems and incentives to ensure that departments, and government as a whole, receive and spend no more than they were allocated. And performance-oriented budgeting and management requires a limited return to centralised planning of performance (*ex ante* specification of intended outputs and impacts,) but also more *ex post* performance reporting, audit and evaluation.

4.6. *Internal control reporting*

In OECD member countries, most internal control reports are issued and used at levels below the ministerial level. Only a few countries, including Italy and the Slovak Republic, report beyond the senior management level. Internal control units are generally independent of line management. Senior management, ministers and the cabinet tend to receive summary reports on financial and management activity on an annual or semi-annual basis.

For example, in the United Kingdom the head of internal audit of any department reports to the accounting officer with the necessary information to issue the annual statement on internal control, providing the accounting officer with an opinion on the body's arrangements for risk management, control and governance. In the case of Spain, internal auditors report to top managers and to the central unit in the Ministry of Finance. Special reports can be addressed to ministers and the cabinet. The central unit provides the cabinet with an annual report with the most relevant features, findings and recommendations on the financial activity.

4.7. *The external control system audit*

While there has not been the variety of changes as in internal control, external control bodies have almost universally added performance and/or value-for-money audits to their workload. External audit ensures that planning, budgeting and use of public resources conform to a country's laws, pursue the objectives defined by parliament and government, and are linked to the real world of programme operation. In most countries, the main body responsible for this is the national audit office often known as the **supreme audit institution** (SAI). The role of the SAI has evolved from the traditional task of verifying legality and regularity of financial management and of accounting.[6] The

Table 3. **A snapshot of external control systems**

	Scope of audit	SAI's status*	Audit typology	Reporting
Denmark	Government; Institutions funded by government; local government areas funded with national funds.	Parliamentary office.	Financial (including regularity) audit; performance audit (VFM).	Parliament (Public Accounts Committee).
Germany	Federation; federal public corporations; social security; federation shareholders' interests.	Independent office; provides assistance to parliament and the executive.	Regularity; VFM; effectiveness for large-scale programmes.	Annual (both houses); special reports; impact report on recommendations' remedial actions.
Ireland	Whole government (but not the State debt policy); agencies; universities; etc.	Independent office.	Financial audit; certification of accounts; VFM.	Committee of Public Accounts (parliament).
Italy	Whole government; State enterprises; autonomous bodies; main local authorities.	Independent office (president and magistrates appointed by the President of the Republic).	Regularity; financial audit; performance audit; (objectives).	Two Chambers and Treasury.
Japan	Whole national government; bodies receiving government financing or grants (agencies, prefectures, municipalities).	Independent office.	Regularity; financial audit; certification of government accounts; VFM.	Annual (Diet).
Slovak Republic	Whole government; public entities; territorial units.	Independent office. (president appointed by parliament).	Regularity; performance audit (VFM).	Parliament.
Spain	Whole public sector; (co-ordination with regional courts of accounts).	Dependent on parliament (not hierarchical subordination).	Regularity; financial audit; economy and efficiency audit	Mixed Congress-Senate commission; government.
Sweden	State; agencies and government-owned companies; government grants and benefits conceded by government; Bank of Sweden; social insurance fund.	Parliamentary office (as of 2003).	Financial audit; performance (effectiveness) audit.	Annual financial audit report to government; annual agency reports to parliament.
United Kingdom	National government (local and health authorities controlled by the Audit Commission).	Office of the House of Commons (through the Comptroller and Auditor General).	Financial (including regularity) audit; certification of accounts; VFM audit.	Parliament (Committee of Public Accounts).
United States	Federal government.	Congressional entity.	Financial audit; reviews of major federal programmes.	Congress.

* Refers to the legal relationship with the legislature.

Source: Case studies and expert meeting discussion, November 2003.

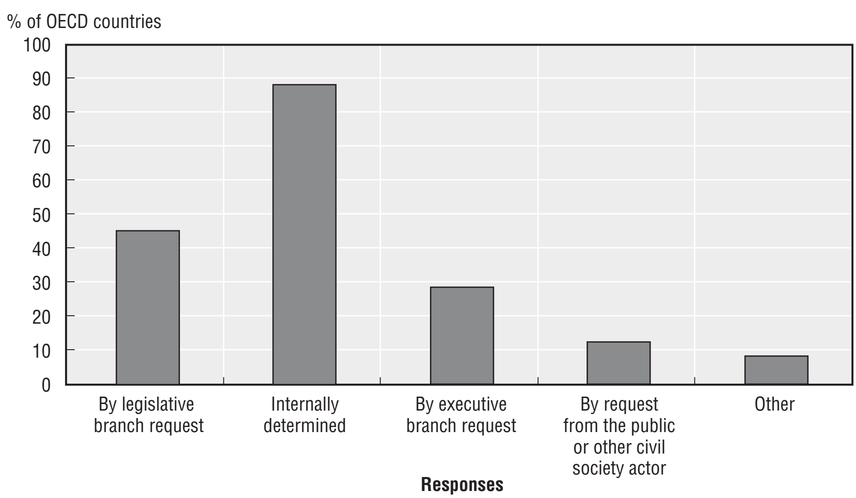
modern SAI audit objectives cover both the traditional focus of legality, regularity and economy, and reviews of efficiency and effectiveness of financial and programme management.[7] The United States Government Accountability Office, given the constitutional framework of the United States, stands alone in pushing beyond these objectives to provide policy advice and making management recommendations. (Budget offices and finance ministries in general also perform what some people term external controls – both *ex ante* and *ex post* reviews of spending, processes, performance and value-for-money evaluations. However for the purposes of this paper, the finance ministry reviews are considered as internal control mechanisms.)

4.8. Independent, but how independent?

The most significant changes in external control have been to secure the independence of auditors as well as to reinforce the links between the audit office and the legislature. Either at the constitutional or the statutory level, most SAIs are now independent of the executive. In Nordic countries particularly, the audit offices have been made independent offices of parliament.

In most countries, the audit office determines its own workload with some countries allowing audit subjects to come from parliament (40% of OECD member countries) or even the executive itself (25% of OECD member countries – see Figure 2). This means that despite moves to make the office more independent, there are still some countries with audit offices that cannot fully determine their workload.

Figure 2. **How are audit subjects determined?**



Source: Question 4.5.n. OECD/WB Survey 2003.

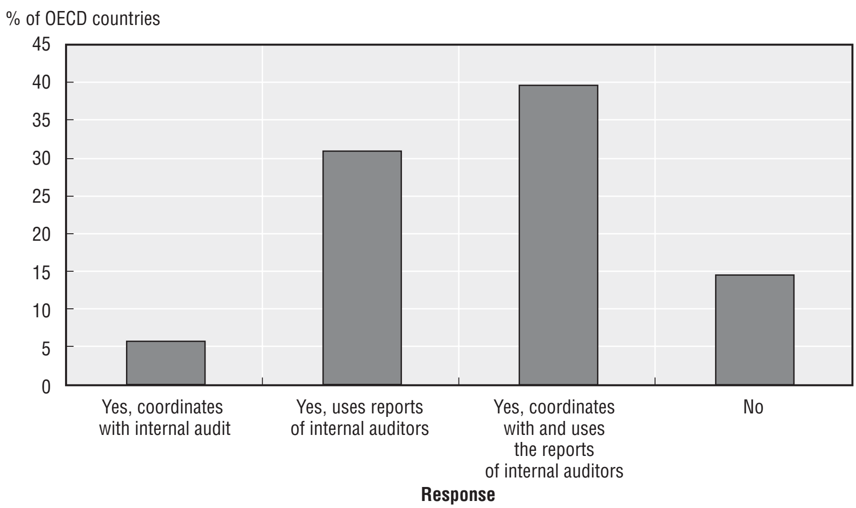
4.9. Differences in the scope of audit

Some differences appear in the scope of institutions overseen by the SAIs, including, for example, control over regional or local governments and state enterprises in Italy and Japan. Also, in many continental countries SAIs continue to have a jurisdictional role for enquiries and for sanctions of an individual's use of public resources. The most important reasons for changes in scope have been decentralisation, and changes resulting from privatisation.

4.10. SAIs universally do performance audits

As internal control and the rise of automation has made financial auditing easier and less burdensome, external auditors have addressed programme effectiveness or value-for-money audits (Table 3). However, financial audits still comprise the majority of the SAI workload. Because internal control focuses on financial audits as well, most SAIs either co-ordinate or use the reports from the internal auditors if they are confident of their credibility.

Figure 3. **Does the supreme audit body coordinate with or use the reports of internal auditors?**



Source: Question 4.5.s. OECD/WB Survey 2003.

Only in a few countries like the United Kingdom and the United States do VFM and effectiveness audits account for more than half of the work performed by the SAI. As the United States moves beyond traditional financial, performance and risk audits, the linkages between the executive branch must necessarily be stronger, and the Government Accountability Office is attempting to maintain its objectivity while being intimately involved in management operations.

5. What are the modernisation challenges resulting from the reforms?

5.1. The complexity of government

Governments of OECD member countries grew throughout the last 30 years by taking on larger, more complex and ambitious tasks. The last two decades have been a period of financial constraint which requires government managers to be more purposeful with the resources available to them. The complexity of government requires more varied and performance-related internal controls. As government diversifies its services, external auditors must also adapt and expand their oversight in equally diversified ways.

5.2. The formalisation of performance

Reforms to accountability and control systems have paralleled efforts to introduce performance budget and management reforms aimed at giving service delivery organisations more managerial freedom to comply with programme objectives. Tight *ex ante* control is inefficient and incompatible with the needs of a performance-oriented system.

The limitations of setting performance goals and then measuring and auditing them are well documented. In current practice in member country governments, for the most part, performance data is accepted at face value. Parliaments have been interested in the programme evaluations conducted by the auditors, but they have so far lacked significant interest in performance measures. Since the linkages between available resources and performance are weak, internal control systems still focus primarily on financial measures. While international bodies are working on creating standards for auditors and to a limited degree internal control for performance audits and performance information, countries have been slow to adopt them in their systems.

5.3. Decentralisation and delegation

As countries fund service delivery and even policy making at lower levels of government, overseeing and accounting for those funds is difficult. Other levels of government sometimes have their own control and audit procedures that can be at odds with national systems. Other more difficult problems can occur. For example, local politicians can prevail on national politicians to waive financial audit penalties, thus weakening accountability for central government funds. Monitoring and holding officials of other levels of government to account is more difficult than in direct line ministries. As systems become decentralised or deconcentrated, there is a need for better co-ordination of internal controls and more robust external oversight.

5.4. *Partnering and third party delivery*

In the drive to make government more efficient and responsive, governments have turned to agencies and other arm's-length bodies to deliver services. Moreover, governments are partnering with private companies and non-governmental organisations as well that are subject to private sector audit standards, can withhold non-public portions of their records from governments, and are subject to contractual arrangements. Programme managers must rely on external, *ex post* control which means they have few tools at their disposal to correct problems mid stream. Most countries still place ultimate accountability on ministers and senior civil servants. With third party providers, the responsibility for the programme is placed further from those who are held to account for the funds.

5.5. *Automation and technology*

The introduction of automation and other technology, combined with conceptual advances in accounting and auditing, has been the true success story in control. In general terms, the information provided is better and more reliable, as a consequence of improvements in terms of performance information, the introduction in the accounting systems of some accruals information and the use of information and communication technology, both for reporting and for controlling. Also, the use of the Internet allows more possibilities for open government, with feedback from citizens. Through technology, internal and external controllers have been able to enlarge their scope and types of audit without abandoning their traditional functions of preventing mistakes and fraud, and conducting financial analyses. Of course, there are risks from technology. The design of computerised control systems can be difficult and expensive.

5.6. *Innovation, flexibility and risk*

The fundamental challenge to control is the move from expecting conformance with tightly defined rules to a flexible system where managers are given flexibility to achieve wider goals. This means that the model for control is moving from a fundamental distrust of management to a model that values management taking calculated risks and making decisions based on performance rather than rules. Political systems deal poorly with mismanagement of funds and have lower tolerance for risk. Private sector organisations have the discipline of the market place, but there is no public bankruptcy process. A handful of countries have attempted to incorporate risk management into their accountability and control systems, but at this point experience is limited and lessons are few.

Table 4. **The modern control framework**

	External control		**Internal and management control**					
			Central control			**Organisational control**		
	Ex ante Indirect	*Ex post*	*Ex ante* Direct	*Ex ante* Indirect	*Ex post*	*Ex ante* Direct	*Ex ante* Indirect	*Ex post*
Financial	SAI observations and recommendations	SAI attest audits	Budget controls, such as spending controls	Accounting and financial management policies and guidelines	Spending reports	Financial management controls, such as signing authorities	Entity financial management policies	Spending reports, internal financial audits
Trend	–	–	↓	–	↑ ↑	↓	–	↑ ↑
		Expansion for some SAIs of coverage to individual entities	*Budget controls now at entity or large programme level*	*Modernising of policies occurring*	*Much more financial reporting*	*More flexibility given to managers*	*Modernising of policies occurring*	*New auditing and accounting regimes (e.g accruals) both require and allow more reports*
Performance	SAI recommendations, guides and best practices	SAI performance audits; audits and reports from other legislative officers	Dialogue on setting objectives and results	Performance-related policies and guidelines	Central evaluations and audits	Entity dialogue on objectives and results	Entity performance-related policies and guidelines	Entity evaluations, internal audits
Trend	↑	↑ ↑	↑ ~	↑ ↑	↑ ~	↑	↑	↑ ↑
	Increasing issuance of guidelines etc. by some SAIs	*Increasing coverage of performance audits and audits/ studies by other independent agents*	*Occurring at least in some countries, such as Sweden, United Kingdom and United States*	*Now occurring in most countries*	*Some increase here, especially audits; others have backed off*	*Occurring as a result of the results focus (?)*	*Occurring as a result of the results focus (?)*	*Increasing internal audit in most places with some increase in evaluations (?)*

Source: John Mayne, 2004.

6. Conclusions

Most OECD member countries claim to be interested in the performance of government. This performance focus has led to or followed differentiated organisational structures, new reporting regimes and data, new service delivery arrangements and new management techniques. This complexity of government intervention requires a generally *ex post* orientation with new internal and management control regimes, and more external attention to value-for-money and performance audits. However, performance-oriented budgeting and management also requires a limited return to centralised planning of performance (*i.e. ex ante* specification of intended outputs and impacts); and to be effective it also requires increased attention to ensuring that public employees have values which internalise both compliance and the desire to pursue public interest goals.

In the early stages of the period under review, there was an expectation that formal controls would be reduced – and managers would be more free. This has not happened as envisaged. What has resulted is both more managerial freedom and more formal control – but the nature of control is changing because of the complexity and ambition of the contemporary public management agenda. There is in fact a gap between those ambitions and what control has so far been found feasible. Consequently, control systems are in transition. Whereas traditional public management featured purely financial *ex ante* external controls, modern systems rely on internal controls backed up by strong *ex post* audits by SAIs. In OECD member countries, control is still generally financial in nature – although less and less exclusively so. There is much more financial reporting because of improvements in technology, freedom of information laws, parliamentary needs and new accounting regimes (*e.g.* the introduction of accruals). *Ex ante* control still exists, since reforms like top-down budgeting require stronger *ex ante* control, with input rationing, rules, control systems and incentives to ensure that departments, and government as a whole, receive and spend no more than they were allocated.

Gaps between management ambitions and control eventually have to be closed if governments are not to be at risk. Whether this will be by improving control, or by limiting management ambitions, remains to be seen.

Notes

1. There are two primary sources for this paper. The first is a set of case studies developed by OECD member countries participating in an expert meeting held in November 2003. These countries appear in the series of tables on changes in control systems. The other source is the OECD/World Bank Survey on Budget Practices and Procedures that was completed in 2003 and includes 28 OECD

member countries as well as a number of non-member countries. The data from this survey are the basis of the graphs. See *http://ocde.dyndns.org*.

2. This definition is generally taken from the COSO model, *www.coso.org*. COSO is an international, voluntary professional organisation dedicated to the improvement of financial reporting through ethics, effective internal control and corporate governance. While originally a private sector group, the COSO definitions and procedures are generally relevant to public sector organisations.
3. Classically, external control included central executive branch entities which provided, for example, *ex ante* transaction level spending authority. This is no longer an accepted concept, and typically not employed in OECD member countries.
4. COSO model, *www.coso.org*.
5. Question 4.1.g. of the OECD/World Bank Survey on Budget Practices and Procedures, *www.oecd.org/gov/budget*.
6. See the Lima Declaration of Guidelines on Auditing Precepts (Section 4.1.), INTOSAI, *www.intosai.org*.
7. *Ibid.*, Section 4.3.

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