

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

Concluding report on the second working session of the EURORAI conference in Barcelona

- Volker Hartloff -

Reports on how the use of new steering instruments in the public sector audit institutions' areas of responsibility has developed, formed the subject of the second working session. During the session, it became clear that all of the administrations on which reports were submitted are endeavouring to find new ways in which to meet requirements in terms of efficiency and economy. To varying degrees, they have employed procedures and methods which can all be subsumed under the terms "New Public Management" and "new steering models", but which comprise a very wide array of individual measures.

Our British colleagues have described a particularly interesting approach. In addition to the almost classic approaches, such as examining the necessity of all tasks and searching for "best practice", i.e. the most efficient way to perform the task, the personal responsibility of an administration's leading official is now being addressed. It is their personal duty to strive for constant improvements in the way in which work is organised and processed and how priorities and targets are set. The success of their activities must be measured in terms of results. In this way, external public sector audit bodies may arrive at new audit and consulting approaches capable of assisting them in their work towards a more efficient, target-oriented action of the administration.

Our Dutch colleague has shown us that, even a far-reaching changeover to resource-oriented forms of accounting, new steering models, in particular the planning model which sets concrete targets, have their problems. The audits which he described have highlighted the fact that set targets or agreed targets will not, on their own, improve the performance of administration. Rather, an ongoing performance review is required and targets must also be examined to see whether they are accurately defined. At the same time it became clear that, in the case of this new form of administrative action in particular, external public sector audit is becoming no less significant – a fact which, of course, I find especially pleasing. If its audits are geared towards the particular features of the new form of administrative action, it may even gain in importance. The example of Rotterdam has shown the problems involved in just setting targets effectively.

The contributions made by our German colleagues have clearly illustrated how, in a federal system, the same targets are tackled at a different pace and using various approaches. The Court of Audit of Saxony has assisted and driven forward the development of new administrative methods at local authority level, based in particular on commercial accounting. This development, which was of particular significance in the new federate states in Germany, in connection with the reconstruction of self-administration structures for local authorities, is broadly replicated in Germany's old federate states, albeit at a different speed. However, the talk showed me just how fast-moving individual elements of the new steering models are. Thus, in my experience, the euphoria which accompanied the development of administrative models, has waned markedly.

As part of local government audit, an ongoing external audit duty will be to examine the efficiency of those steering possibilities resulting from the introduction of the new methods, especially resource-oriented accounting. In so doing, a particular focus will need to be placed on the economy, efficiency and effectiveness of the new ways in which administration may act. We will need to ensure that the costs related to steering initiatives remain in reasonable proportion to the benefits.

In this connection, I find developments in the federate state of Hesse particularly interesting. At all levels of Hesse's federate state administration, the entire accounting system is being converted, with considerable administrative input and huge financial resources. As in the economy, the consumption of resources has developed into a benchmark. The speaker impressively illustrated the difficulties associated therewith in the area of public sector administration, when assessing assets. As far as external public sector audit is concerned, the conversion signifies an extensive reorganisation of the way it works. Its work will no longer focus on auditing proper budget implementation but on an activity comparable to that of an auditor who certifies individual balance sheets and ultimately the consolidated balance sheet of the entire federate state. However, may I say that the changeover to a new system, which has been introduced and vigorously pursued in Hesse, cannot be regarded as a typical example of the trend in Germany's federate states. Other federate states, such as Rhineland Palatinate, whose Court of Audit I represent, are proceeding much more cautiously, albeit in a similar direction.

Working on the basis of different systems and methods to present accounts, the different speeds and the varying extent to which the new steering models are deployed, when the target is the same, mean

that it is becoming increasingly difficult to compare results not only within a country but also between the different national systems.

Countering this and working towards applying internationally recognised and accepted standards could be a task for EURORAI, provided this is possible when taking the special features of public sector administration into account.

The presentations and discussions have highlighted the fact that the new procedures used by administrations to steer and fulfil tasks, are forcing our external audit institutions to constantly examine and adjust their control procedures. Of particular interest here are the experiences individual audit bodies have made as a result of a more rapid switchover. Not only can we learn from one another how to improve our audit methods in order that efficient behaviour is recognised as a result of the use of the new procedures, but we can also learn which mistakes administrations have already made.

Whether in the end we will have to assume - at least partially - the role of chartered accountants for the public sector is still unclear. We will have to wait and see whether such a role can be reconciled with the traditional duties of external public sector audit. However, the breadth of the solutions portrayed shows, at the same time, how important the work of EURORAI is. It is becoming increasingly important as a platform for a specialist exchange of experiences.