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PUBLIC SECTOR MODERNISATION:
MODERNISING ACCOUNTABILITY AND CONTROL

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PUBLIC SECTOR MODERNISATION
MODERNISING ACCOUNTABILITY AND CONTROL

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EXECUTIVE SUMMARY

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 underway to control systems in OECD member countries. It is an interim report. More comprehensive information on the topic will be gathered in a cross-OECD survey to be completed early next year.

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 focused on ensuring funds were 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 external auditors work is now performance audits. There are many more financial and non-financial reports 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 program 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 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 that 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 publics 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 we have 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.

Questions for Discussion

What are the challenges in controlling entities outside of direct ministerial control, especially when social controls are harder to apply?

How are countries using performance information to make government officials accountable for government performance?

Does increased internal and management control mean less or different external control?

INTRODUCTION

1. 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. New technologies, privatisation and new forms of management have changed the way governments operate in the past two decades, 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?

2. This paper covers the key elements of control systems in member countries, the broad changes underway 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.

What is accountability and control?

3. 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.

4. 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 are entrusted those responsibilities. Control[1] 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.[2] Internal controls are the management processes, regulations and structures that provide senior

1. This definition is generally taken from the COSO model. 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.

2. 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.

management assurance of the legality, regularity, efficiency, effectiveness and economy of actions. *Ex ante* controls refer to those to those requirements which must be approved/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.

What are the trends in control?

5. 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).

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

7. 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;
- 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).

8. 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.

How have countries confronted the changes?

9. 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.

10. 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.

11. Table 1 shows some reforms made in a selection of countries in last 10 years,[3] which address some of the challenges posed by the modernisation process. The next two sections take an in-depth look at changes in internal and external control systems.

3. There are two main primary sources for this paper. The first is a set of case studies developed by OECD countries participating in an expert meeting held in November 2003. These countries form the series of tables on changes in control systems. The other source is the OECD Survey on Budgeting Practices and Procedures that was completed in 2003 and includes 28 OECD countries (as well as a number of non-member countries.) The data from this survey is the basis of the line charts found in the paper. This table was developed from the case studies.

Table 1. Control reforms over the last decade

Country	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			Product 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
Japan	Evaluation of ministries/ agencies policies (necessity, efficiency, effectiveness)	Enforcement since 1998 of 3E audits	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	Coordination 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 to the State Public Sector	Compliance of objectives	Objectives-based budget
Sweden	Results-based control in central government. Internal audit function in main government agencies	New SAI merging Parliamentary Auditors and the RRV that belonged to the executive branch.	Objectives and results dialogue between the responsible minister and agency's director general	Creation of a commission to assess about improving internal audit by creating a central body
United Kingdom	Accounting Officer's statement on internal control (SIC) Risk management embedded in management of government bodies. Treasury's programme of work to enhance government's handle of risk	Statutory right to access to recipients of grants, bodies delivering public services, some NDPBs (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 oversight all financial management activities	Increased focus on review of major federal programs 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, Madrid, 2003.

Changes in internal control systems

12. 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."

13. 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.

Table 2. A snapshot of internal control systems

Country	Unit responsible for execution: MoF, spending ministry, program	Level of control coordination	Reporting destination	Typology
Denmark	Spending ministry	No	Managers External control	Financial audit
Germany	Spending ministry	Department	Head department	*Ex ante* budget Financial audit
Ireland	Spending ministry	Department	Management Accounting Officer Audit Committee	*Ex ante* Financial audit Risk management to be applied
Italy	MoF, Spending ministry	MoF	Managers	*Ex ante* Financial audit Performance audit
Japan	Spending ministry	Ministry	Head department Rarely minister	*Ex post* Financial audit
Slovak Republic	MoF, Spending ministry	MoF	Ministers Cabinet	*Ex ante* Financial audit
Spain	MoF	Central unit in MoF	Managers Ministers MoF Cabinet	*Ex ante* Financial audit Evaluation of programmes (a few)
Sweden	Agencies	Management unit	Agencies' management	VFM Compliance
United Kingdom	Spending ministry	Department	Accounting Officer	Management control Internal audit Risk management
United States	Spending ministry	Department/ agency	Head department/ agency Chief Accounting Officer	Management control Financial audit

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

Internal control is primarily financial control

14. As shown in Table 3, control on transactions – commitment and payment procedures, accounting procedures and financial statements continue 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 budgeting survey shows that of 28 countries queried, only three OECD 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.[4]

Moving beyond financial control

15. For those countries that have moved beyond financial control, the use of more sophisticated management controls are 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.

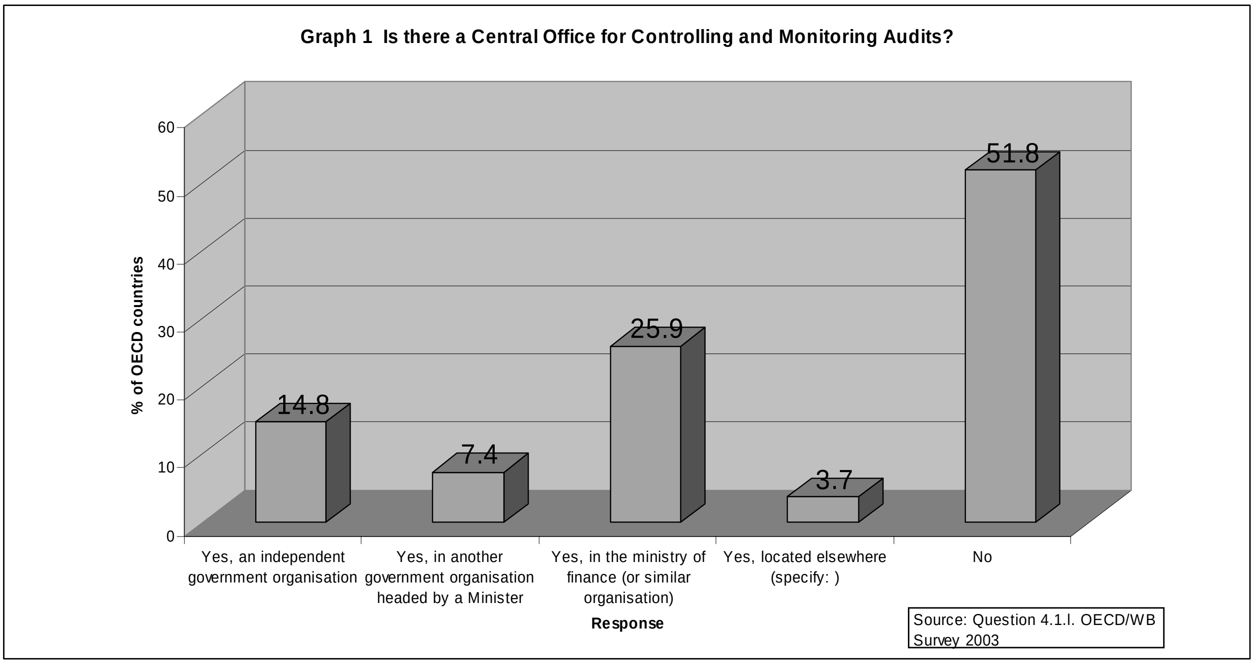
16. There is a steady increase in the volume of performance information. However, the quality and use of performance information is not necessarily monitored by the internal control entities. While in most countries, performance information is incorporated in the formal budget formulation process, it 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, efficiency and effectiveness) 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.

17. Recently, a few countries (United Kingdom and Australia) have formalised risk management techniques into their management control structures and other countries are 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 the classical approach of external audit risk assessment, since individual managers lack a global view of risks, both financial and non-financial.

Coordination of internal control

18. 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 the following graph, 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 coordinate specific overlapping issues. Some countries have explicit links between the external audit institutions and internal control units. The Supreme Audit Institutions evaluate internal control systems in deciding on the extent and depth of their own auditing work.

4. Question 4.1.g of the OECD/World Bank Survey on Budgeting Practices and Procedures.



Ex ante remains important

19. 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.

Internal control reporting

20. 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 Cabinet tend to receive summary reports on financial and management activity on an annual or semi-annual basis.

21. 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.

22. 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 provide the Cabinet with an annual report with the most relevant features, findings and recommendations on the financial activity.

The external control system audit

23. 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.

24. 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 program 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.[5] The 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.[6] The US General Accountability Office given the constitutional framework of the United States stands alone in pushing beyond this to providing policy advice and making management recommendations. (Budget offices and Ministries of Finance 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 Ministry of Finance reviews are considered as internal control mechanisms.)

5. INTOSAI: Lima Declaration of Guidelines on Auditing Precepts. Section 4.1.

6. *Id.* Section 4.3.

Table 3. A snapshot of external control systems

Country	Scope of audit	SAI's status[7]	Audit typology	Reporting
Denmark	Government Government's funded Institutions 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 shareholder's interests	Independent Office Provides assistance to the 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 (no State's debt) 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 Government-financed/granted bodies (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 the Parliament)	Regularity Performance audit (VFM)	Parliament
Spain	Whole public sector (coordination with Regional Courts of Accounts)	Parliamentary Office	Regularity Financial audit Economy and efficiency audit	Mixed Congress-Senate Commission Government
Sweden	State Agencies and government-owned companies Government's grants and benefits Bank of Sweden Social insurance fund	Parliamentary Office (as of 2003)	Financial audit Performance (effectiveness) audit	Annual financial audit report to Government Annual Agencies reports to Parliament
United Kingdom	National government (local and health authorities controlled by the Audit Commission)	House of Commons Office (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 programs	Congress

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

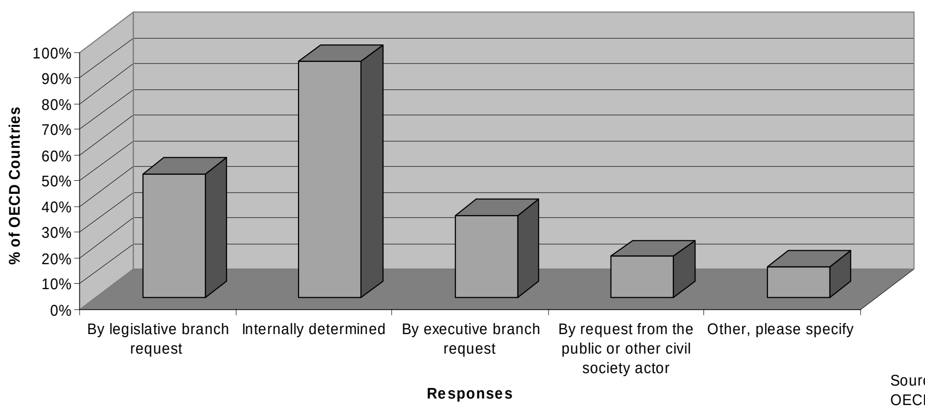
7. Refers to the legal relationship with Legislature.

Independent, but how independent?

25. The most significant changes in external control have been to secure the independence of auditors as well as reinforcing the links between the audit office and the legislature. Either at the constitutional or the statutory level, most SAI's are now independent of the Executive. In Nordic countries particularly, the audit offices have been made independent offices of the Parliament.

26. In most countries, the audit office determines its own workload with some countries allowing audit subjects to come from the parliament (40% of OECD member countries) or the even the Executive itself (25% of OECD member countries.) (See the following graph.) This means that despite moves to make the office more independent, there are still countries that can not fully determine their workload.

Graph 2 How are Audit Subjects Determined?



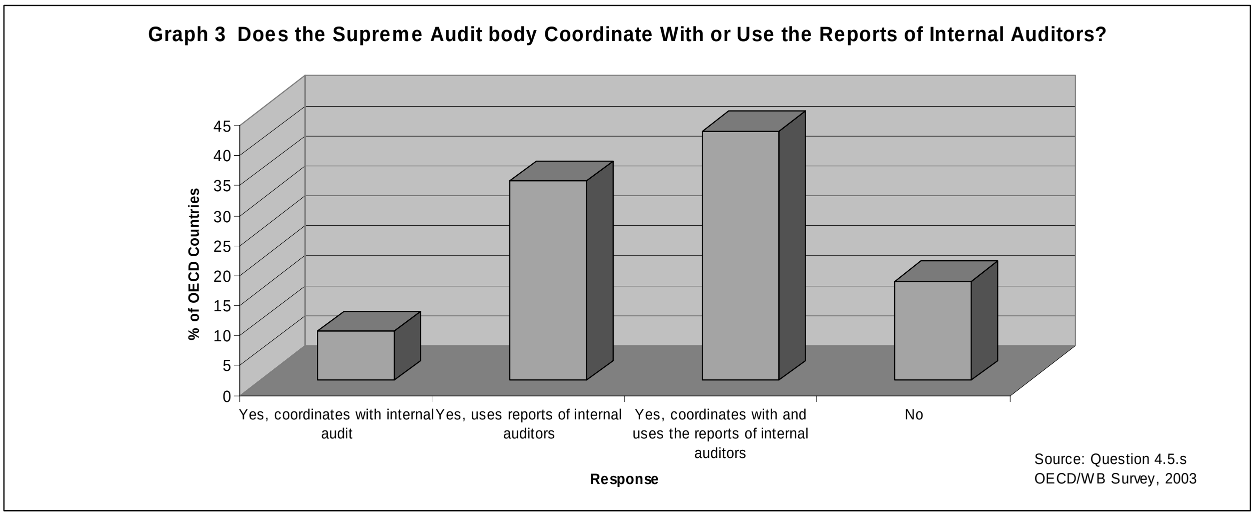
Source: Question 4.5.n. OECD/WB Survey 2003

Differences in the scope of audit

27. 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 individual's use of public resources. The most important reason for changes in scope have been decentralisation, and changes resulting from privatisation.

SAIs universally do performance audits

28. As internal control and the rise of automation has made financial auditing easier and less burdensome, external auditors have addressed program 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 coordinate or use the reports from the internal auditors if they are confident of their credibility.



29. 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 GAO is attempting to maintain its objectivity while being intimately involved in management operations.

What are the modernisation challenges resulting from the reforms?

The complexity of government

30. OECD governments 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 resources available to them. The complexity of government requires more varied and performance related internal controls. As government diversifies their services, external auditors must also adapt and expand their oversight in equally diversified ways.

The formalisation of performance

31. 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 program objectives. Tight *ex ante* control is inefficient and incompatible with the needs of a performance oriented system.

32. The limitations of setting performance goals, 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 program 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.

Decentralisation and delegation

33. 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 coordination of internal controls and more robust external oversight.

Partnering and third party delivery

34. 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. Program 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 program is placed further from those who are held to account for the funds.

Automation and technology

35. 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 IC technology, both for reporting and for controlling. Also, the use of 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 to technology. The design of computerised control systems can be difficult and expensive.

Innovation, flexibility and risk

36. 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 processes. 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.

Conclusions

37. Most OECD member countries claim to be interested in the performance of government. This performance focus has lead 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 public employees have values which internalise both compliance, and the desire to pursue public interest goals.

Table 4 The Modern Control Framework

	External Control		**Internal and Management Control**					
			Central control			**Organizational control**		
	Ex-ante	Ex-poste	Ex-ante		Ex-poste	Ex-ante		Ex-poste
	Indirect		Direct	Indirect		Direct	Indirect	
Financial	SAI Observations & recommendations	SAI attest audits	budget controls, s.a. spending controls	accounting & financial management policies & guidelines	spending reports	financial management controls, s.a. 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*	*Modernizing of policies occurring*	*Much more financial reporting*	*More flexibility given to managers*	*Modernizing of policies occurring*	*New auditing and accounting regimes(e.g. accruals) both require and allow more reports*
Performance	SAI Recommendations, Guides & Best Practices	SAI performance audits; Audits & reports from other legislative officers	dialogue on setting objectives & results	performance-related policies & guidelines	central evaluations & audits	entity dialogue on objectives & results	entity performance-related policies & guidelines	entity evaluations internal audits
trend	↑	↑↑	↑~	↑↑	↑~	↑	↑	↑↑
	Increasing issuance of guidelines et al by some SAIs	*Increasing coverage of performance audits and audits/studies by other independent agents*	*Occurring at least in some counties, s.a. Sweden, USA and UK*	*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 (?)*

38. 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 we have is both more managerial freedom and more formal control – but its nature 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 SAI's. Control across OECD is still generally financial in nature – although less and less exclusively so. There is much more financial reporting because of technology improvements, 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 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.

39. 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 limiting management ambitions, remains to be seen.