

The Role of the Supreme Audit Institutions in New Public Management (NPM) : the Trend of Continental Countries

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I. Introduction

In advanced European and American nations that have implemented reforms based on “New Public Management (NPM)” theory, a mechanism that enables the basic principles of NPM such as performance-oriented approach, customer-oriented approach, and market principles to function effectively has been introduced. In these countries, the Supreme Audit Institutions (SAIs) are playing important roles. In the Government Auditing Review Vol.10, the roles played by the SAIs of Anglo-Saxon countries in NPM centered on “performance-based management” and reforms of the public accounting system were examined, as advanced cases. The NPM-based reforms have been implemented not only in Anglo-Saxon countries such as the United Kingdom and New Zealand but also expanded to continental countries, and it is now becoming the global trend. For that reason, in this paper, the roles of SAIs in continental countries centered on a performance measurement system and reforms of the public accounting system will be examined. The background for such roles of the SAIs being commonly seen in these countries will also be examined.

In this paper, three countries, namely, France, Germany, and the Netherlands, where the author conducted field surveys in September 2003, are taken up as examples of continental countries (refer to Table 1 for countries studied and the outline of respective SAIs). There are characteristics common to the SAIs of these countries and to the Board of Audit of Japan: 1) the SAIs are established based on constitutions of their respective countries; 2) the SAIs’ status in the state governing structure is independent from nation’s legislative, executive and judicial bodies; and 3) final decisions are made by collegial bodies. Also, the NPM-based reforms in continental countries are in the process of trial and error for full-fledged implementations. Such situations are quite similar to the current situation in Japan, rather than those in Anglo-Saxon countries. Thus, the author considers that examining the roles of SAIs in their respective NPM-based reforms in the continental countries can be a reference for Japan as we contemplate what role the Board of Audit should play in Japan’s NPM-based reforms. (Views expressed in this paper are the personal ones of the author, and do not represent official views of the Board of Audit or those of SAIs of France, Germany, and the Netherlands.)

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Table 1: Outline of Surveyed Countries and Their SAIs

(FY 2002)

Name of country		France	Germany	The Netherlands	Japan (Reference)
Country	Government system	Combination of presidential system and parliamentary cabinet system	Parliamentary cabinet system/ federal system	Parliamentary cabinet system	Parliamentary cabinet system
	Parliament	Bicameral system	Bicameral system	Bicameral system	Bicameral system
	Population	59.19 mil.	82.31 mil.	15.99 mil.	127.21 mil.
	Land area	552,000 km ²	357,000 km ²	42,000 km ²	378,000 km ²
	GDP	\$1,431.3 bil.	\$1,986.2 bil.	\$418.5 bil.	\$3,993.4 bil.
	Fiscal year	January – December	January – December	January – December	April – March
SAI	Name	Cour des Comptes (CDC)	Bundesrechnungshof (BRH)	Algemene Rekenkamer (AR)	Board of Audit of Japan
	Enabling law	Constitution of the French Republic	The Basic Law of the Federal Republic of Germany (Constitution)	Constitution of the Netherlands	Constitution of Japan
	Status	Independent from the parliament, cabinet and judicial power	Independent from the parliament, cabinet and judicial power	Independent from the parliament, cabinet and judicial power	Independent from the Diet, cabinet and judicial power
	No. of staff	1,751	1,450	318	1,256
	Annual total expenditures	116.96 mil. Euro	80.04 mil. Euro	24.9 mil. Euro	16,514.17 mil. Yen
	Major audit reports	Annual Audit Report (Le rapport public) Account Settlement Audit Report (L'exécution des lois de finances pour l'année) Annual Social Security Parliament Report (Rapport annuel au Parlement sur la Sécurité sociale)	Annual Audit Report (Bemerkungen)	Account Settlement Audit Report (Rapport bij het Jaarverslang) Individual Performance Audit Report	Annual Account Settlement Audit Report

(Note 1) For the SAIs of France and Germany, the number of staff and annual total expenditures include their respective local bureaus.

II. Trend of Continental Countries

1. France

1.1 Introduction of the performance measurement system

(1) Outline of the system

In France, preparations are being made for comprehensive performance measurement scheduled to be implemented by the Ministries in the budget system framework from the FY 2006 budget, based on the 2001

Budget Organization Law (LOI organique n 2001-692 du 1 aout 2001 relative aux lois de finances: LOLF). In the current budget statement, the budget amount is set for each expense item, and the statement is submitted to Parliament as a draft budget consisting of approximately 850 chapters (Chapitres). The new budget statement is to be organized in a three-tiered structure, Missions (Missions), Programs (Programmes), and Actions (Actions), in descending order, based on the policies of each Ministry. In this new budget statement, each Ministry is required to attach an Annual Performance Plan (Project annuel de performance), which sets out for each program 1) objectives to be attained, 2) performance indicators for evaluating effectiveness (Indicateur d'efficacité) and their target values, and 3) performance indicators for evaluating efficiency (Indicateur d'efficience) and their target values. Also, each Ministry is required to prepare an Annual Performance Report (Rapport annuel de performance) as an attachment to the Account Settlement Bill which is to be submitted to Parliament after the end of the fiscal year. In the Report, each Ministry is required to clearly indicate, for each program, items such as 1) the degree of attainment of objectives, 2) the degree of attainment of target values of performance indicators for effectiveness in comparison with their actual values, 3) the degree of attainment of target values of performance indicators for efficiency in comparison with their actual values, and (4) reasons why the budget fund was diverted or unused, as well as the use of the diverted fund(s), should there be such a case.

(2) Roles of the SAI

Cour des Comptes (CDC) takes the roles described below in the introduction of the performance measurement system in France.

a. Extensive implementation and qualitative improvement of performance measurement made by the central government as a whole

In order to promote extensive implementation and qualitative improvement of performance measurement made by the central government as a whole, CDC prepared a comprehensive report¹⁾ in June 2003 based on fact-finding surveys of Performance Plans and Performance Reports for FY 2002 made by 12 Ministries. In the report, CDC pointed out, among other things, the following: 1) more than half the Ministries failed to systemize their policies in a clear fashion; 2) almost half the Ministries failed to make a logical connection between the objectives of each program and the performance indicators set to evaluate their effectiveness and/or efficiency; and 3) more than half the Ministries failed to grasp the actual values of the performance indicators for FYs 2001-2002. CDC also summarized the reminders to be used when Ministries prepare LOLF-compliant Annual Performance Plans and Annual Performance Reports, while introducing the good practices of policy systemization of advanced countries such as the UK and Canada (Province of Quebec) and presenting specific examples of effectiveness and efficiency performance indicators in the education field.

b. Improvement of the reliability of performance reports made by each Ministry

In order to improve the reliability of the performance reports made by each Ministry, CDC prepares reports for each Ministry based on audits regarding the appropriateness of the Annual Performance Reports, as part of its financial audit (account settlement audit) that includes the audit of performance data which is non-financial information. For example, in June 2003, CDC prepared such reports for each Ministry based on audits regarding the appropriateness of the FY 2002 Performance Reports made by four leading Ministries. In the report²⁾ on the Ministry of Defense's FY 2002 Performance Report, for example, CDC pointed out that 1) it failed to establish performance indicators for evaluating effectiveness and their target values; 2) it failed to establish performance indicators for evaluating quality of service and their target values; and 3) actual values were indicated for only 60

1) CDC (2003) L'exécution des lois de finances pour l'année 2002: Fascicule 1 Titre 5 Chapitre 1 Suivi de la mise en œuvre de la loi organique

2) CDC (2003) L'exécution des lois de finances pour l'année 2002: Fascicule 1 Titre 5 Chapitre 2 Le programme dette et les travaux préparatoires à la LOLF dans quatre ministères

percent of the performance indicators. CDC's reports are submitted to the Parliament along with the Annual Performance Reports made by the Ministries as part of the Account Settlement Audit Report (L'exécution des lois de finances pour l'année). Thus, they contribute to ensuring the reliability of the Performance Reports made by the Ministries.

1.2 Reform of the public accounting system

(1) Outline of the system

a. At present

In France, the current budget statements are prepared on a cash basis for each existing and new expense, and submitted to the Parliament as a draft budget consisting of approximately 850 chapters. Also, the budget execution outturn is submitted to the Parliament by June 1 of the following year as the Account Settlement Bill consisting of approximately ten clauses, along with the Account Settlement Statements (Compte général de l'administration des finances). Starting in FY 1981, the Account Settlement Statements include financial statements that consolidate all central government entities, consisting of an income statement (Compte de résultat de l'État) and a balance sheet (Bilan de l'État), in addition to the Account Settlement for Revenue and Expenditure.

In France, the cash-basis, double-entry accounting procedure has been used by the Ministries for the execution of budgets since the 1970s. Therefore, the financial statements have been prepared based on financial data on the treasury fund, which is uniformly managed by the Ministry of Economy, Finance and Industry (Ministère de l'économie, des finances et de l'industrie), by classifying the cash-basis income and expenditure into a current account and a capital account after the adjustment period (January 1 to 31) and then transferring them into an income statement and a balance sheet respectively. There was a growing awareness that with this method, these financial statements did not properly indicate the financial position and results of operations of the nation, and it has led to the partial adoption of accrual-basis accounting. Starting in FY 1999, national properties are re-evaluated at market value. Those values are then used for the entries in the balance sheet while the gains or losses from such evaluations are recorded in the income statement, and tax revenues are recognized on an accrual basis while an allowance for non-payment loss is recorded in the balance sheet and the corresponding amount recorded in the income statement.

b. The future

In France, starting from FY 2006, the financial statements that consolidate all central government entities are slated to be prepared on an accrual basis, while the budget statement of each Ministry is to be prepared for each program on a cash basis and on an engagements basis in accordance with the 2001 Budget Organization Law. Currently, in response to such a reform of the systems, ACCORD (Application Coordonnée de la Comptabilisation d'Ordonnancement et de Règlement de la Dépense de l'État), an integrated budget management and financial accounting system, is being developed in order to process budget execution based on cash and engagements bases, and, at the same time, prepare accrual-basis financial statements. Accordingly, accrual-basis consolidated financial statements for the entire central government are scheduled to be prepared from FY 2006, while account settlements for expenditure per program are to be prepared based on cash and engagements bases. As for the composition of these financial statements, the Public Accounting Standards Committee referred to (2)-a.-(b) below is considering the inclusion of the balance sheet (Tableau de la position nette), the administrative costs statement (Tableau des charges nettes par nature), and the cash flow statement. As for the financial statements to be prepared by each Ministry, for the time being, there is no plan to prepare them on an accrual basis.

(2) Roles of the SAI

CDC takes the roles described below in the reform of the public accounting system in France.

a. Extensive implementation and qualitative improvement of accrual-basis accounting

(a) In view of the trend of Anglo-Saxon countries, CDC has been taking a proactive position in the introduction of accrual-basis accounting into the public accounting system of the central government and has been advocating it

for quite some time. For example, in September 1995, CDC prepared a comprehensive report³⁾ based on fact-finding surveys of financial statements prepared by social security entities. In the report, CDC pointed out that 1) accounting standards adopted by each social security entity were varied and inconsistent; 2) as the allocation of insurance premiums to each social security entity was determined based on statistical data, computation of income and loss was not done in a way to allow comparisons; and 3) the consolidated financial statements of all social security entities were incomplete and lacked reliability. Also, CDC recommended the introduction of accrual-basis financial statements in order to solve these problems. CDC had repeatedly made these recommendations since 1952 and, finally in FY 1996, the social security entities started to prepare accrual-basis financial statements.

(b) In France, the 2001 Budget Organization Law stipulates that the public accounting standards to be used for the preparation of accrual-basis financial statements shall be drawn up based on the recommendations of an advisory committee, which shall be set up under the non-cabinet Minister in charge of Budget by the Minister for Economy, Finance and Industry. To realize this, the Public Accounting Standards Committee (Comité des normes de comptabilité publique) was set up in accordance with the 2002 Budget Law (Loi de finances pour 2002). The Committee, comprised of 20 members (who hold three-year terms) including representatives from each Ministry, academic experts, certified public accountants, etc. (as of March 2003), is currently discussing topics such as a public accounting concept framework, structure and forms of financial statements, and evaluation methods for fixed assets with an aim to announce an overall draft of public accounting standards at the end of 2003. The public accounting standards recommended by the Public Accounting Standards Committee are scheduled to be formally adopted by the central government after verification of their consistency with GAAP (Generally Accepted Accounting Principles) by the National Accounting Council (Conseil national de la Comptabilité), a private-sector accounting standards establishing body. A Senior Audit Director of the First Bureau of CDC in charge of the audit of Ministry of Economy, Finance and Industry is taking part in the Public Accounting Standards Committee as a member to express opinions on the details of the public accounting standards from the standpoint of the auditor of financial statements, as CDC deems it essential to establish public accounting standards in order to extensively implement accrual-basis accounting and promote its quality improvement within the central government as a whole.

(c) In order to promote extensive implementation and qualitative improvement of accrual-basis accounting in the central government as a whole, CDC prepared a report⁴⁾ in June 2003 based on a survey regarding the preparation method of financial statements under the current system. In the report, CDC pointed out that 1) as all facility and equipment-related expenses of the Ministry of Defense were recognized as expenses for the year in which they were acquired, the current conditions of assets held by the Ministry could not be indicated; 2) among loans, the allowance for bad debts was not recorded in full amount as to the loan for which the debts had been forgiven under the agreement of Paris Club, meaning assets were not appropriately evaluated; and 3) fixed assets were not properly evaluated as some of those which had already been transferred or removed were still included in fixed assets, and the accrued gains or losses from such transfers or removals were not reflected in the income statement.

b. Improvement of the reliability of financial statements

CDC is to audit financial statements, including a balance sheet and an administrative cost statement prepared on an accrual basis, for the entire central government from FY 2006, in accordance with the 2001 Budget Organization Law, and is to express its opinions on the appropriateness of those financial statements. The CDC's report will be submitted to the Parliament as part of the Account Settlement Audit Report together with the financial statements.

3) CDC (1995) Rapport annuel au Parlement sur la Sécurité sociale

4) CDC (2003) L'exécution des lois de finances pour l'année 2002: Fascicule 2 Titre 2 Les comptes 2002

Thus, it is expected to contribute to ensuring the reliability of the financial statements of the central government. In the past, CDC's audits of financial statements were performed as a formality. In order to properly conduct its audits regarding the appropriateness of financial statements from FY 2006, however, CDC prepared a report⁵⁾ in June 2003 based on verification of each item of a balance sheet and an income statement prepared under the current system. In the report, CDC pointed out that 1) government bank accounts that have either a credit or debit balance should not be offset as an aggregate if they were held in separate banks, but they should be separately recorded either as an item under assets or liabilities on the balance sheet; 2) the difference between the face value and actual value arising from discount or premium issues of government bonds should not be offset by each other, but be separately recorded as an item under assets or liabilities on the balance sheet; and (3) since the checking accounts and postal transfer accounts of the Postal Service, which are held by the central government, are of a different nature, they should not be added, but recorded separately. CDC also recommended that the way to describe items be revised.

2. Germany

2.1 Introduction of the performance measurement system

(1) Outline of the system

In Germany, KLR (Kosten und Leistungsrechnung), which applies the cost accounting method, was introduced in 1997 in accordance with the government decision made in February 1996, and the Budget and Sustainable Development Law (Gesetz zur Fortentwicklung des Haushaltsrechts von Bund und Ländern) enacted in December 1997. As of December 2002, 93.1 percent of federal government entities had adopted KLR or were planning to introduce KLR. In July 1997, the Federal Ministry of Finance (Bundesministerium der Finanzen) developed a standard KLR, which outlines KLR's standard specifications, with the aim to introduce KLR uniformly and comprehensively into federal government entities, to enable cost comparison among government entities, etc. With KLR, each Ministry is required 1) to systemize policies under its control into a three-tiered structure consisting of Product Area (Produktbereich), Product Group (Produktgruppe), and Product (Produkt) in descending order, and 2) to grasp the implementation cost by product through conducting cost computation by expense item (Kostenartenrechnung), cost computation by division (Kostenstellenrechnung), and cost computation for products (Kostenträgerrechnung). Under KLR, costs of each product are computed on an accrual basis: for example, depreciation expense and capital costs are also included, or indirect costs incurred by the back-office section are allocated. Each Ministry is expected to improve the efficiency of policy implementation in terms of cost by comparing the actual costs computed by KLR with the target costs established in advance and evaluating the degree of attainment in meeting the target costs, or by making comparisons with good practices made by other Ministries or private-sector companies.

At the same time, in Germany, pilot projects to prepare program expenditure budgets have begun at some federal government entities since the start of the FY 2004 budget in order to conduct comprehensive performance measurement within the framework of a budget system. These program expenditure budgets establish output performance indicators and their target values, along with the budget amount for each output of each policy for the year. For the FY 2004 budget, 18 government entities prepared the program expenditure budgets.

(2) Roles of the SAI

Bundesrechnungshof (BRH) takes the roles described below in the introduction of the performance measurement system in Germany.

a. Extensive implementation and qualitative improvement of performance measurement made by the federal government as a whole

5) CDC (2003) L'exécution des lois de finances pour l'année 2002: Fascicule 2 Titre 3 Observations résultant des vérifications comptables sur les comptes 2002

- (a) In order to promote extensive implementation and qualitative improvement of performance measurement made by the federal government as a whole, almost every year since KLR was introduced, BRH has been preparing comprehensive reports based on fact-finding surveys of performance measurements implemented by each Ministry. For example, in November 2002, BRH prepared a comprehensive report⁶⁾ based on fact-finding surveys of KLR implemented at 26 federal government entities. In the report, BRH pointed out that 1) it took an average of three years to implement KLR, from the decision-making of introduction to the stage at which relevant entity could grasp cost information; 2) it was expected for a single federal government entity to require 300,000 to 10 million euro as the cost to implement KLR, which amounted to a total of 51 million euro for the federal government as a whole; and 3) the expenses of concept design and software program development for KLR, which were outsourced to outside consultants, accounted for 27 to 66 percent of the total cost. It also pointed out that although significant time and costs had been spent on the introduction of KLR, the cost information by product, which was identified by KLR, had been used in only limited areas, except at some federal government entities.
- (b) While KLR is introduced in the Ministries for their internal managerial accounting, the Ministry of Finance uses its evaluation results as a reference in the process of compiling budgets of each Ministry and BRH itself also provides advice in the process of budget compilation of the Ministry of Finance. For these reasons, in order to promote extensive implementation and qualitative improvement of performance measurement made by the federal government as a whole, BRH prepared detailed reports based on fact-finding surveys of performance measurements implemented by each Ministry. For example, in November 2002, BRH prepared a detailed report⁷⁾ based on a fact-finding survey of KLR implemented at the Federal Statistical Office (Statistisches Bundesamt). In the report, BRH indicated that although the Federal Statistical Office conducted various statistics surveys upon request from other federal government entities, it recorded the budgets required to conduct such surveys in a lump sum, resulting in the inconsistency between beneficiaries and cost-payers in statistics surveys. Further, BRH stated that if a quasi market were created within the federal government, whereby the survey-ordering parties (federal government entities other than Federal Statistical Office) would pay the order-receiving party (Federal Statistical Office) a reasonable fee (cost) for the administrative service provided (statistics surveys), survey orders would be placed based on the viewpoint of cost-benefit performance, thus unnecessary surveys would be consolidated or cancelled out. In line with this view, BRH recommended the Federal Statistical Office to grasp costs for various statistics surveys using KLR and enter those costs into the budgets of federal government entities requesting surveys in order to establish a quasi-market in the federal government.

b. Improvement of the reliability of performance reports made by each Ministry

In Germany, KLR has been introduced for internal managerial accounting within the Ministries and used for the purpose of providing cost information for decision-making within them. For the time being, therefore, BRH does not conduct any particular audit to ensure the reliability of the performance reports made by each Ministry.

2. 2 Reform of the public accounting system

(1) Outline of the system

In Germany, current budget statements are prepared on a cash basis by expense item such as labor cost, property cost, or facility cost, and submitted to the Parliament as an attachment to the draft budget. Outturn of the budget is compiled into the Account Settlement of Revenue and Expenditure (Haushaltsrechnung) in a form to compare the budget amounts with the actual amounts, and then submitted to the Parliament together with the

6) BRH (2002) Bemerkungen 2002: 95 Einführungsstand der Kosten- und Leistungsrechnung in den Pilotbehörden des Bundes

7) BRH (2002) Bemerkungen 2002: 10 Nutzung von Daten aus der Kosten- und Leistungsrechnung des Statistischen Bundesamtes für das Haushaltsverfahren

Assets Statement (Vermögensrechnung) that also includes liabilities. While the federal government is permitted under the 1998 Revised Budget Principle Law (Gesetz über die Grundsätze des Haushaltsrechts des Bundes und der Länder) to introduce accrual-basis accounting into the budget and accounting system as long as cash-basis accounting is also used in tandem, at present it has not yet prepared accrual-based financial statements for each Ministry, nor consolidated financial statements for the federal government as a whole.

Meanwhile, in Germany, a pilot project which prepares product-type budgets (Produktthaushalt) applying KLR has begun at some federal government entities since the start of the FY 2001 budget. Under this product-type budget, for each product of each policy, projected amounts for revenue and expense computed on an accrual basis are used as budgeted amounts, and, for the FY 2004 budget, six federal government offices including the Federal Newspaper and Information Office (Presse- und Informationsamt der Bundesregierung) and the Federal Office for Environment (Umweltbundesamt) have prepared these product-type budgets. This pilot project is scheduled to continue until 2005, and based on its results, the Federal Ministry of Finance will decide whether to introduce the product-type budget to all federal government entities.

(2) Roles of the SAI

BRH takes the roles described below in the reform of the public accounting system in Germany.

a. Extensive implementation and qualitative improvement of accrual-basis accounting

In view of the trend of Anglo-Saxon countries, BRH has been taking a proactive position in the introduction of accrual-basis accounting into the public accounting system, including a budget system, of the federal government, and has been advocating it for quite some time. For example, in June 1998, BRH prepared a report⁸⁾ on the results of its review of how KLR could be utilized for budget compilation and budget control. In the report, BRH recommended the implementation of a pilot project to prepare the product-type budget. The current pilot project was initiated as the Parliament made a request to the Federal Ministry of Finance based on the BRH's recommendation. Because of this background, BRH is actively involved in this pilot project, inviting federal government entities to take part in the project and taking the initiative in specifically indicating how to prepare the product-type budget and its budget statement format. Further, BRH prepared a comprehensive report⁹⁾ in November 2002, based on fact-finding surveys of the product-type budgets for FY 2001 prepared by the four federal government entities which took part in the pilot project ahead of other government entities. In the report, it pointed out that the pilot project was still at an early stage and was not yet able to provide useful information for budget compilation and budget control.

b. Improvement of the reliability of financial statements

While BRH had been conducting the audit of the Assets Statements only as a formality, in November 2002 it prepared a report¹⁰⁾ based on audits regarding the appropriateness of the Assets Statements prepared under the current system. It seems that behind the conducting of such an audit by BRH was the recognition that Anglo-Saxon countries had already introduced accrual-basis accounting into the public accounting system in order to improve accountability on the conditions of assets and liability holdings. In the report, BRH pointed out that 1) real properties were appraised based on the unit of area (ha) instead of value; 2) movable assets were not recorded; 3) stocks held by the federal government were evaluated on face value; and 4) future liabilities, such as pension liabilities and reserve for liability, were not recorded. It then pointed out that the current Assets Statements failed to indicate the current conditions of assets and liabilities held by the federal government and thus, recommended to adopt a more subdivided classification for fixed assets and to appraise real properties based on value.

8) BRH (1998) Nutzung von Kosten- und Leistungsrechnungen und Controlling zur Verbesserung der Haushaltsaufstellung und -kontrolle

9) BRH (2002) Bemerkungen 2002: 1 Feststellungen zur Haushalts- und Vermögensrechnung des Bundes für das Haushaltsjahr 2001

10) BRH (2002) Bemerkungen 2002: 1 Feststellungen zur Haushalts- und Vermögensrechnung des Bundes für das Haushaltsjahr 2001

3. The Netherlands

3.1 Introduction of the performance measurement system

(1) Outline of the system

a. Ministries

In the Netherlands, while each Ministry had been conducting performance measurement within the framework of a budget system based on the 1976 Government Accounting Law (Comptabiliteitswet 1976), most of them evaluated its progress with input performance indicators and almost no evaluations were made on the degree of attainment of the policy objectives with output or outcome performance indicators. Against such a backdrop, in May 1999 the then Finance Minister Gerrit Zalm submitted to the Parliament a memorandum titled "From policy budget to policy explanation (Van Beleidsbegroting Tot Beleidsverantwoording: VBTB)" and proposed improvements needed in the structure and formats of the Budget Statement, the Budget Explanatory Statement, and the Annual Report composed of the Account Settlement Statement and the Account Settlement Explanatory Statement. In response to this proposal, the 2001 Government Accounting Law (Comptabiliteitswet 2001) was enacted in July 2002 setting forth the structure and formats of the Budget Statement (Begrotingsstaat), the Budget Explanatory Statement (Behorende toelichting), and the Annual Report (Jaarverslag). Under this 2001 Government Accounting Law, each Ministry is required to establish for each program (Begrotingsartikel) in the Budget Explanatory Statement for the fiscal year 1) objectives to be attained, 2) administrative measures required to attain the objectives, 3) performance indicators to evaluate effectiveness and their target values, 4) performance indicators to evaluate efficiency and their target values, and 5) prerequisites for the administrative tools to attain program objectives. Further, each Ministry is required to clarify for each program in its Annual Report after the end of the year 1) the degree of attainment of the objectives, 2) the degree of implementation of administrative tools, 3) the degree of attainment of target values of effectiveness performance indicators against their actual values, 4) the degree of attainment of target values of efficiency performance indicators against their actual values, and 5) should it be the case, the reasons for failing to fully meet the target values. As the introduction of such a new performance measurement system would impose a considerable burden on each Ministry, the fully-fledged implementation of the system is scheduled to be rolled out from 2006 after the trial period.

b. Agencies

In the Netherlands, an Agency (Agentschap) was established in 1994 within the Ministry as an organ to perform the relevant Ministry's policy implementation function based on the 6th Revision of the 1976 Government Accounting Law. As of September 2003, 27 Agencies had been established and it is expected that the number of Agencies will increase to around 50 to 60 by 2005 and the percentage of national government employees working for those Agencies will expand to 80 to 85 percent of the total staff. Each Agency concludes an output delivery agreement with the relevant Ministry every fiscal year, setting forth in the agreements the following: 1) details of the outputs to be delivered, 2) performance indicators (quantitative and qualitative) by output and their target values, and 3) accrual-basis scheduled delivery prices by output. These performance plans are compiled into the Budget Explanatory Statement of the Agency based on the 2001 Government Accounting Law, and submitted to the Parliament, together with the Budget Explanatory Statement of the relevant Ministry. In addition, after the end of the year, each Agency compiles 1) the status of output delivery, 2) the degree of attainment of target values of performance indicators based on the comparison with the actual values, 3) actual prices for delivery per output, etc., into the Account Settlement Explanatory Statement, and submit it to the Parliament as part of the Annual Report made by the relevant Ministry.

(2) Roles of the SAI

Algemene Rekenkamer (AR) takes the roles as described below in the introduction of the performance measurement system in the Netherlands.

a. Extensive implementation and qualitative improvement of performance measurement made by the central government as a whole

- (a) In order to promote extensive implementation and qualitative improvement of performance measurement made by the central government as a whole, AR prepared reports respectively in May 2001 and March 2002 that summarized the reminders for each Ministry in preparing the VBTB-compliant Budget Explanation Statement and Annual Report. In the March 2002 report¹¹⁾, for example, based on the pilot surveys of each Ministry, field surveys of advanced countries which introduced performance measurement, etc., it commented on the following, while introducing specific good practices: 1) the ways to establish a program-objectives – administrative-tools system based on the enabling or relevant laws of each Ministry; 2) the ways to analyze internal and external factors affecting the attainment of program objectives; 3) the ways to prepare a long term plan – annual plan system with budgetary backing; 4) the monitoring method to manage the progress of an annual plan; and 5) should it be the case, the ways to analyze reasons why program objectives have not been fully achieved.
- (b) In order to promote extensive implementation and qualitative improvement of performance measurement made by the central government as a whole, AR has been preparing comprehensive reports based on fact-finding surveys of the VBTB-compliant Budget Explanation Statements and Annual Reports prepared by each Ministry since the FY 2002 budget when VBTB was first introduced. For example, in April 2003, AR prepared a comprehensive report¹²⁾ based on fact-finding surveys of the FY 2003 Budget Explanation Statements prepared by each Ministry. In the report, AR reported the following: 1) improvements made in comparison with the FY 2002 Budget Explanation Statements, 2) how well each Ministry responded to the items to be improved, pointed out under VBTB, and 3) whether the improvement items pointed out under VBTB could be completed by 2006. At the same time, based on these survey results, AR made recommendations to each Ministry that 1) objectives of each program and deadlines for achieving the objectives should be clearly indicated; 2) performance indicators and their target values which are necessary to measure the degree of attainment of objectives by each program should be established; and 3) the relationship between target values of performance indicators and the expenditure budget should be explained. In addition, in May 2003, AR also prepared a comprehensive report based on fact-finding surveys of the FY 2002 Annual Reports prepared by each Ministry.

b. Improvement of the reliability of performance reports made by each Ministry

- (a) In order to improve the reliability of performance reports made by each Ministry, AR audits the appropriateness of the Annual Reports prepared in line with VBTB, as part of its financial audits (account settlement audits) that include audits of performance data which is non-financial information, and in order to perform this audit efficiently and uniformly it prepared a draft audit manual in 2002. In this draft audit manual, AR defines audit procedures for the Annual Reports made by each Ministry and the ways to verify the relevancy and accuracy of performance data submitted to central Ministries by local public entities, among other things. AR plans to disclose its audit manual in the end and make it available to the internal audit organizations of each Ministry based on the understanding that performance measurement is the self-assessment made by each Ministry and each Ministry is in principle responsible for the reliability of performance reports.
- (b) In order to improve the reliability of performance reports made by each Ministry, AR prepares reports for each Ministry based on audits regarding the appropriateness of VBTB-compliant Annual Reports as part of its financial audits (account settlement audits) that include audits of performance data which is non-financial information. For example, in May 2003, AR prepared such reports for each Ministry based on audits regarding the appropriateness of the FY 2002 Annual Reports made by each Ministry for the first time in accordance with

11) AR (2002) Reactie van de Algemene Rekenkamer op het Referentiekader mededeling over de Bedrijfsvoering (29 maart 2002)

12) AR (2003) Groeiparaagraaf 2002-2003: Naar een volwaardige VBTB-begroting (17 april 2003)

VBTB. For example, in the report¹³ for the FY 2002 Annual Report made by the Ministry of Housing, Spatial Planning and Environment (Ministerie van Volkshuiving, Ruimtelijke Ordening en Milieubeheer), AR pointed out that 1) for some program objectives, only actual values of performance indicators were shown and their target values were missing; 2) for some program objectives, the reasons for the failure to completely attain target values were not analyzed; 3) some program objectives did not have logical connections with the performance indicators established to evaluate effectiveness; and 4) for some program objectives, actual values of performance indicators for the FY 2000 were shown instead of those for the FY 2002, the subject year under evaluation. AR's reports are submitted to the Parliament together with the Annual Reports made by each Ministry. Thus, they contribute to improvement of the reliability of performance reports made by all Ministries.

3.2 Reform of the public accounting system

(1) Outline of the system

a. Ministries

In the Netherlands, the conventional Budget Statement of each Ministry had been prepared for each program based on an engagements basis and on a cash basis, and the Account Settlement Statement had been in a form to compare the budget amounts of each program against the corresponding outturn amounts. Financial statements such as balance sheets and income statements of each Ministry or financial statements of the central government consolidating those of all Ministries had not been prepared on an accrual basis. There was a growing awareness that under the existing system it was impossible to grasp costs required to implement administrative tools for achieving program objectives. In response, it was decided that the budget and accounting system of each Ministry shift stage by stage to an accrual basis in accordance with the 2001 and 2002 Budget Memorandums which supplemented VBTB and were submitted to the Parliament by the Finance Minister, and the fully-fledged implementation of the system is scheduled to start from 2006. Under this new budget and accounting system, it is required that 1) the Budget Statement be prepared based on engagements and accrual bases for each program and the Account Settlement Statement be in a form to compare budget amounts against corresponding outturn amounts; 2) each Ministry prepare accrual-basis financial statements, such as a balance sheet (Balans), an administrative cost statement (Verantwoording van de kostenbegroting), and a cash flow statement (Kasstroombegroting), that consolidate the financial statements of the Agencies within the relevant Ministry, and submit them to the Parliament as part of the Annual Report; and 3) the Ministry of Finance (Ministerie van Financien) prepare financial statements of the central government that consolidate those of all Ministries and submit them to the Parliament.

b. Agencies

In the Netherlands, each Agency has introduced an accrual-basis budget and accounting system since January 1995 in accordance with the 6th Revision of the 1976 Government Accounting Law (currently the 2001 Government Accounting Law). Each Agency records in the Budget Statement for the year items such as 1) total revenue and expense, 2) total profits (total losses), and 3) projected total capital income and total capital expenditure, computed on an accrual basis, and submits this Budget Statement to the Parliament, together with the Budget Statement of the relevant Ministry. Also, each Agency records outturn values computed on an accrual basis in the Account Settlement Statement after the end of the fiscal year and submits it to the Parliament as part of the Annual Report of the relevant Ministry. In addition, each Agency prepares 1) a balance sheet (Balans), 2) an income statement (Staat van baten en lasten), and 3) a cash flow statement (Kasstroombegroting), in compliance with the Netherlands' corporate accounting principles (Titel 9 van Boek 2 van het Burgerlijk Wetboek), and submits them to the Parliament also as part of the Annual Report of the relevant Ministry. Although each Agency is part of the relevant Ministry in terms of the organizational framework, it prepares, for the present, its own Budget Statement and Account Settlement Statement separately from those of the relevant Ministry as it adopts different accounting procedures.

13) AR (2003) Rapport bij het Jaarverslag 2002: Ministerie van Volkshuiving, Ruimtelijke Ordening en Milieubeheer (X1) (21 mei 2003)

(2) Roles of the SAI

AR takes the roles described below in the reform of the public accounting system in the Netherlands.

a. Extensive implementation and qualitative improvement of accrual basis-accounting

In view of the trend of Anglo-Saxon countries, AR has been taking a proactive position in the introduction of accrual-basis accounting into the public accounting system of the central government, by making recommendations to the Parliament and the central government of the introduction of an accrual-basis budget and accounting system in September 2001 and April 2003, and by holding a seminar on this system for experts in and outside the organization in June 2002. For example, in April 2003, AR prepared a report¹⁴⁾ on the results of its review on the specific concept of accrual-basis accounting shown in the 2002 Budget Memorandum submitted to the Parliament by the Finance Minister in September 2001. In the report, AR pointed out that 1) the accrual-basis accounting proposed by the government should, in principle, be adopted for National Economics Computation (ESA 1995); 2) it was inconsistent with the accrual-basis accounting introduced to the Agencies; and 3) its accounting principles and procedures were inconsistent with GAAP. AR also recommended, among other things, that 1) objectives for introducing accrual-basis accounting should be clarified; 2) public accounting standards should be established based on the International Public Sector Accounting Standards (IPSAS) announced by the Public Sector Committee of International Federation of Accountants (IFAC-PSC); and 3) an independent body should be set up for the purpose of drawing up specific public accounting standards.

b. Improvement of the reliability of financial statements

(a) AR, in accordance with the 2001 Government Accounting Law, is to audit accrual-basis financial statements, such as balance sheets and administrative cost statements, made by each Ministry and the central government's accrual-basis financial statements prepared by the Ministry of Finance that consolidate those of all Ministries, and to express its opinions on their appropriateness. As of yet, these financial statements have not been prepared, but if the accrual-basis accounting is fully introduced from 2006 as scheduled, AR's reports will be submitted to the Parliament, together with these statements. Thus, they are expected to contribute to ensuring the reliability of financial statements of all Ministries and the consolidated ones of the central government as a whole.

(b) AR audits accrual-basis financial statements, such as balance sheets and income statements, prepared by each Agency in accordance with the 2001 Government Accounting Law, and expresses its opinions with regard to the following: 1) whether these financial statements are made in compliance with the Corporate Accounting Principles and 2) whether these financial statements properly indicate the financial position and results of operations of each Agency. AR's reports are submitted to the Parliament, together with these financial statements, thus contributing to ensuring the reliability of all financial statements made by the Agencies.

III. NPM and SAI

In "II. Trend of Continental Countries," the roles of SAIs in France, Germany, and the Netherlands were verified in the NPM efforts, with a discussion centering on the introduction of the performance measurement system and the reform of the public accounting system. As a result of the verification, it has become clear that each SAI is working on the extensive implementation and qualitative improvement of the performance measurement system and accrual-basis accounting, while seeking to ensure the reliability of performance reports and financial statements. Such roles, in proceeding with the reforms of administrative and fiscal systems based on the NPM theory, are considered to be naturally created for the following reasons.

14) AR (2003) Begroting en verantwoording in balans: Het baten-lastenstelsel voor de rijksoverheid (17 april 2003)

1. Objectives of the activities of SAIs

The common phenomenon seen in the countries which implemented reforms based on the NPM theory in the latter half of the 1980s or thereafter, including the three countries mentioned in II, is that while the need for administrative services has risen and diversified in keeping pace with maturing social economy, fiscal conditions have deteriorated due to the sluggish economic growth. These countries were required to efficiently and effectively provide administrative services in line with the administrative needs while improving their fiscal conditions. It was not possible, however, to cope with such situations with the conventional bureaucratic administrative management system. Thus, they began introducing an administrative management system based on the NPM theory, which adopts management philosophy and methods of private-sector companies as much as possible. The objectives of the activities of each SAI are, in principle, to promote administrative efficiency and financial health through its auditing activities as a state's institution which supervises national finance, although its status and authority differ among countries. As the objectives of NPM and SAIs are the same, each country's SAI will actively cooperate with the reform efforts based on the NPM theory through its auditing activities.

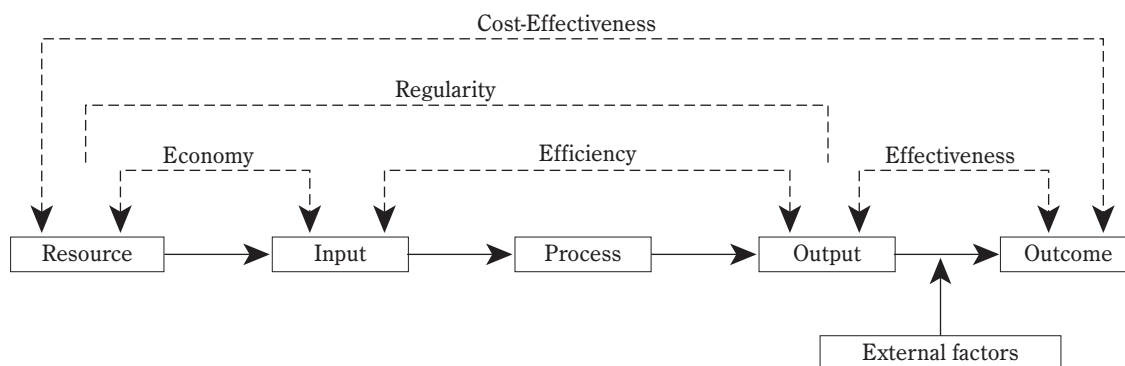
2. The need to audit from viewpoints of economy, efficiency and effectiveness

The basic principle of NPM is a shift in the administrative management method from an input control and process-focused approach to an output (outcome) control and customer-focused approach. In response to such a shift, the viewpoints of audits conducted by the SAIs are also required to shift from regularity to economy, efficiency, and effectiveness (refer to Diagram 1 for the administrative management cycle and viewpoints of performance audits). In making such efforts, in order to improve audits from viewpoints of economy and efficiency, it is useful to compare costs of auditee Ministry with those of the good practices of other Ministries and private-sector companies. Thus, it becomes important to obtain cost information computed on an accrual basis. In order to conduct audits from the viewpoint of effectiveness, it is essential 1) to clarify the combination of policy objectives (outcome) and administrative tools for achievement (output) in advance, 2) to establish performance indicators of outcome and output and their target values in advance, and 3) to understand the degree of attainment of target values based on the comparison with the actual values of the performance indicators of outcome and output after the end of the fiscal year. Thus, the introduction of the performance measurement system is a prerequisite to conducting audits from the viewpoint of effectiveness. In this way, the SAIs actively work on the extensive implementation and qualitative improvement of the performance measurement system and accrual-basis accounting, as those means provide useful performance information for the SAIs in conducting audits from the viewpoints of economy, efficiency, and effectiveness.

3. Independency in the state's governing structure

The basic principle of the NPM theory from the viewpoint of governance in the state's governing structure is that while the Cabinet is given significant discretion in terms of policy implementation by the Parliament, the latter controls the former based on the effects of policies. In response to such governance, the Cabinet submits to the Parliament a performance plan and a draft budget reflecting the plan in advance, and then, after the end of the fiscal year, submits a performance report and financial statements (account settlements) reflecting the report. In this cycle of budgeting, execution and account settlement, in order for the governance in the state's governing structure to function effectively, it is necessary to move on to the next cycle after the Parliament has confirmed the effects of policies based on the appropriate performance reports and financial statements. It is therefore required to ensure the reliability of the performance reports and financial statements which contain subjective judgments by each Ministry. Accordingly, it is essential to improve their objectivity in order for the governance in the state's governing structure, based on the NPM theory, to function effectively. Thus, the SAI of each country actively works to ensure the reliability of performance reports and financial statements as a third party, independent from the Cabinet which implements the policies.

Figure 1 : An administrative management cycle and viewpoints of the performance audit



(Note 1) An administrative management cycle

Resource : Resources such as funds and staff (Fiscal Loan Fund, revenue from issuance of Government Housing Loan Corporation bonds, etc.)

Input : Input of resources into administrative activities (execution of budget, etc.)

Administrative activity (Process) : Production activities of organized administrative services (establishing building standards, loan screening, design screening, conclusion of loan agreement, etc.)

Administrative service(Output) : Administrative services provided by administrative activities (extending loans for funds to build houses and to purchase houses, etc.)

Outcome : Effects to be brought about through administrative services (promotion of home ownership by citizens, improvement of living standards, improvement of housing quality, etc.)

External factors : Factors other than the administrative services that will have an impact on the outcome (drop in market interest rates, sluggish economy, increase in the number of housing loans offered by private-sector financial institutions, etc.)

() are the examples of the Government Housing Loan Corporation.

(Note 2) Viewpoints of the performance audit

Regularity : Whether the resource input, administrative activities and deliveries of administrative services are done in accordance with budgets, laws and regulations, etc.

Economy : Whether the efforts are made to minimize the resource input in the delivery of certain administrative service.

Efficiency : Whether the efforts are made to maximize the delivery of administrative service with a certain resource input.

Effectiveness : Whether the administrative service is achieving the intended outcomes.

Cost-effectiveness : Whether the administrative service is generating the outcome comparable to the resources input.

IV. Conclusion

In Japan, as part of reforms based on the NPM theory, the policy evaluation system was introduced to each Ministry in January 2001 and Independent Administrative Institutions, which shoulder the role of implementing policies, were established in April 2001. Thus, "Performance-Based Management" that promotes the improvement of outcome and performance through performance measurement is in place. These reforms had objectives including the promotion of thorough accountability in the administrative work, the delivery of efficient and high quality administrative service, and a shift to the administrative service that places emphasis on outcomes. Given the current state of the administrative operation and outcomes of the Performance-Based Management after almost three years since its introduction, in reality, it is still at the stage of trial and error. As for the introduction of accrual-basis accounting into the central government accounting system, while the draft balance sheet has been prepared since the FY 1998 account settlement and the financial statements for special accounts based on the new standards have been prepared since the FY 1999 account settlement, at present, a conclusion has not yet been reached as to how accrual-basis accounting should be introduced to the nations' budget and accounting system including a general account. As such, the reforms of an administrative and fiscal system based on the NPM theory in Japan are at a stage of seeking extensive implementation and qualitative improvement and it is considered that the Board of Audit of Japan is expected to play a certain role in these efforts.

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