FROM FINANCIAL ACCOUNTING TO PUBLIC ACCOUNTABILITY

Prof Dr Mark Bovens

Utrecht School of Governance
Utrecht University

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1. From accounting to accountability

Since the early eighties, the English speaking world in particular has witnessed a transformation of the traditional book-keeping function in public administration into a much broader form of public accountability (Harlow 2002: 19). This broad shift from financial accounting to public accountability has of course been closely related to the introduction of New Public Management by the Thatcher-government in the United Kingdom and to the Reinventing Government reforms that have been started by the Clinton-Gore administration in the United States. Both reforms have introduced a range of private sector management styles and instruments into the public sector (Pollitt & Bouckaert 2000). Outsourcing to private companies, contract management, both within and outside the public sector, the use of performance indicators and benchmarks to evaluate and compare the effectiveness and efficiency of public agencies, to name a few. Most of these instruments require extensive auditing to be effective.

This shift to performance auditing and public accountability can also be observed on the European continent, although the speed and scope differs in different countries. Countries with a strong tradition of administrative law and a strong *Rechtsstaat*, such as France, Germany, and Italy, have on average been less vigorous in adopting these more managerially oriented styles of governance and auditing. Countries like the Netherlands, Sweden, and Finland are intermediate cases (Pollitt et al. 1999: 197).

In the NPM-ideology public accountability is both an instrument and a goal. It is an instrument to enhance the effectiveness and efficiency of public governance, but it has gradually also become a goal in itself. ‘Public accountability’ has become an ideograph, a rhetorical symbol for good governance.

The concept ‘accountability’ itself is Anglo-Norman, not Anglo-Saxon, in origin. According to Dubnick (2002: 7-9), the roots of the contemporary concept can be traced to the reign of William I, in the decades after the 1066 Norman conquest of England. In 1085 William required all the property holders in his realm to render *a count* of what they possessed. These possessions were valuated and listed by royal agents in the so called Domesday Books. This census was not held just for taxing purposes, it established the foundation of the royal governance. The Domesday Books listed what was in the king’s realm; moreover, the king had all the landowners swear oaths of allegiance. In the early twelfth century this evolved into a highly centralized administrative kingship that was ruled through centralized auditing and semi-annual account-giving.

In the centuries that passed since the reign of William I of England, accountability has slowly struggled out of its etymological bondage with accounting. In modern political discourse, ‘accountability’ and ‘accountable’ no longer convey a stuffy image of bookkeeping and financial administration, but they serve as synonyms for fair and equitable governance. There is no exact equivalent in Germanic or Latin languages on the European continent. In my country, the Netherlands, for example, ‘public accountability’ is often left untranslated, because it stands for a general, loosely defined trend towards a more managerial approach in the public sector.

The most concise description of public accountability would be: ‘the obligation of an actor to publicly explain and justify conduct to some significant other’ (Bovens 2004). This usually involves not just information about performance, but also the possibility of debate and judgment and the imposition of formal or informal sanctions in case of malperformance. This is what one could call *hard accountability*. In German or Dutch this comes close to *Verantwortung*. However, over the past decade accountability also has been used in a much softer sense, as an indication of good governance. In this *soft* sense it comes close to *Verantwortungsgefühl*, a willingness to act in a transparent, fair, and equitable way.

In order to get a better grip on this rather elusive concept, I will dissect the shift from financial accounting to public accountability into four different, but related, shifts.

2. From compliance to performance

The most important transformation has been the shift from traditional financial control to what the British have called ‘value for money auditing’(Harlow 2002:19). This is indeed a genuine shift from accounting to accountability. Value for money auditing is not concerned so much with the legality and procedural correctness of public spending, but foremost with its efficiency and effectiveness. The numerical, quantifiable criteria of financial accounting are substituted for much more output oriented, qualitative performance indicators. Thus, good governance is not measured only in terms of compliance with prescribed financial rules and procedures, but also in terms of actual performance. The attention has shifted from inputs and throughputs to outputs and, most importantly, outcomes (Pollitt et al. 1999:195).

The introduction of performance auditing has also led to a shift from ex post to ex ante auditing. New budgeting rules in the Netherlands, for example, require ministries to spell out in great detail what the precise policy goals and performance indicators are according to which their proposed programmes are to be audited once they have been implemented. Paradoxically, the focus on outputs and outcomes leads to complaints that too much emphasis is placed on the ex ante formulation of policy goals and performance indicators.

One of these reasons for this shift to an ex ante formulation of detailed policy goals is that performance auditing cannot fall back upon the universally accepted and validated set of measurable standards that has been established for financial accounting. There is no such set of universally accepted criteria for good performance. Performance auditors often fall back upon some vague notion of good management practice (Pollitt et al. 1999: 204). What constitutes good management practices, however, is often unclear and can vary between one agency and the other. Also, it is not quite clear what the relation is between ‘the presence of good management practice and the efficiency and effectiveness of policies or programmes’ (Pollitt et al. 1999: 205).

The shift from compliance to performance auditing therefore also implies a shift from hard to soft standards and moves auditors beyond the secure grounds of financial auditing into the more marshy discipline of policy evaluation.

3. From internal to external accountability

The second shift is not a shift in the nature but in the *forum* of accountability – what I have called the ‘significant other’ in my description of the term (‘accountability is the obligation to explain and justify conduct to some significant other’). Financial accountability predominantly has been directed at internal forums of accountability and internal stakeholders: organisational managers and staff, or financial and political principals. The shift from financial to public accountability is also a shift to external forums of accountability and external stakeholders.

In reaction to a perceived lack of trust in government, there is an urge in many western democracies for more direct and explicit accountability relations between public agencies on the one hand and clients, citizens and civil society, including the media, on the other hand (McCandless 2001). Agencies or individual public managers should feel obliged to account for their performance to the public at large or, at least, to civil interest groups, charities, and associations of clients. ‘Public accountability’ thus also stands for a regime of responsiveness and transparency of public agencies. This shift from internal to external accountability is often realised through public panels and public reporting.

In the late nineties, many public agencies have established citizen charters, focus groups, and citizen panels to foster public accountability. In the UK, for example, the Blair government in 1998 set up a so called People’s Panel, which was made up of approximately 6.000 citizens who were representative for the whole population in terms of age, gender, regional and ethnic background, and a series of other demographic indicators. The panel was used to consult citizens about the quality and content of public services. This national panel came to an end in 2002, but new panels have been established at various government departments. Examples are the British Crime Survey, run by the Home Office annually questioning 40.000 citizens about their opinions on criminal justice, the police, and the courts; Through the Patient’s Eyes, a regular survey of in-patients in NHS hospitals, seeking their views on how they were treated; the National Passenger Survey by the Strategic Rail Authority; and a series of surveys run by local government.[1] Likewise, in The Netherlands, many agencies have set up smaller consumer panels, or advisory boards with delegations of interest groups, which they can consult about performance or policy changes.

Public reporting is another instrument for public accountability that has been adopted from the private sector. Agencies make their annual reports, their assessment, and their benchmarks publicly available or they publish separate annual reports directed at a general audience (Algemene Rekenkamer 2004). The rise of the internet has given a new dimension to this form of public accountability. Increasingly, the results of inspections, assessments and benchmarks are put on the internet. For example, in The Netherlands, just as in the UK (Pollitt 2003: 41-45), the National Board of School Inspectors, makes its inspection reports on individual schools widely available on the internet. Parents, journalists, and local councils easily can compare the results of a particular school with similar schools in the region, because quantitative and comparative benchmarks are provided for, but they also have access to the quite extensive qualitative reports. Even though there is little evidence, so far, that many parents exercise exit or voice on the basis of these qualitative reports, local principals increasingly do feel obliged to publicly account for themselves (Meijer 2004).

4. From financial to public goals

The third shift is one from reporting solely about financial goals and issues to reporting about a broad range of public concerns. This shift is most visible in the private sector. Many large, listed companies have begun to publish separate social and environmental annual reports in order to accommodate their critics and to express that they accept a corporate social responsibility. These come under different labels: social and environmental reporting, sustainability reporting, citizens reporting.

Some countries, such as France, Denmark, Sweden and Australia, have already made annual environmental reporting obligatory for private corporations. The number of companies in Europe that publicly report about their social, ethical, or environmental performance is rising – from 12% in 1993 till 28% in 2002 (Algemene Rekenkamer 2004). Some public organisations are following their example. In the Netherlands, both the Royal Navy and the Ministry of Defence have started to publish annual environmental reports.

This form of public accountability is still in its infancy. There are no generally accepted standards for good governance or sustainability that can be used to assess the social responsibility of private or public organisations. Many corporations refer to the 'Sustainability Reporting Guidelines' that have been formulated by the Global Reporting Initiative (Algemene Rekenkamer 2004).[2] However, these do not provide assessment standards, but only basic reporting principles and suggestions for the topics that should be treated. Moreover, there is very little evidence that these corporate social and environmental reports are more than an act of public relations. Corporations tend to focus on neutral or positive disclosures; no more than 1% of these reports disclose negative or unfavourable trends (Hibbitt 2004).

5. From vertical to horizontal accountability

Taken together, these three shifts stand for another, more meta if you like, shift in public accountability, a transition from vertical to more horizontal forms of public accountability. In most western democracies, the dominant public accountability relationships traditionally have been vertical in nature. This has been particularly true for countries with a parliamentary system that operates on the basis of the doctrine of ministerial responsibility, such as Belgium, The Netherlands, Germany, and the countries of the former British Commonwealth with their Westminster system, such as the UK, Australia, and New Zealand. Formal public accountability is predominantly exercised through the ministerial responsibility to Parliament.

Public managers are not politically accountable; for them organisational accountability prevails, they are accountable only to their direct superiors in the chain of command. Only the apex of the organisational pyramid, the minister, accounts for the organisation in Parliament or in the media (Day & Klein 1987:33-38). Public accountability thus follows the chain of principal-agent relations (see figure 1).

Figure 1: vertical accountability about here

Over the past decades, this Weberian, monolithic system of hierarchical political and organisational accountability relations has been under serious pressure and is slowly giving way to a more diversified and pluralistic set of accountability relationships.[3] Next to the hierarchical control through the minister, other, less hierarchical and more informal public accountability relations have been developed.

Figure 2: horizontal accountability about here

First of all, the fairly recent establishment of a variety of national and local ombudsmen, auditors and independent inspectors, does not fit within the classic top-down, principal-agent relationships. Although most of these forums report directly or indirectly to Parliament or to the minister, they often do not stand in a hierarchical relationship to the public managers. Some of them, such as ombudsmen, do not even have formal powers to coerce public managers into compliance. Most of these administrative accountability relations are a form of *diagonal* accountability[4], they are meant to foster parliamentary control, but they are not part of the direct chain of principal-agent relations (Magnette, Lequesne, Jabko & Costa 2003: 836). These controlling agencies are auxiliary forums of accountability that were instituted to help the political principals control the great variety of administrative agents, but gradually they have acquired a legitimacy of their own.

Secondly, the rise of quasi autonomous or independent agencies has weakened the legitimacy of the Weberian systems of political control through the minister (Van Thiel 2000; Pollitt et al. 2001). In the case of these so called quangos, the traditional doctrine of ministerial responsibility is counterproductive. Although ministers formally remain answerable to Parliament for the daily performance of these agencies, they have far fewer powers of oversight and control than before. In many cases ministers have only retained a formal responsibility for policy formulation and institutional arrangements, whereas the operational responsibilities have moved to the heads of these agencies. On top of this, there is also a tendency to reserve the full doctrine of ministerial responsibility to parliament, involving the threat of a loss of confidence and resignation, only to those cases in which the minister was personally involved (Harlow 2002:22; Bovens 2003:57). This political accountability gap causes a pressure for the creation of shortcuts to Parliament (Barberis 1998). Hence, heads of autonomous agencies are sometimes made directly accountable to Parliament and may appear before legislative committees or they are being subject to administrative scrutiny bodies such as national audit offices (Thatcher 2002:142).

Next to this, the rise of panels and public reporting, which we have already discussed, could be called genuine horizontal accountability as the complete hierarchical chain, including Parliament, is surpassed and the agency, the minister, or the public manager is directly accountable to the media, interest groups or the public at large.

6. Prospects for public agencies: accountability overload

These various shifts from financial to public accountabilities offer chances to public agencies to enhance their political or social legitimacy and to improve their performance. Some have even put these shifts to strategic use by designing their own benchmarks, by setting up their own accountability forums, and by strategically publishing about their successes and positive assessments. The heads of a number of independent agencies in The Netherlands, for example, have voluntarily published a Charter of Public Accountability which established, among others, a board, that can visit and inspect their agencies and publicly report on them. This board operates independent from the departments that are the principals of these agencies. In 2002 and 2003 this board inspected four agencies and issued – mostly positive - public reports.[5] These reports were published in the media and send to parliament and thus became a move in the chess game of politico-administrative relations.

However, there are also a number of entries on the debit-side. There is no commensurate relation between public accountability and performance. Public accountability may be a good thing, but we certainly can have too much of it. Many scholars have pointed to what could be called the *accountability dilemma* (Behn 2001: 11-13) or the *accountability paradox* (Dubnick 2003: 31). There exists an inherent and permanent tension between accountability and effective performance (Halachmi 2002a). Too much emphasis on accountability and transparency can lead to enhanced proceduralism, and to sub optimal and inefficient decisions instead of improved performance (Adelberg & Batson 1978; Lerner and Tetlock 1999).

Many public managers have started to complain about the costs, in terms of time consuming paperwork, an increased overhead, and goal displacement, that are involved in registering and processing all the data that auditors require for monitoring (Halachmi 2002a; Pollitt 2003: 47). Some even argue that these shifts have lead to an audit explosion (Power 1994; 1997) and that public services nowadays have far too many accountability arrangements for efficient performance (Behn 2001: 11-21; Dubnick 2003: 31-33).

7. Prospects for audit offices: new roles, new skills, new dilemmas

The shift form purely financial accounting to public accountabilities offers audit offices a chance to emancipate themselves from their somewhat dull, bookkeeping background. They can enhance their public legitimacy by taking up new roles: for example the vigilant public accountant who watches over the efficiency and effectiveness of public programmes or that of the professional social scientist who paints an objective and accurate picture of the state of the union. Or they can even become public management consultants who advice public bodies on how to improve their performance (Pollitt et al. 1999:106; Mul & Molenaar 2001).

These new roles require new skills, however. Establishing the effectiveness of policies and programmes often requires a variety of sophisticated evaluation techniques that may also vary with the sector that is being evaluated. Old fashioned financial accounting or legal scrutiny will not suffice. Audit offices will have to hire policy analysts and sector specialists and establish multidisciplinary teams. Team management skills and interdisciplinary understanding will become more important. Pollitt et al. (1999:202) also indicate that the ability to negotiate with the staff of the audited body is a vital element in the craft of the successful performance auditor.

Some of these new roles may also create new dilemmas. Auditors may find it difficult to combine both the traditional accounting role and the new role of management consultant. They may get into a conflict of interest, when they have to assess organisational improvements that they themselves at an earlier stage have recommended (Mul & Molenaar 2001).

Establishing the effectiveness of policies and programmes will also move audit offices into the realm of policy evaluation. This is not a value neutral terrain. Policy evaluation is in the end an inherently political activity, because the choice of theoretical frameworks and evaluative standards involves implicit political choices (Bovens & ‘t Hart 1996). Audit offices have tried to stay out of this marshy terrain by relying on vague indirect standards such as good management practices or by adopting a very formal approach to policy evaluation. For example, The Dutch National Audit Office recently criticised the Dutch government because it had found that policy programmes had contradictory goals and often lacked clear and feasible objectives. Thereupon the NAO was in turn criticised for its rather naïve and formalistic approach to policymaking (Noordegraaf 2003). Policy programmes often fulfil symbolic functions and are not always meant to be implemented It is often impossible to determine beforehand what are feasible policy goals and policy contradiction is unavoidable in dense policy areas.

The shift from financial accounting to public accountability therefore will put audit offices more in the political spotlights. They will have to account for themselves, for the standards they apply and for the sophistication and independence of their judgment at the risk of decreased legitimacy (Pollitt & Summa 1997). They will have to face once more the perennial question of *quis custodiet ipsos custodes?* Who audits the auditors themselves?

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[1] http://www.cabinet-office.gov.uk/servicefirst/2001/panel/newsletter.final.htm
[2] http://www.globalreporting.com
[3] See Day & Klein (1987: 10-29) for the general context and Barberis (1998) for the British context; see Mulgan (1997: 25-26) and Aldons (2001) for an overview of the Australian discussion; see Bovens (2003: 46-67) and Algemene Rekenkamer (2003) for the Dutch discussion. For an overview of the multi-level and composite character of accountability and control in the EU, see Harlow (2002), Costa, Jabko, Lequesne & Magnette (2003) and Héritier (2003).
[4] I owe this term to Thomas Schillemans.
[5] http://www.publiekverantwoorden.nl