

Impacts of State Political Conception on Accounting Reforms A Case Study on UK - France

First Draft

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Introduction

Accounting reforms are part of the central reforms actually performing all around the world in public sector. The accounting reforms are structured by three main components (Lande, 2010): reform of accounting practices and principles, information systems reform and control mechanisms. Reforms in public management and more specifically in public accounting are therefore not an isolated phenomenon but a part of an international trend framed by a convergence approach following Welch and Wong (2001) and the New Public Management (NPM) theoretical framework.

Whether the accounting reforms in public sector are part of an international movement, we cannot conclude to uniformity in public management. Indeed, even with identical titles and goals, practices can be really different according to national contexts and specificities. To understand and develop the specificities of national contexts, Foucault's State representation can be really useful. Indeed, he developed his concept of governmentality to explain that the State is functionality, an effect which allows using it with a materialist approach based on instruments (Foucault, 1984). The objective to use the concept of governmentality is to understand deeper the public actions terms. The suggested approach is to develop the national context with an instrumental perspective to build a framework used to understand the public accounting reforms structure in France and United Kingdom in order to answer to the following questions: how the national contexts (political and cultural) can they influence the structure of public accounting reforms? And finally, *how can we explain the development of public accounting reforms structure in link with the national context?*

In order to answer this question, the subject of the paper is based on a comparison of two different cases: French and English budgetary and accounting reforms on a central government level. The thesis defending here are the following:

1. Public accounting reforms can first be divided into three core interconnected elements and explained with the social and political contexts according to the *governmentality* concept developed by Foucault (1975, 1978, 1988).
2. The social and political contexts of a country can explain the predominance of some elements of public accounting reforms (performance control and performance audit for UK and budgetary management and control for France).

To support this approach, the research uses a methodological framework based on two cases studies with data including national and international reports, interviews with agencies or ministry in charge of the accounting system and observations in the two supreme audit institutions (NAO and Cour des comptes). To analyze those two cases studies, the paper is based on a comparative approach with one objective: distinguish differences and similarities in order to define the object of comparison (Oyen, 1990).

The first part develops the concept of *governmentality* linked with the New Public Management framework and draws the national context for France and United Kingdom. The second part develops the methodology framework and secondly details the English and French cases with a presentation of the reforms in central governments following the three main components: reform of accounting practices and principles, information systems reform and control mechanisms reform. Finally the third part gives the keys to link the reforms structure with the national contexts following the *governmentality* concept.

Part 1: The Governmentality linked with the New Public Management as a Theoretical Framework

To draw the national context of France and United-Kingdom, this first part will introduce the theoretical framework, an institutional context explained with the governmentality concept of Foucault and a new Public Management approach.

1. The Institutional Context

a) The Governmentality Concept

Is State conception influencing accounting and auditing techniques and instruments in the public sector?

Michel Foucault (1994) working on relations of power inside government arrived to the conclusion that the State is not an institution with a unity of point of views and attributes but an aggregation of micro-powers: “What are the relations of power? How are things going there, by what instrument and as in a sense I am a historian of ideas and Social Sciences, what are the effects of power relations in the realm of knowledge?”¹ (Foucault, 1994, 750-751)

So, these micro-powers are not linked (or not only) to ideology of State power (liberalism, Marxism...) but are related to instruments, tools, process and political rationalities. By this way, political sciences moved through management sciences in integrating management instruments and their appropriateness by managers, politics and the society. Hence, authors like Max Weber, Michel Foucault or Karl Weick proposed that tools or instruments have they own effects and can define and orientate State conception. Pierre Lascoumes (2004) identified three levels of effects:

- the instrument creates inertia effects that ensure the robustness of an organization and at the same time create resistance to external pressures (Callon called it the stage of "problematization" that allows heterogeneous actors find themselves on issues they agree to work together);
- the instrument product also a specific representation of an issue. The instrument is then the source of a conventional construction of realities that will shape the use of other instruments. Thus, the instrument provides a grid description of the social categorization of the situation addressed (for example the case of statistical indicators intended to measure a phenomenon but are often arbitrages between different actors);
- the instrument induces a particular problematization of the issue insofar as it prioritizes the variables. For example, the obligation of information that exists indicates a mapping of the issue

¹ « Que sont les relations de pouvoirs? Comment cela se passe-t-il, par quels instruments et puisque en un sens je suis historien de la pensée et des sciences, de quels effets sont ces relations de pouvoir dans l'ordre de la connaissance? » in Foucault (1994).

to the extent that the minority phenomena are difficult to insert in a formatted information to the public.

Thus Lascoumes (2004), following C. Hood (1993) works, identifies five types of reports based on policy instruments used and modes of legitimacy used.

Table 1 : Instruments and legitimacy used in a governmental environment

Instrument Type	Political Relationship Type	Type of legitimacy
Legislative and regulatory framework	State caretaker of common good	Imposition of interest by authorized representatives
Economic and fiscal	State producer of wealth and redistribution	Finding a community service
Conventional incentive	State Mobilizer	Search Direct commitments
Informational and communicational	Democracy of the public	Explanation of decisions and stakeholder accountability
Norms and Standards	Competitive adjustments within civil society	Mix Scientific and Technical Rule democratically negotiated Market mechanisms

Source: Lascoumes (2004), p.11.

The contribution of this instrument representation is twofold:

- taking the translation theory of Callon and Latour, it allows the introduction beside the players' strategies, the role of actor-networks formed around the instruments;
- taking the theory of governmentality, the instruments are strategic and can be the source of strength and are the subject of social debate because they structure the actor's representation of the State.

Following Watkins and Arrington (2007, p55), « the language of politics is seen as written largely in a language of accounting ». Accounting is finally a tool for politic power. The implication for accounting research is a tendency to assume that accounting can be draw to be in favor of political concerns (Watkins and Arrington, 2007).

In this study, these theoretical approaches show that the choice of an instrument or a reform (in this case an accounting reform) is never trivial: they are often reinforcing the actor's representation of the State. Otherwise, there is a significant risk of rejection of the reform because there will be cognitive dissonance between the instrument and the vision of State worn by the actors, or when the reform will be subject to local adaptations to match the three dimensions of a management tool (Hatchuel and Weil, 1992):

- the managing philosophy of the organization, which here correspond to the nature of political power and its modes of pursuit in a State;
- the technical foundation of the instrument, ie the technical features of the accounting reform envisaged (accrual accounting, management accounting ...);

- the schematic representation of the organization by the actors, which refers to the social and cultural environment of a State (similar analysis of what is proposed by NPM).

b) A New Public Management Approach

NPM is a research stream which became visible in the 80'. NPM consists in rationalizing public management with tools from private management and can be defined as "a set of ideas and methods that aims to combine accountability and efficiency in public administration" (Hernes, p 5, 2005). The objective is to give a new direction for public governance: a culture of efficiency and effectiveness. We can differentiate two main streams in the NPM: the first one is based on the idea of a universal practice (Politt and Bouckaert, 2000; Osborne and Gaebler, 1992) and the second one argues that NPM does not present convergence (Hood, 1995, 1998). NPM embodies a group of ideas, tools, practices and methods to combine accountability and effectiveness in public sector. Following Lapsley (2009), the NPM framework can be viewed as an instrumental approach, with a cultural perspective or related to the paradigm of social construction.

Following Hood (1995), the features of NPM are:

- disaggregation of public organizations into separately managed "corporatized" units for each public sector "product";
- a shift toward greater competition between public sector organization and the private sector;
- greater use of management practices taken from the private corporate sector;
- more focus on discipline and parsimony in resource use and active search for alternative ;
- a move towards "hands on management";
- a move toward more explicit and measurable standards of performance ;
- attempts to control public organization in a more "homeostatic" style according to present output measures.

Guthrie et al. (1998) have identified five different categories of New Public Management reforms:

1. changes to financial management reporting systems ;
2. the development of commercially market oriented management systems ;
3. the development of a performance measurement approach ;
4. the decentralization of budgets coupled with the integration of a management accounting systems ;
5. changes to internal and external public sector audits.

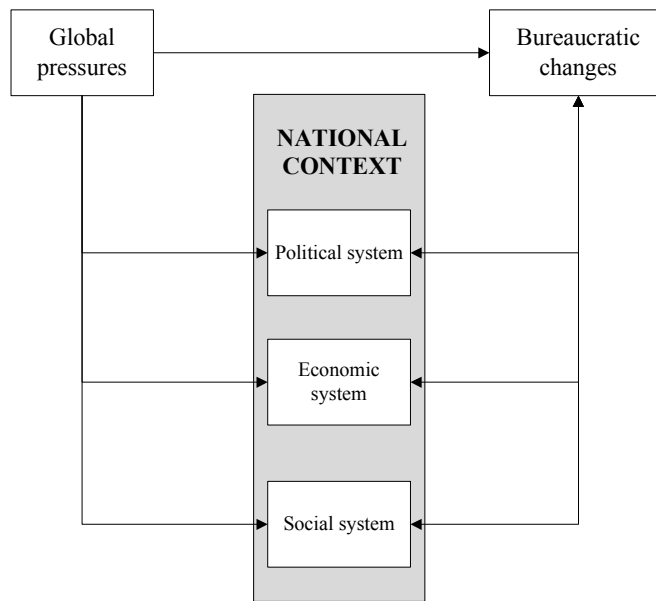
This classification presented by Guthrie et al. (1998) can be replaced into the reform approach used for this study i.e. a structure composed of three main elements: reform of accounting practices and principles, information systems reform and control mechanisms reform.

In the late 1990s, NPM stream gave way to skepticism about its generalized applicability (Manning, 2001) but gave also way to recognition of its automatization. It is important to note here that NPM was conceived to improve efficiency and responsiveness to politics principals and identifying a principal is harder in presidential regimes than in parliamentary regimes. In fact the origin of NPM stream is based on parliamentary regimes with strong executive powers and centralized government (Manning, 2001). This

origin can be explained by on the set of reforms introduced by the NPM: the creation of semi-autonomous agencies for service delivery (Aucoin, 1990). Those agencies are a tool used in the NPM stream to reduce centralization and power concentration. Watkins and Arrington (2007, p.49) explain that “Countries with centralized States and administrative systems experienced a higher degree of NPM adoption while States with strong local governments adopted NPM measures to a lesser degree”.

The main theoretical contribution of NPM used in this study is the environment perception of Welch and Wong (2001): a public organization environment is linked with its national context, an economic system, a political system and a social system.

Figure 1: Effects on environmental pressures on bureaucracy



Source : Welch et Wong (2001)

The NPM theoretical framework understands also environment as an organizational triptych.

Figure 2: Classical triptych for organizational analyse of environment



Source : Giauque (2003, p. 569)

Giauque (2003) adds to this conception of environments two more aspects for public organizations: the regulatory environment and the legal environment.

To study the national context of UK and France, according to Welch and Wong (2001), we chose to detail two parts, the political context or the State conception and the social context based on the dichotomy between the Common Law culture and the Civil Law. This approach will be explained in part two with the methodological framework.

The political context or State conception

Following the NPM framework, political context is part of the national context or the “domestic context” (Welch and Wong, 2001). In their research on bureaucracy pressure effects in public sector, Welch and Wong (2001) describe bureaucracies as open systems exposed to different pressures originating from their environment.

The political context is an enforceable context for this study. A first traditional classification distinguishes autocratic political systems and democratic systems. We chose to apply a more detailed classification of Norton and Smith (2008) which discerns several types of democracies.

The social context

The social context compiles religion, culture, social classes, inequalities, ethnicity, family system and others variables (Welch and Wong, 2001). This approach is based on the link between culture and economic development according to Weber (1930) and is so massive that it could be the main subject of an international comparison. If the social context is not the main part of this research, it is however not possible to simply eliminate this topic. According to Hofstede (1980), culture is a shared system of representations and meanings. For this study, we chose to consider social context as a system of representations and meanings shared by a country. This approach is based on the intercultural studies following Usunier (1998) who represents the culture as a synthesis variable used to link concepts and theories. For this research, the social context is assimilated to the culture: “which represents a model for group behaviors” (VanMaanen and Laurent, 1992, p. 276). With this approach of social context, we introduce one limit according to Harrison and McKinnon (1999, p497): “By conceptualizing culture through the functionalist lens of values alone, the research fails to recognize that values are only one aspect of culture (Triandis, 1993), and only one way of conceiving culture. As a consequence, the research fails to benefit from other, post-functionalist conceptions in sociology, anthropology and history”.

In order to simplify the presentation of the social context, the comparison will introduce the main “national culture” based on a dichotomy: Common Law culture and Civil Law. The definition and development of this dichotomy give a set of information useful to draw up the social context. Culture is perceived for this research as structuring variable and not as a structured variable.

2. National Context of United Kingdom

a) Political Context or State Conception

United Kingdom is a hierarchic and monarchic democracy framed by a parliamentary system. This democracy is particular because the Constitution is written in laws and is also located in generally accepted practices but cannot be located in a single law or text. Moreover, in a parliamentary system, the executive is dependent of the legislative power. It is a system with a flexible separation and collaboration of powers and an important specificity of UK national context, the Parliament predominance.

Despite the lack of a real formal Constitution, UK is probably one of the oldest constitutional monarchy. Its political system is governed by customs, by justice decisions and by regulatory texts. The State conception is centralized but declined in an administrative systems characterized by agencies. This organization based on agencies is a good illustration of NPM reforms (Manning, 2001). This choice can be explained by the perception of policy-making and service delivery as distinct tasks and the will to have

opportunities to create contract-like arrangements to provide performance incentives (Manning, 2001, p299). In centralized country with a declension by agencies, “NPM seems to embody the idea of a cascading chain of contracts leading to a single (usually ministerial) principal who is interested in getting better results within a sector portfolio over which he or she has significant and relatively unchallenged authority” (Manning, 2001, p 299).

b) Social Context

Common Law is a juridical system based on case law and composed with oral and contradiction tradition. This system is in effect in United Kingdom, Canada and United States of America and show the primacy of good faith, oral expression and reasoning after events. Even if libelous exist; individual liberty is important in Common Law countries using a simple and not much restrictive law. Common Law culture is characterized by an important flexibility, adaptation ability but can also be unpredictable (Castellane, 2008). The Common law also requires consideration to form a contract (Laeuchli, 2007) and is a more business-minded pragmatic law (Dedek, 2010). Finally, Common Law can be distinguished from Civil Law by a strong belief in witness reliability and a frequent recourse to experts in a professional context (Karrer, 2008).

The control conception in a Common Law context aims to understand this concept as a conformity to rules and standards because of the extend granted to the customs and regulatory texts. The control is finally a resource’s set used to ensure the conformity to a referential.

3. National Context of France

a) The Political Context or State Conception

France is organized in unitary State relatively decentralized (mostly a regional decentralization). The political system in France is also characterized by a strong bipolarization of powers. France is a Republic with Constitutional law. The governmental and political system set up by the last Constitution is rather a complex one with a President elected every 5 years who chooses the government. The political system is also composed of:

- a Parliament with two chambers;
- an House of representatives or National Assembly (*Assemblée Nationale*) elected for five years;
- and a House of Senate elected by the already elected people in municipalities, counties and regions;
- at least, the Conseil constitutionnel (Constitutional Council) has a responsibility to control the conformity of the laws to the Constitutional Law.

In France, the presidential system is a representative political system based on a Constitution organizing the powers separation. Even if this system is based on a powers separation, executive power represented by the President can have predominance on the legislative power. If NPM is perceived to be more difficult to implement in presidential system, the success of autonomous agencies is equally difficult and depend of long-term reforms (Manning, 2005). The State conception is based on one strong belief: the State is “one” despite strong local government and decentralization.

b) Social Context

In European countries based on Civil Law as France, context is more codified than in countries characterized with Common Law. Public order and moral duty are essential (Dedek, 2010) and writings have a substantial place. Civil Law involves a trend for preventive formalism and recourse to critical spirit which are considered as reliability guarantees. Civil Law, contrary to Common Law culture, uses a lot of crossed verifications because of a lower belief in individual parole and external expertise (Karrer, 2008).

For organizations coming from Civil Law, written papers, formalism are real important concepts. Their methods have therefore to be widely documented and formalized. Finally, recourse to external expertise is less common in Civil Law whereas necessity for events and facts checkout is stronger.

The control conception in a Civil Law is understood as a piloting which implies to implement a monitoring system and disciplinary measures system. Goodwin (1978) explains this conception and the Common law conception with the first translation of control in French used by Fayol in 1916.

Following this presentation of two national contexts, the second part will introduce the accounting reforms on a governmental level. Each reform will be detailed following a three point's presentation and a methodological framework.

Part 2: UK and France, Two Public Accounting Reforms Influenced by Political and Social Context

Thanks to a methodological framework composed of two case studies and providing experimental, bibliographic and observation data, this part introduces the French and English public accounting reforms. To develop the reforms structure, the studies is based on three components (Lande, 2010):

- reform of accounting practices and principles (accounting system, financial statements presentation);
- reform of information systems (collecting and compiling for data, link between financial and budgetary accounting systems and between cost and financial accounting systems) which will be presented with the accounting practices and principles;
- control mechanisms (external audits).

1. Methodological Framework

The methodology used in this research is based on a comparative approach of two case studies: France and United Kingdom. Each case study includes the following steps:

- collect of data concerning the accounting system and the accounting reform (national reports and reports on international comparisons presented in appendix 1) ;
- interviews with the agency or ministry in charge of the accounting system (for France: one interview with two officers from the Ministry of Finance, 31 March 2010 – for UK one interview with an officer from a government department, 26 February 2010);
- collect of data in the two supreme audit institutions thanks to observation internships (participative observation and interviews) in order to study the audit evolution for each country in the accounting reform context (data collected presented in appendix 2).

For each case study the collected data are the following:

- experimental data (interviews) ;
- bibliographic data (internal documentation and external documentation concerning the accounting system and accounting reforms) ;
- data resulting from the participative observations.

Data are mainly primary data and may also introduce constraints as the introduction of bias in the analysis. Therefore, data collection also includes secondary data such as literature or external documentation to ensure complementarily between primary and secondary data and to ensure data triangulation (Chalmers, 1987).

Concerning the data processing, this research is based on a comparative approach borrowed to the researches focused on the sociological aspects of an organization. This approach has not only one consensual methodology but the objective is still the same: distinguish differences and similarities in order to define the object of comparison (Oyen, 1990). This objective is a way to perceive uniformity in the variety to study homogeneities and heterogeneities (Sztompka, 1998). The next table shows the characteristics of a comparative study as a qualitative method.

Table 2 : Comparative Method

	Objective and Research Question	Implicit Hypothesis	Investigations and Examples
Comparative Method	Pick out local and general determinants for the research item	Same facts significations in different contexts	International comparison

In this research, the complexity level is high because on a multinational context. Therefore, it is necessary to first work out the composition of the national environment and specific environment for each country. Because of this complexity, the comparison approach has been running following the “comparativist” approach developed by Oyen (1990). This approach admits to place the “country variable” as the study context and not as the study object or research unit. The national context is not the point for the comparison but a part of the context to consider. Contrary to the approach developed by Harrison and McKinnon (1999, p501), we chose to not study the interactions among actors and structures that constitute the dynamic and complex life of the whole. For this reason, one limit of the study is “to treat the value dimension superficially through assuming a uniformity and uni-dimensionality for each dimension that is neither sustainable nor valid” (Harrison and McKinnon, 1999, p502).

To apply this comparative approach, it is necessary to choose a methodology. VanMeter (1990) introduces two principal methodologies. The first one consists to product categories or typologies according to similarities to realize a hierarchical and ascending analyze. The second one, the crossed classification, analyzes similarities between variables but also between variables and the subject. We choose to use a hierarchical and ascending classification to present a legible comparison and to be able to study the similarities and differences thanks to the comparison of national context and social context.

To study the accounting reforms for UK and France, we chose to detail the two core elements: The accounting practices and principles (and the information systems linked with) and the control mechanisms reforms. This study only concerns central government and also mainly discusses government department for the UK case.

2. Reform of Accounting Practices and Principles

a) United Kingdom

The UK system is one of executive control by Treasury which is responsible for the budgeting system and rules. A fundamental rationale for all of them is that, while the Minister in each department has considerable power over that department, there are Treasury requirements (on behalf of Parliament) relating to all central government money.

The United Kingdom has adopted a gradual approach. The reform, which took place after ministry department, is a continuous process over the past 10 years mainly because the central government entities controlled by the government. Local authorities and health agencies already apply the methods of accrual accounting.

From 1997 onwards, the UK government implemented two radical budgeting and accounting reforms. The first one can be termed as the budgeting reform. The essence of it was that three-year' budgets with flexibility to carry budget underspendings from one year to the next. The three-year cycle of budgeting is exclusively accrual-based and deals with those parts of central government spending that are deemed to be controlled, called "departmental expenditure limits". The second reform officially began in 1993 and can be termed as the accrual-based reform. The result was the implementation ex post accrual-based financial statements for each government department in 2000. One part of the system, relating to the Whole of Government Accounts, has not yet been published. Effective for 2009-10, the accrual aspects of the system were changed to refer to International Financial Reporting Standards (instead of the Financial Reporting Standards of the UK's Accounting Standards Board).

Budgeting and accounting are not separate but there are separate elements to each. All budgeting and accounting requirements of the system are set by the Treasury, in three linked publications. *Managing Public Money* (HM Treasury, 2007) sets out the fundamentals of money in central government, including the role of the Treasury. An important fundamental relating to budgeting and accounting is that all commitments by government to spend money in future, for which there is no budget, should be approved by the Treasury in advance of making the commitment. The Treasury also states that it is "best practice" for specific legal authority to be obtained (*Managing Public Money*, para. 5.4)

On the relation between the accounting in the financial statements and budgeting, *FReM* states: "Accounting policies are generally common to both accounting and budgeting. In selecting relevant accounting policies, entities should have regard to budgetary and control requirements, but should give paramount importance to the need for financial statements to give a true and fair view (*FReM*, para. 1.3.1)." "Preparers of financial statements need to consult with the relevant authority...before changing significant accounting policies and estimation techniques where it appears that there could be a potential impact on budgets and on the National Accounts (*FReM*, para. 1.3.2)."

The annual financial statements provide (in notes) reconciliations to budgets, at a high level of aggregation; these reconciliations are also shown in the budgets.

The Budgetary Accounting

The structure of the budgets is, first, by government department and then, within each department, by programme (though these can be the same as by function, e.g. salaries). This is not called a chart of accounts and, being primarily by programme, is not uniform across departments.

The budgets for each department are in two parts: those parts that are deemed to be under the direct control of the department (and are therefore targets for spending) and those that are not (and are therefore forecasts of the spending that will be incurred).

The Financial Accounting

Central government as a whole, represented by the Treasury, has the Consolidated Fund and the National Loans Fund. These are bank accounts at the central bank and a set of cash-based financial statements is produced for each of them. The Consolidated Fund was established in 1787, into which all receipts were to be paid and from which all payments were to be made. In 1968, the National Loans Fund was

established so that the receipts and payments relating to borrowing and lending are accounted for separately. There is also a Contingency Fund, which functions in the same way for money set aside for urgent services not yet in the annual approved budget.

In the Consolidated Fund, the accounting policy for taxation is the cash received by the Fund from the government department with responsibility for collecting taxes. However, in the financial statements of that government department, the accounting policies for taxation are accrual-based, as the next section explains.

The annual financial statements of the National Loans Fund are accrual-based. The operating statement essentially accounts for the costs of borrowing. The government's debt is in the balance sheet of the National Loans Fund.

The operating statement (Statement of Comprehensive Net Expenditure) is required to show staff costs, other costs, and income, distinguishing between 'Administration costs' and 'Programme costs'. Administration costs are separated as a method of constraining the costs of running central government (as contrasted with the direct provision of services by central government). Not all government departments are required to make this distinction.

The *Government Financial Reporting Manual (FReM)* is the "technical accounting guide to the preparation of financial statements" (*FReM*, para 1.1.1) for each government department's consolidated financial statements. It also refers to Whole of Government Accounts (WGA). *FReM* is updated for each fiscal year (though it is possible to update it within a fiscal year). It is produced by the Treasury. The Treasury takes advice from the Financial Reporting Advisory Board on accounting standards for government (from 2010-11 including for local government). Some of the Board's members are from the private sector. The accounting policies in *FReM* are taken from accounting in the private sector (termed Generally Accepted Accounting Practice [GAAP]) "to the extent that it is meaningful and appropriate in the public sector context" (*FReM*, para. 2.1.1).

The Information System

On stage 3 of the WGA reform, the different information systems were replaced through an HM Treasury systems known as the Single Data System programme. This database, called COINS (Combined Online Information System) was designed to bring together all public sector financial data (Chow et. al, 2008) and to alleviate the inconsistencies that have emerged from having three separate accounting systems. The information produced by COINS are used for budgeting, recording governmental spending and the preparation of audited financial statements. COINS required to convert their end-of year final balances for each government department into a format required for resource accounts.

b) France

The Constitutional bylaw on budget acts (LOLF) is the first brick of a broad reform of financial and accounting information of the French State. The LOLF in Article 27 requiring the holding of three independent accounting systems and articulated: budgetary accounting, financial accounting and management or costs accounting: "The State keeps budget revenues and expenditures accounts and general accounts for all of its transactions. It also implements an accounting system designed to analyze the costs of the different actions taken under the programmes". Only the costs accounting constitutes a new accounting requirement, the first two pre-existing. Recognition of the three dimensions of accounting (budgetary, financial and management) is in itself a "revolution" by the autonomy granted to financial

accounting. While the French public accounting was characterized by the predominance of budget system (public accounting was governed by the budget rules and financial accounting purpose was to verify whether the budgeted amounts were not exceeded), the LOLF recognizes that financial accounting is only a "reporting of budget execution," a role in which it confined itself historically. This independence of financial accounting in relation to the budget accounts has resulted in the statement of principles for financial accounting independent of the budgetary principles.

The accounting reform may be presented briefly from its three main objectives.

- The first objective of the accounting reform is to support budget reforms. Managers are free to commit expenses and are responsible on commitments. For this, they need to have reliable accounting information on accounting information and budgeting commitments.
- The second objective is to achieve sincerity and budgetary accounting. It implies to recognize future State expenses like long-term debt and to assess and recognize contingencies. It is therefore more than a short-term accounts and budget, forcing managers to predict the future consequences of their choices. This objective is also accompanied by a change in accounting standards setting with the collection of State standards. The collection of accounting standards was issued May 21, 2004 to apply to accounts for the year 2006 and deals with financial statements. It consists of a conceptual framework and 15 standards and has already been updated three times (2007, 2008 and 2009).
- Finally, the third objective is to develop and obtain certification of accounts (opinion set up by Supreme Audit Institutions (SAI) without qualification).

Budgetary Accounting

The form of the annual budget (and therefore the cash-based accounting against the budget) has changed from being based on the organisational structure of departments, with highly detailed line items, to a structure of missions, programs and actions, expressed at the lowest level in measurable outputs. The, budgetary accounting can be distinguished in two parts. The first one is based on a modified cash (modified cash basis) according to the nomenclature of the Public Sector Committee of IFAC (International Federation of Accountants) (system based on receipts and disbursements with an additional period at the end of the year for the matching of costs and products in the year). The second one is based on the notion of commitment. The article 28 of the Constitutional bylaw budget acts explains this point: "Recognition of budget revenues and expenditure obeys the following principles: 1) revenue is recognized for the budget of the year in which it is collected by a public accountant; 2) expenditure is recognized for the budget of the year in which it is paid by the accountants commissioned to the expenditure. All expenditure must be charged to the appropriation for the year in question, regardless to the receivable date".

Financial Accounting

The general-purpose financial statements for the government as a whole include the balance sheet, income statement and cash flow statement (showing the current and the two preceding years).

Financial accounting, according to the classification of IFAC, refers to a system of accrual accounting very close to the one in force in the private sector. Article 28 of the LOLF states that accounting for revenue and expenditure budget is based on the accrual basis principle. The connection to the fiscal year is done on a cash basis with a possibility of extension at an additional period (not exceeding twenty days). Article 30 of the LOLF says for its part that "the general account of the State is based on the principle of

determining the rights and obligations". Transactions must be taken into account in the year to which they relate, regardless of their date of payment or collection. The rules for accounting of the State are indistinguishable from those applicable to companies because of the specifics of its action". The accrual accounting policies are established by a body within the Ministry of Finance (which does have members from outside the government, for example academics). As it happens, the accrual accounting policies for businesses are also set by a body within the Ministry but a different one from that for government. In addition to the specific accounting policies, there is a conceptual framework that sets out the scope of the accounting, its objectives and its limits. It includes accounting principles in the law for government (regularity, sincerity and fairness) and others from business accounting (materiality, going concern and consistency, and derived from the IASB, understandability, appropriateness and reliability). There are 15 accounting standards (financial statements; expenses; sovereign revenues; operating and other revenues; intangible assets; tangible assets; financial assets; inventories; current assets; cash; financial liabilities; provisions; commitments; accounting policies; and events after the balance sheet date).

Cost Accounting

The cost accounting system is a tool of management and information additional to the budgetary and financial accounting. It is in fact a modality of presentation with information from budgetary accounting and from financial accounting. Accrual accounting and budgetary accounting are indeed fundamental elements to analyze the costs of actions as required under the terms of Article 27 of the Constitutional bylaw. The general concepts are defined in the same way in the different accounting systems so that meaningful comparisons can be made between management units. The notion of full cost needs to be defined in terms of accrual accounting concepts.

Cost accounting or analysis is the counterpart of the existence of actions and programmes. This accounting can reconstruct the full cost of public policies for the information of Parliament and for managers responsible for implementing these policies. The transversal analysis of costs is one of its main characteristic. Indeed, for almost all programmes, treatments (reallocation) are necessary to reveal the entirety of the budgetary effort for a given policy action. These treatments can be either internal to the programme, or linked to:

- programmes of the same mission;
- programmes of different missions;
- programmes depended on different ministries.

The costs of action (direct cost, full cost) are calculated ex post costs as necessary. There is no requirement to calculate cost estimates. There is no reconciliation between expenditure projected and expenditure executed in the budgetary dimension. To conclude, cost analysis has a production which is downstream of the two existing areas: budgetary accounting and financial accounting.

Performance Report

Since the Finance Act 2006, specific disclosure to report about performance is included in the general budget disclosures: the annual performance report. The annual performance report (RAP) details the different programs which are part of the same mission.

For each program in a mission, the following are given:

- strategic assessment of the annual performance report (general presentation plus key results plus presentation of objectives and performance indicators for each objective) ;

- presentation of appropriation and expenditure ;
- presentation of the program by actions ;
- details about each action ;
- indicators (measure and analysis with a comparison with the project of annual performance report).

This document gives, for each programme, details about strategy, objectives, indicators and targets to achieve. The annual performance reports (RAP) are linked with projects of annual performance (PAP). They are presented in a structure identical to facilitate comparisons. Linking the RAP 2007 with the PAP in 2009 allows understanding the execution of the budget chain, the RAP 2007 having inspired reflection for the preparation of the PAP 2009. The PAP did not show only the objectives and programme indicators but also information on the justification of the first euro credits and cost analysis for a better understanding of the expense. They detail for each programme, the proposals for the draft budget law.

These objectives and actions to achieve are measured through concrete and verifiable indicators, performance indicators (1 276 in the draft budget for 2008).

The autonomy between the different systems (budgetary accounting, financial accounting and management or costs accounting) does not imply a lack of articulation. Management or costs accounting is inconceivable without a powerful financial accounting of financial data, so a reconciliation table between the result of financial accounting and the result of budgetary accounting is done annually to monitor budget implementation. The next figure shows a synthetic view of the different accounting systems.

Table 3: The three accounting systems in France

Type of accounting	Budget accounts	Financial Accounting	Management Accounting
Purpose	Authorization and monitoring of commitments and cash limit appropriations	Measurement and evaluation of assets and liabilities	Measuring costs
Accounting System	Modified Cash	Accrual (type accounting firms)	Derivative from financial and budgeting accountings
Principles governing the accounting system	Budgetary principles (balance, annuality ...)	Principles defined by the Standards Committee	Allocation of support programmes costs on political programmes (to obtain a full cost)

Source : « Comptabilité de l'État », Evelyne Lande, *Encyclopédie de Comptabilité, Contrôle de gestion, 2009*

The information System

The information systems of the State's accounting and financial management are designated as the Financial Information System of the State (SIFE), which includes more than 300 applications.

The CHORUS project must provide new capabilities to fully meet the objectives of the LOLF and is a proposed revision of part of the information system of the State to use the SAP ERP system (chosen after a contract awarded in 2006) to implement the expenditure, perform accounting and monitor non-tax revenues. This project covers all departments, both for their centrally for the decentralized level: managers, financial controllers, accountants and prefects.

With a comparative approach, we can identify three points of convergence or consensus:

- the need to reason by overall budget: a level of detail too important harms visibility for the action and political decision;
- the need to introduce elements of multi-tracked: it is increasingly difficult to ignore the multi-annual dimension even though the ministerial team should be judged on the achievements of his mandate;
- the need to define links between objectives, resources available and the results.

We can also emphasize two important reform's elements, the governmental consolidated financial statements and the budgetary accounting. Concerning the consolidated financial statements, only France has this type of financial document for the moment. Even if it is an objective for the English reform, the WGA reform did not lead to consolidated statements yet. One explanation (out of the technical considerations) can be the political importance given to this financial document. In France, with the reform beginning in 2001, the consolidated financial statements for the government were a real interest point which is not the case in United Kingdom. About the budgetary accounting, we need to highlight one important point. The accounting literature in English has dominated discussion of accrual accounting. One consequence is that the term "budgetary accounting" is unfamiliar in that literature despite the fact that the system of budgetary accounting is of the same family as the definitive ones of continental Europe. We can however underdrawn one difference: in the UK government, budgetary accounting is a control by the Treasury of the rest of the executive. This familiar "Treasury control" is fundamental to the non-separation of powers between the legislature and the executive. In French government, the budgetary accounting is above all an executive control. The distinction here between executive and legislative control is not a matter of exclusive control by the legislature versus exclusive control by the executive: it is rather a matter of relative influence.

Finally we can observe a last opposition, the power repartition in France is mainly between accountants and managers (due to the accounting reform) and in UK between ministry and department.

3. Control Mechanisms

To study the third reform component, we chose to detail only the external controls realized by the supreme audit institutions. The point is to study which audits are designed to control the new accounting principles and practices.

a) United Kingdom

The NAO (National Audit Office) is the Supreme Audit Institution of the United Kingdom. The jurisdiction of the NAO includes financial audits², performance audits³ and management audits⁴.

² The financial audit is an examination of financial statements of an organization to test their sincerity, regularity, compliance and their ability to reflect fairly the financial position of the organization.

Statutorily independent of both the Ministry of Finance and Parliament, the NAO, however, refer the results of its audit work in Parliament and the Auditor General is an officer of the House of Commons, the NAO is attached to the Parliament because it consults Parliament on the choice of the nature and scope of its work.

The NAO performs a financial audit for each department and ministry (except Scotland, Northern Ireland and Wales) or 520 accounts in total, which gives rise to the emission of many of opinions each year (460 to 2008). The scope of the financial audit of the NAO extends to entities receiving public funds (462 accounts audited in 2007-2008). Note also that recently The Companies Act 2006 has mandated the NAO to audit State-owned enterprises (this mandate which took effect in April 2008).

There are different kinds of audited financial statements for central government:

- for central government as a whole, the Consolidated Fund, National Loans Fund and Contingency Fund (these are bank accounts at the central bank but a set of financial statements is produced for each of them, the National Insurance Fund is cash-based) ;
- for each government department (or other reporting entity), its consolidated financial statements. (these are accrual-based);
- for each other kind of reporting entity, its financial statements (these are accrual-based, some major pension schemes are examples);
- for central government as a whole, the Whole of Government Accounts that consolidates the financial statements for each government department or other reporting entity (they are accrual-based, Whole of Government Accounts are currently prepared, and so the accounts and standards have been established, but the Whole of Government Accounts have not yet been published).

The NAO provides a certification with reserve since 2001 on various departmental accounts with lower corporate accounts covered by reserves from 2002 to 2005.

The NAO also performs performance audit called “Value For Money Audit”. Each year, are prepared by the NAO (National Audit Office) more than 60 performance audit reports in the United Kingdom, not all are published. Performance audits or Value for Money Audit are to ensure that departments and entities audited are making optimum use of their resources to achieve goals. Audit teams seek to know, therefore, whether the departments, agencies and public bodies are clear about their objectives, sufficient resources are in place to achieve these objectives and provide a performance evaluation system to measure progress. The choice of subject audits depends on the identification of:

- a specific public interest;
- a particular type of expenditure and important;
- or a topic raised by the Government or a member of Parliament.

³ The performance audit assesses the performance achieved and provides a framework for analyzing the efficiency and effectiveness of operations and resources are available to achieve the objectives of the strategy. The audit, which is a relatively new concept, has a proper methodological approach but that does not differ greatly from methodology of a functional audit.

⁴ The management audit is an audit of the best known and most widely used, its purpose is to provide evidence of fraud, malfeasance or a mess or to make critical judgments a management operation.

The public performance audit of the NAO is structurally based on three criteria commonly called "the 3 E's", each audit to actually embrace at least one of them: Economy, Efficiency, Effectiveness.

NAO's work is to help secure beneficial change. This has led the National Audit Office to examine successful programmes, and identifying factors contributing to success as well as investigating those programmes that have not been so successful. Learning from and emulating success can be as helpful as learning from mistakes, and National Audit Office value for money reports often give prominence to good practices identified which could be applied more widely. Recent years have seen increasing use of specialist expertise to enhance the credibility of reports.

b) France

The supreme audit institution, the *Cour des comptes*, is a collegial organization with jurisdictional powers and is in charge of financial audits, management audits, organizational audits⁵ and jurisdictional audits⁶.

Financial audit of public financial statements was introduced by the accounting reform in 2006 and is defined as the written opinion reasoned that makes an independent compliance on the financial statements of an entity, in all material respects, at a given set of accounting rules. It has the following characteristics:

- the expression of a position indicating a reasonable assurance;
- evidence of assessments and, in the case of the State, a record of checks;
- a specific methodology based on risk-based approach and the concept of materiality.

The *Cour des comptes* audits corporate accounts or financial statements including trial balance, income Statement, balance sheet and its notes. The certification covers the financial outcome, but does not cover the budgetary outcome, or the result of cash flow defined as the final amount of resources and loads of cash brought in the cash flow Statement. The assurance engagement entrusted to the *Cour des comptes* did not purport to interpret financial statements which comprise the general account of the State. It is only the recognition of their conformity with the rules applicable to them.

Since the first year of certification, the Court certifies the State accounts with reserve (12 reserves for the 2008 accounts and 9 reserves for the 2009 accounts).

The French SAI also performs audit of financial management or performance. It is the second historical mission of the Court of Auditors is the control which is a gateway to management and represents the development of management control, the first historical jurisdiction of the Court. Initially, the auditing is done only on organisms with public accounting and then spread to non-public accountant by extension. This work is described as the audit of '*bon emploi des fonds*', which is interpreted as the scrutiny of the achievement of desired objectives by means of public expenditure. The Court decides in formal session which of these matters will be included in the Annual Public Report. Usually between 25 and 30 matters are included annually, along with the detailed response from the Minister.

⁵ An operational audit analyzes the risks and deficiencies that exist in order to give advice, make recommendations, implement new processes or new strategies. It is generally used to improve the performance of an organization, it is therefore closely linked with the performance audit, both terms are sometimes used to define the same type of audit.

⁶ Jurisdictional audits are used to control accountant's responsibilities.

In recent years, the techniques of programme evaluation have been developed in France as a way of analyzing the totality of the effects, direct or indirect, of a programme and the environment within which it functions.

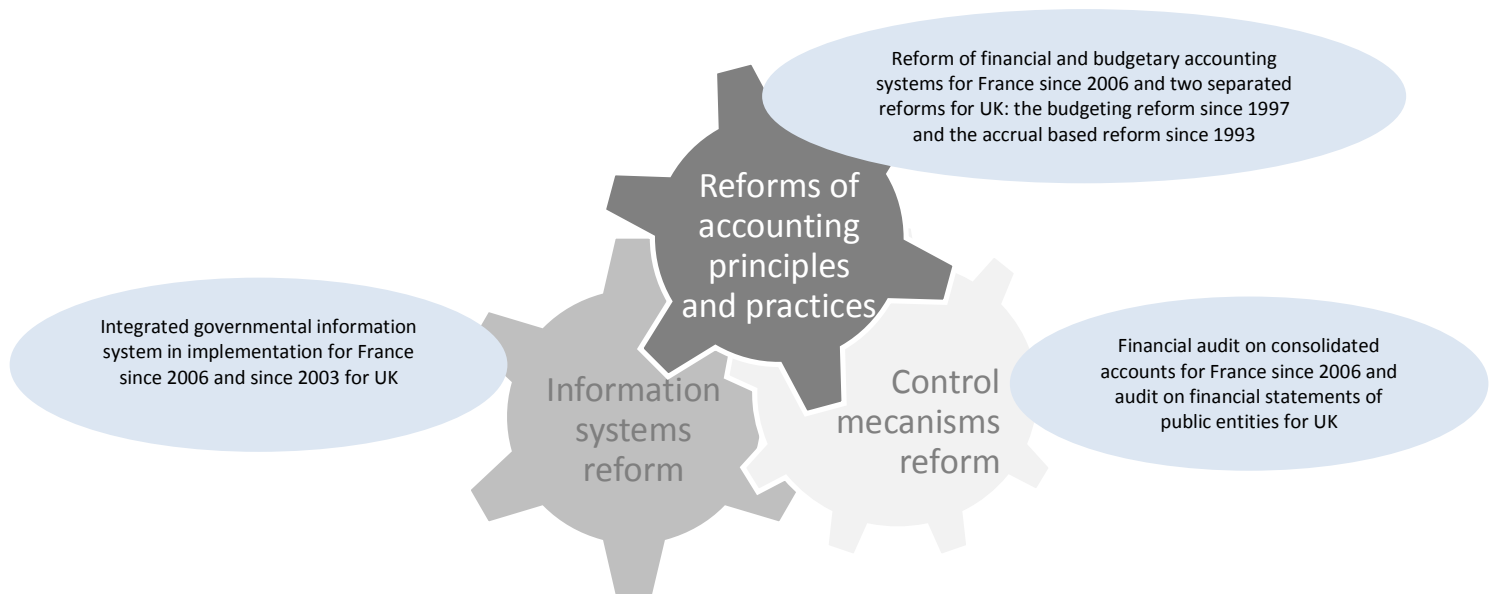
Following a comparative approach, we first notice a predominance of performance audit for United-Kingdom. To illustrate this comparative note, we can observe that the performance audit is declined into several reports in UK and one annual report in France. This can be explained by the precedence of financial audit. In France, there is no real performance audit but rather organisational audit or management audit even if we assist now to the development of a new audit, the public policy evaluation. Concerning the financial audit, in France, it has a real political interest since the reform beginning in 2006 because of the introduction of consolidated financial statements which are a representation of the financial situation for the State. In United-Kingdom, as the WGA reform is not completed yet, the financial audit is less attractive.

Still in a comparative approach we can distinguish the audit targets, are they the accountants, the managers or the politics? In France, the targets are mainly the accountants with the financial audit and in United-Kingdom, the targets are mainly the managers and the politics with the performance audit.

Part 3: Discussion and Conclusion

We can distinguish the three reforms elements and present the link between them following the next figure.

Figure 3: Link between the Reforms Elements for UK and France



As can be seen in this diagram, the reform for France includes changes in accounting principles and practices, information systems and control mechanisms.

For the United Kingdom, the reform is carried out in stages and in the long term marked by a first step in the reform of accounting principles. We note that at this stage, the reform of information systems is in process and audit mechanisms and controls have not evolved according to the reform.

The reform of accounting principles and practices can be seen as an instrument qualified of “Legislative and Regulatory Framework” within the meaning of Lascoumes, 2004. The political Relationship type for this instrument is to be the caretaker for the common good and it brings legitimacy with imposition of interest by authorized representatives. The control mechanisms reform is more an informational and communicational instrument using norms and standards (Lascoumes, 2004) to offer a democracy of the public as a political relationship and an explanation of decisions and stakeholders accountability legitimacy.

As Michel Foucault proposed, tools or instruments have their own effects and can define, orientate State conception. Following the different tools engaged by the accounting and budgeting reforms in UK and France we can make a link with the State conception. The choice to apply a reform in one step with consolidated financial statements, financial audit and governmental information system is representative of the State’s vision as one entity. Moreover, in a civil law culture, writing and formalism have an important place. This point can explain the development of performance report and the evolution of the budgetary accounting following a map of programmes and missions. In United-Kingdom, the State structuration by agencies is consistent with the reform which emphasis the production of financial and

budgetary information by agency but also a control by agency. The reform structuration step by step is also representative of several characteristics of the common law culture: flexibility and adaptation.

To summarize the development of national contexts and reform development for UK and France, the following table shows the key impacts identified and emphasizes the differences between two different national contexts: United Kingdom and France.

Table 4: Impact of State Conception on Accounting and Audit Public Reforms

	Accounting Systems			Audit Systems	
	Budgetary Accounting System	Financial statements	Accounting principles	Performance Management	Audit & Control by the Supreme Audit Institution
UK	Budgetary accounting system based on accrual	Governmental consolidated statements in development	Full accrual accounting statements for ministries and departments		
France	New budgetary accounting system based on cash	Governmental consolidated statements	Adoption of accrual accounting	Budgetary performance evaluation	Financial audit on consolidated public accounts Introduction on public policies evaluation

To explain the choices relating to accounting and budgeting reforms in France and the United Kingdom it is also possible to apply the study of Hatchuel and Weil, 1992, which brings together three elements of the tool necessary for proper implementation. For a reform implemented successfully, it must solicit tools in accordance with the State conception, with a technical design that corresponds also to the cutting of the status and to the representation of the state in agreement with the social and cultural environment.

With the synthetic representation of the reforms presented in the table above, it is interesting to develop two central impacts.

Impact of State Conceptions on Management Performance

As explained by Halachmi (2005, p256), the reasons for the performance measurement are the following:

- a need to review the allocation of ressources,
- a demands by a better educated public,
- the evolution in a context in which a performance report or audit can generate media reports influencing public opinion,
- pressures from international organizations and,
- a desire of legislature to re-establish their credibility and accountability.

In France, the State is considered as "one." Control is therefore primarily by budgetary accounting even if the performance culture is gradually brought by the LOLF. The performance culture is currently limited to the circle through the budget implementation including performance indicators in annual performance

reports. We also assist in France at the beginning of the creation of agencies, mainly reporting agencies that come to undermine the concept of State as one. To generate control and self-control in this new context, the budgetary accounts and performance reports are the primary tools. Those reports are also a way to orientate and facilitate the allocation and resources (according to Halachmi, 2005) and to influence the public opinion thanks to the media.

In the UK, the context is marked by the preeminence of agencies with an assessment of individual performance. This culture of performance may be related to the common law culture which leaves ample room for individual freedom while basing its understanding of the control on compliance with standards and rules. We can also mention the importance given by the media to the performance audit and its reports called “Value for Money”.

Impacts of State Conceptions on Management and Financial Audit

In France, the financial audit is made possible by the reform that introduced the consolidated financial statements. In terms of control, the concept of performance is largely tied to the beginning of the reform.

In the United Kingdom, the visibility of the financial audit is very small compared to the French financial audit because of the lack of consolidated financial statements. The political interest of such an audit is lower. The emphasis is clearly placed on performance audit, which, once again is better suited to a social context marked by the common law.

“As Pollitt et.al (1999, p.2) explain, audit can be a solution to central government dilemma of giving autonomy but wanting to retain control” (Bowerman, et.al, 2003, p16). Thus, financial audit and performance audit can be a support to implement accounting reforms and to allow States to keep control.

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Appendix 1: National reports on accounting systems

France

DGME “ Analyse des coûts des actions et des politiques publiques ”, Janvier 2007

Ministère du Budget des Comptes Publics et de la Fonction Publique, “ Référentiel de comptabilité générale ”, Janvier 2009

Ministère du Budget des Comptes Publics et de la Fonction Publique, “ Compte général de l’État 2008 ”, 2009

Ministère du Budget des Comptes Publics et de la Fonction Publique, “ Mémento sur les comptes de l’État 2008 ”, 2009

Ministère du Budget des Comptes Publics et de la Fonction Publique, “ Central Government Accounting Standards FRANCE ”, 2009

Ministère du Budget des Comptes Publics et de la Fonction Publique, “ Nomenclature d’Exécution Loi de Finances pour 2010 – Guide d’utilisation ”, Décembre 2009

Ministère du Budget des Comptes Publics et de la Fonction Publique, “Nomenclature d’exécution Loi de finances pour 2010, Manuel d’utilisation », Décembre 2009

Ministère de l’Économie des Finances et de l’Industrie, “ Guide pratique de la déclinaison des programmes – Les budgets opérationnels de programme ”, Janvier 2005

United Kingdom

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HM Treasury (2010-11), Government Financial Reporting Manual (FReM).

Appendix 2: Data collected in the Supreme Audit Institutions

Reports

Cour des comptes	NAO
(2005). Benchmark États & cours des comptes. Mission audit stratégique. PricewaterHouseCoopers.	(2005). Benchmark États & cours des comptes. Mission audit stratégique. PricewaterHouseCoopers.
(2006). La certification des comptes de l’État, dossier documentaire volume ii. Cour des Comptes.	(2004). State in the European Union. NAO
(2006). Rapport sur l’organisation des dossiers de travail type dans le cadre de la certification des comptes de l’État. Cour des comptes.	(2005). Publishing your good governance report. A design group guide for authors. NAO
(2006). Instruction du Premier président n°613. Objet : Rapport sur les comptes de l’État – exercice 2006 (présenté en application de l’article 58-5° de la LOLF). Cour des comptes.	(2005). Implementing International Standards on Auditing. NAO
(2006). Rapport pour une orientation de la certification 2006. Cour des comptes.	(2006). Audit of financial statements of public sector bodies in the United Kingdom. Practice note. NAO
(2007). Instruction du Premier président n°621. Objet : Certification des comptes de l’Etat de 2007 en application de l’article 58-5° de la LOLF. Cour des comptes	(2006). Financial impacts guidance. NAO
(2007). Certification des comptes de l’État exercice 2006. Cour des comptes.	(2008). Financial Auditing and reporting, general Report of the Comptroller and Auditor general 2007-2008. NAO
	(2008). Financial audit manual. NAO
	(2008). The Audit Manual. NAO
	(2008). Annual Report 2008. NAO
	(2008). International Financial Reporting Standards:

Cour des comptes	NAO
<p>(2007). La certification des comptes de l'État, dossier documentaire volume ii. Cour des Comptes.</p> <p>(2007). Guide d'exercice de la certification – Comptes de l'État. Cour des comptes.</p> <p>(2007). Rapport présentant la première version du guide d'exercice de la certification et les modalités de mise à jour. Cour des comptes.</p> <p>(2008). Certification des comptes de l'État exercice 2007. Cour des comptes.</p> <p>(2008). Instruction n°627 du Premier président Objet : Certification des comptes de l'État de 2008 en application de l'article 58-5° de la LOLF. Cour des comptes</p> <p>(2008). Méthodologie pour la certification des comptes de l'État. Livre I – Guide d'exercice. Cour des comptes.</p> <p>(2009). Certification des comptes de l'État exercice 2008. Cour des comptes.</p> <p>(2009). Charte de déontologie</p>	<p>Revised Readiness Toolkit October 2008. NAO</p> <p>(2009). Audit 21. Financial audit methodology for the National Audit Office. NAO</p> <p>(2009). Type of accounts audited by the C&AG. NAO</p> <p>(2009). Financial Auditing and reporting, general Report of the Comptroller and Auditor general 2008-2009. NAO</p> <p>(2009). Annual Report 2009. NAO</p> <p>(2010). Progress with VFM savings and lessons for cost reduction programmes. NAO</p>

Interviews

Cour des comptes	NAO
<p>Interview of the manager of financial audit (January 2009)</p> <p>Interviews of three auditors (financial audit) (January and February 2009)</p> <p>Interviews of six auditors in charge of a subsection of financial audit and of managerial audit (2009 and 2010)</p> <p>Interview of the manager in charge of quality control (2009 and 2010)</p>	<p>Interview of an auditor from financial management audit auditor (2009)</p> <p>Interview of an Assistant Auditor General (2009)</p> <p>Interview of an auditor from Revenue audit (2009)</p> <p>Interview of a member of the methodology team (2009)</p> <p>Interview of an auditor from the Value for Money audit (2009)</p> <p>Interview of a member of the financial audit support team (2009)</p> <p>Interview of a member of the allocation team (2009)</p>