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David Carassus, Nadeau Jean-Luc

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***LOCAL GOVERNMENT AUDIT:
TOWARDS STANDARDIZATION
IN THE AUDITING OF PUBLIC
ACCOUNTS***

David CARASSUS

Maître de conférences en Sciences de
gestion
Campus Universitaire
Avenue du Doyen Poplawski
BP 575 - 64012 Pau Cedex
France
Phone : (33-5) 59 40 80 69
Fax : (33-5) 59 40 81 10
Email: david.carassus@univ-pau.fr

Luc NADEAU

Professor
Université du Québec TÉLUQ
455, rue de l'Église
C.P. 4800, succ. Terminus
Québec (Québec) G1K 9H5
Canada
Phone: (418) 657 2747 ext. 5133
Fax: (418) 657 2094
Email: luc_nadeau@teluq.quebec.ca

Abstract

French municipality financial information quality is still unsatisfactory. Although the number of voluntary external audit has increased, information validation is a major problem. Within our analytical framework, an external audit is a mechanism, part of the local management information and control system. The elected official behaviour is a complex process of relation among local actors and the nature of the management information system adherence. The mandated disclosure of information imposes to administration and political actors, and control systems reveal elementary assurance requirements. Our analyses lead to believe that a universal mandated model of external audit could apply to French municipalities.

Key-Words: *Audit standardization, Local governance, Management information systems, Accountability.*

1. Introduction

This study conducts an analysis of the relation between local elected officials in the council (elected officials) of French municipalities and voluntary external audit engagement. The research question of interest to us is to determine why elected officials take on an external audit and the influence exerted on them to make up their mind. Elected officials enjoy significant autonomy over contracting external audit and other audit decisions in France. The notion that audit decisions are often made at a micro level also extends to research that requires an understanding of why elected officials of municipality government contract an external audit.

We study the behaviour of elected officials who voluntary contract external audit in the French municipal sector for several reasons. First, the municipal sector forms an important part of French economy and municipal government requires unique skills and special consideration. Notwithstanding the importance of the municipal sector in France, the whole area is seriously underresearched. (Banker, Cooper et al. 1992) remarked that state and local governments' activities continue to increase in magnitude and important accountability issues distinctive to them need accounting research attention. Second, to the best of our knowledge, none of the extant public sector audit literature has looked to municipal audit decision factors. Prior research of audit decision has focused on private firm audits although the significant proportion of municipal audit in the market. Third, municipal audit, except the *Chambre Régionale des Comptes (CRC)* which is compulsory and behaves like a controller, is voluntary in France. This provides a useful setting to study our research question — namely, are the external audit goals and aims unique to each French municipality?

Municipalities that have contracted external audit are not publicly known in France. Our sample consists of 141 municipalities or 40.5% of the entire population of French municipalities with over 20 000 inhabitants. We control for political competition, dependence stress, control mode, information mode, management mode, and size. Our survey asks about municipality context and organisational structure, information and control practices, and external audit contract.

Results from our study indicate that elected officials are influenced by their environment actors and external audit is a local governance mechanism integrated to the municipality information and control mode. These results are of potential relevance to the public sector accounting and auditing as it undertakes a wide range of initiatives to address auditing issues specific to the French public sector. Although we have chosen to focus on municipal sector in this study, our local perspective and the notion of voluntary audit contracts related to municipal actor structure have implications beyond municipal audit and audit contract decisions. Of late the objectivity or/and subjectivity of contracting an audit has been subject to public scrutiny in France. Our analysis suggests that when assessing a voluntary municipal audit for contract under actor pressure, the regulatory authorities may need to take into account the relative, rather than absolute, behaviour of the actors in question.

The issues addressed in this study are important. Previous research limits and the lack of research in French municipal area invite to define a local audit demand model. Local governance emergence, external audit within the corporate governance, and the actor roles on the audit demand influence the model.

The remainder of paper is organized as follows. Section 2 reviews institutional background and develops empirical hypotheses. Section 3 discusses our sample selection and research design. Section 4 presents our main results. Section 5 concludes the paper.

2. Background and hypothesis development

2.1 Institutional background

French municipalities spend in year 2000 more than € 153 billions on goods and services amounting to 11 % of gross domestic product. Their spending increases of 60% from 1991 to 2000. Municipalities are political organizations. Although municipal employees are responsible for carrying out instructions from the council, they cannot make major decisions on their own. Unlike most firms in the private sector, municipalities are not required, at least in France, to prepare external audited financial statement. In France, since 1982 CRC is the legal supervised organisation of municipalities. Mainly, this organisation limits his control to legal aspect and management conformity. Therefore, as part of the audit, an external municipal auditor is given a responsibility to report, in writing, according to the mandate. When conducting an audit, an external municipal auditor, must comply with and follow the accounting recommendation and the pertinent municipal financial reporting handbook. They are faced with a loss of function, motivating them to provide high-quality audits. A typical municipal audit mandate includes assessment of audit risk, study of internal control, and gathering audit evidence through performance of compliance, and analytical and substantive procedures. To guide and document their work, they use a comprehensive audit program. Their influence on elected officials may be attributable to the interpersonal relationships that they are willing to take the time to build and maintain relations.

2.2 Model

Public administration is challenged to imitate private sector but to innovate. The direct imitation limits are well documented in the literature. (Lamer 1986) observes that most of the 1980 managerial private sector ways of doing business were waste of time in public sectors. The public management is a particular management way base on common wealth not on financial performance. Experience and reality show the management complexity. Technical challenges, cultural constraints and identity are quite different of private management sector. At least the latter management pattern needs some adaptations to work in public administration.

For the purpose of this study, we identify innovative practices of external public control through the analysis of relation among actors. The aim and goals to contract an external audit could be study based on external audit using adapted research method and specific variables. (Luder 1992) contingent model helps to understand practices of external audit contract (purchaser behaviours and practices of audit service) within public external control. Within this framework, an innovation comes from a linear process contingent to historical, cultural and environmental facts. However, as Elkin in (Hoffmann-Martinot 1988), we consider an innovation as a result from a complex game among actors instead as a result from a dissociated and downward process.

Our questioning is about why elected officials voluntary contract external audit. We focus on direct goals and the decision steps. (McMickle 1978) says that the why of audit is relatively absent in audit literature although the how, who, what of audit are quite documented. We contextualise and conceptualise our approaches to answer the “why” and precise the external audit role in French municipalities.

Because of the lack of audit theory according to many authors, we precise a specific framework to study the external audit contract behaviour based on municipal actor relations. Usually contingent theory is the analysis framework but due to its lack of specificities in public context, we prefer the governance framework. The latter takes in account the actors in contract theory applied to public organisations and also public choice theory that takes account of the specific behaviour of public actors. The elements of local governance framework theory is analysed through the evolution from a shareholder to partner governance and a specific trend of local public sector that is going from a municipality to urban city.

Diagnostic is the first step in our framework. It encompasses three underlined factors: descriptive, analysis, and prescriptive. (Friedberg 1997) observes that failure lies not only on lack of motivation and commitment but on the administrators’ capacity to understand the real operation, to diagnose dynamic activities, and to lead the change. More, he states that the challenge is on the cognitive side such as logic and action methodology to overcome the lack of analysis and diagnosis, and to take the lead to make it happen.

We do a descriptive analysis of French municipality external audit. We do not look at the isolated problem solution but at the causes and roots of the problem related to external public information and control mode. We analyse elected official and municipal manager

needs and expectations by observing their voluntary and contractual practices of public external control. We work with a theoretical framework analysing actor relations among them.

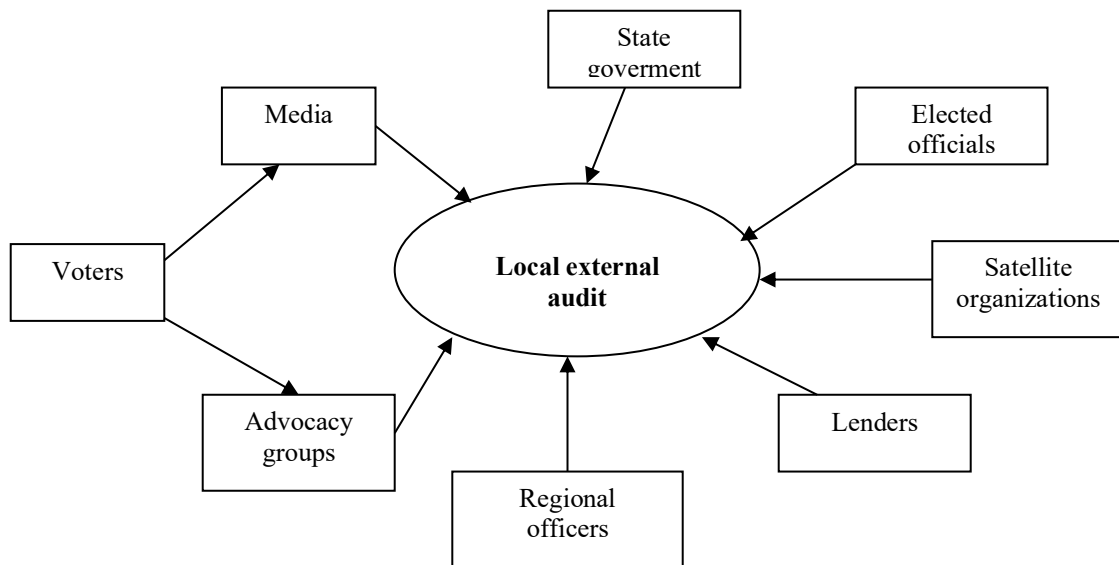
Within this frame, external audit is an interactive tool of cooperation and coordination among different local actors. (Favoreu 2000) states that local governance is a management system and monitor system of local development based on partners, cooperative, and consensual relations taking place among local actors and directed toward their goals and collective strategies. We look into the impact of pressure exerted by actors through making decision on contracting external audit. The external audit is analysed within an information and management system as a tool to relax interest conflicts among actors mainly in a political and organisational scope. We assume that the external audit is part of the local organisational system interacting with financial and control internal and/or external communication practices.

The research analysis point to a dual function of external audit: information and control. The public choice theory takes in account this dual function by analysing external audit as tool to change interest conflict among elected officials, voters, and bureaucrats ((Giroux and Shields 1993), (Deis and Giroux 1992)). The contingent theory confirms this dual function by using it as a resolution problem of moral hazard and adverse selection between agent and principal ((Simunic 1990), (Moore and Ronen 1990), (Streim 1994), (Baber 1994)).

2.3 External audit as a local governance mechanism

Games and interrelations among local actors are analytical elements of their behaviour. Figure 1 presents the multiple actors within a local external audit environment.

Figure 1: Relations among key variables in theoretical local external audit environment



We hypothesize that interest conflicts among actors in asymmetrical information context and uncertainty influence local external audit contract and its aim. Therefore, external audit goals and aims are unique to each French municipality. These goal and aim differences are the results of a complex interrelation function process among multiple local pressure interests favouring conditions to voluntary contract an external audit.

2.3.1 Political competition

We analyse the local external audit environment relations so our hypothesis are not directly tested. We use proxy. First we look at the politic influence. The interrelations among voters, pressure groups, media, candidates or rivals to municipal election, and elected officials motivate the decision to contract an external audit. Voters use local information audited and auditor's report through their decision process. Pressure groups and media gave information to voters. More, they incite elected officials to get surveillance tools of their engaged policies. They, by contracting an external audit, could justify the quality of their management and differentiate from pretenders or rivals. The level of the interest conflict among actors is the level of political competition at the inter party or intra party. The inter party is the relation among different candidates and parties at the election's day and within the mandate. The intra party is the candidate competition within the party.

HYPOTHESIS 1. *The election competition positively influences the external audit contract behaviour.*

HYPOTHESIS 2. *The pretender competition to be a party candidate positively influences the external audit contract behaviour.*

2.3.2 Dependence stress

We look at the relations among property/business taxpayers, states, lenders, and elected officials to determine how dependence motivates the decision to contract an external audit. The relations of taxes and finance to local community finance are elements of local government competitions (Baber 1994) between external partners and local elected officials. We assume that a high level of taxes resource from mainly intergovernmental grants and transfers and property/business taxpayers motivate elected officials to get an external audit. We also assume that a high level of external debt from mainly banks motivates lenders and elected officials to get an external audit. Although (Baber 1994) put these two elements as political subject, we consider them as a concept of dependence. This dependence could be related to tax for taxpayers and/or finance for lenders.

HYPOTHESIS 3. *The tax dependence positively influences the external audit contract behaviour.*

HYPOTHESIS 4. *The finance dependence positively influences the external audit contract behaviour.*

2.3.3 Control and Information mode

Local external audit is an integrated part of municipality information and control system. We assume that the behaviour of elected officials is influenced by such governance tools as local information system. So the external audit is part of the multiple control mechanisms (Burlaud 2000). Many authors have agreed on this view. (Broye 1998) analyses the relations between the external audit and firm internal structures. She observes that the external audit interacts with officer performance contracts, firm structure capital, and administrator board. She also shows that the choice of a quality external audit is related to the management system control. (Abdel-Khalik 1993) also in private firm, observes that the external audit demand is related to the inherent loss of organisational hierarchy. He also shows that the external audit demand is related to the organisational complexity, the number of hierarchy level, and the firm size. (Ettredge, Simon et al. 1994) observe that the external audit demand is related to the organisational complexity and an internal audit department.

Some authors find the same pattern in public organisations. (Laudouar 1996) states that the external audit is a preventive tool face to the CRC controls and an answer to the need of internal control related to local community complexity. (Wathelet 2000) suggests a new design of internal control system and local finance information by adding a legal external audit to complete the CRC controls. In that way the external audit is a solution to local public accounting which is overdeveloped of supervised external controls, underdeveloped of external non supervised controls, and to non attractive and stalled bureaucratic system.

We assume that the quality of legal external controls influences the behaviour of elected official in their decision to contract an external audit. We also take in account the relations between elected officials and the CRC through the legal external control organism. We expect like (Wallace 1986) and (Marks and Raman 1987) more demand of external audit contracts if there is a perception that the role and the legal external control carry out are insufficient.

HYPOTHESIS 5. The perception of insufficient legal external control positively influences the external audit contract behaviour.

We also assume that the control and information mode are specific elements directly related to local external audit. Prior study on the relations between elected officials and bureaucrats have assumed that the lack of internal control and financial information quality positively influences the external audit demand ((Marks and Raman 1987), (Deis 1988), (Copley 1989), (Roberts and Glezen 1990)). We also assume that external audit contract is supplementary to control and financial information mode. Therefore, the external audit has information value and help to improve local internal control and financial information. (Broye 1998) in hers study on initial primary offer points out the complementary effect on firm managers and their worries to improve their control and management effectiveness.

HYPOTHESIS 6. The internal control mode positively influences the external audit contract behaviour.

HYPOTHESIS 7. The information mode positively influences the external audit contract behaviour.

However, others organizational elements should be taken in account to analyse this complementary effect.

2.3.4 Management mode

Local governance has different management mode to control delegated activities. Although elected officials have total responsibility on delegated activities, we could expect at least two behaviour patterns to control them. First, the elected officials relax the follow up of the activity at the time of its delegation. Second, they put control in place and adapted monitoring to delegated activities (Raffray 2000). We assume from the latter pattern that the external audit is one of the instruments of control and monitoring.

HYPOTHESIS 8. The management mode positively influences the external audit contract behaviour.

2.3.5 Size

The size of municipality could influence elements of the local management information system. (Abdel-Khalik 1993) cites firm, a well-known proxy for organizational complexity, as an example of firm specific characteristic. He observes that firm enlargement could bring loss of control for their managers. Moreover, size could be a political factor. (Baber 1983) observes that size increase intergovernmental politic competition and transfers. (Watts and Zimmerman 1986) use the firm size as an indicator for political visibility. Agency theory assumes that size increases interest conflicts between managers and shareholders. More, size could be a financial factor. Large municipalities have more important efficiency needs and a greater capacity to take care of additional expenses. However the motivations, size relation to local external audit is assumed to be the same. We assume that the number of external audit contract is an increasing function of municipality size. In that way, external audit is both an organizational tool that reduce the loss of hierarchical control and a political tool that reduce interest conflicts among local actors.

HYPOTHESIS 9. The municipality size positively influences the external audit contract behaviour.

In conclusion, external audit is an integrated governance mechanism of local management information system. The analysed concepts and the influence on the Elected official behaviour related to external audit contract is summarized in figure 2:

Figure 2: Politico-organisational model of engaging in external audit contract



3. Sample selection and research design

Municipal external audit reports are not publicly available in France. We surveyed 438 French municipalities, with over 20 000 inhabitants, listed in 1999 census according to Direction Générale des Collectivités Locales (DGCL) and Institut National de la Statistique et des Etudes Economiques (INSEE) data bases. We eliminate those municipalities for which information were missing. Finally, we could use 141 municipalities or 40.5% of the entire population of French municipalities of more than 20 000 inhabitants and three years of external audit with complete information.

Data were gathered through multiple sources: qualitative data from questionnaires and quantitative data from three sources: INSEE, DGCL, and Direction de la Comptabilité Publique (DCP). Some questions ask about organisational practices and others about specific facts such as external audit contract decision. Respondents, bureaucrats and elected officials, put an attribute on a scale based on their judgment. Bureaucrat response number is greater than local elected officials. The quantitative information has factual variables such as municipality size and tax and financial data. We use the most recent available compiled data that is 1999 for factual and tax data and 1997 for financial data.

The first statistical treatment is based on a qualitative methodology using two steps. Firstly, we apply Multiple Correspondence Analysis (MCA) a method of factor analysis. Correspondence analysis is a descriptive/exploratory technique designed to analyze two-way and multi-way tables containing measures of correspondence between the row and column variables. The results produced by correspondence analysis provide information which is similar to that produced by principal components or factor analysis. However, where conventional factor analysis determines which variables cluster together, correspondence analysis determines which category values are close together. The latter allow one to explore the structure of the categorical variables included in the table. Correspondence analysis seeks to represent the relationships among the categories of row and column variables with a smaller number of latent dimensions. It produces a graphical representation of the relationships between the row and column categories in the same space. Secondly, we carry graphical analysis and bivariate tests (ANOVA, MANN-WHITNEY or KRUSKALL-WALLIS tests, LOGIT analysis) to put in evidence the influence of category value axes on elected official behaviours.

The second statistical treatment is based on a methodology adapted to use quantitative data. Results of qualitative variables are set as quantitative one as they represent an order relation. Firstly, we apply Principal Components Analysis (PCA) to quantitative data. PCA is a way of identifying patterns in data, and expressing the data in such a way as to highlight their similarities and differences. When multivariate data are collected it is

common to find some correlated variables. One implication of these correlations is that there will be some redundancy in the information provided by the variables. In the extreme case of two perfectly correlated variables (x & y) one is redundant. Knowing the value of x leaves y with no freedom and *vice versa*. PCA exploits the redundancy in multivariate data, enabling us to pick out patterns (relationships) in the variables, and reduce the dimensionality of a data set without a significant loss of information. The first principal component will, ideally, represent the dominant gradient. The second component will be orthogonal to the first, and will explain some of the residual variation. The third will be orthogonal to the first and second components, and so on. Secondly, we carry bivariate tests (ANOVA, MANN-WHITNEY or KRUSKALL-WALLIS tests, LOGIT analysis) to put in evidence the influence of independent variables and elected official behaviours (dependent variable).

3.1 Research design

The definition and measurements for each of the elected official behaviour independent variables are discussed next. They refer to political and organizational factors. According to our model, the political factors are political competition and dependence. The organisational factors are control mode, information mode, management mode, and size. The dependent variable is elected official behaviour in making decision on external audit contract. We apply to the majority of them PCA to identify representative components. In the other cases, we build index grouping data as indicators. We present our results on the relationships between the independent variables and the dependent variable.

3.1.1 Measurement of political competition

We measure two elements of the political competition. First, we look at the relations of the continuity of the mayor and the party. Second, we look at the relations among candidate competition within their party.

We use index to take in account the level of local electoral competition and to analyse the continuity of the mayor and the party. We attribute index 1 for the re-election of the mayor and his party meaning a weak electoral competition and stability of the politics. We attribute index 4 for the non re-election of the mayor and his party meaning a fierce electoral competition and discontinuity of the politics. Two intermediate indexes were set. Index 2 means that the mayor elected in 1995 did his second mandate or the mayor elected on last election before 1995 was not a candidate in 1995 and his party was re-elected. The last one, index 3, is the case that the mayor was not a candidate and his party was not re-elected. Table 1 presents the possibilities study.

Table 1: Index of the electoral competition

Mayor	Mayor's party	
	Re-elected	Non elected
Re-elected	1	
Non elected		4
Re-elected for a second mandate or not a candidate	2	
Not a candidate		3

1: low level of competition; ...; 4: very high level of competition

Measure one The PCA identifies one component (Comp.) or PCA axis made of three indicators, presented in table 2, measuring the continuity of the mayor and the party. The component is explaining 73% of the variance.

Table 2: Component of election competition

Indicators	Comp. 1
Percentage of variation explained	73 %
Mayor re-election	0,925
Politic continuity	0,823
Actual mayor election number	0,813

Extracting method: Principal Components Analysis

Measure two We also use index to take in account the level of candidate party competition and to analyse the continuity of the mayor and the party. We attribute index A for the re-election of the mayor as a candidate and the non re-election of the party meaning a weak candidate party competition. We attribute index B for the non re-election of the mayor as a candidate and the election of the party meaning a fierce candidate party competition. Table 3 presents the possibilities study.

Table 3: Candidate party competition index

Mayor candidate	Party	
	Re-elected	Non re-elected
Re-elected		A
Non re-elected	B	

A: low level of competition; B: very high level of competition.

The PCA identifies one component made of three indicators, not presented, to measure the level of candidate party competition.

3.1.2 Dependence

We measure two elements of the external actor dependence. First, we look at the fiscal dependence. This element is intended to measure fiscal stress facing municipalities. Second, we look at the financial dependence. A municipality may be viewed as financially stressed when it lacks the ability to self finance.

Measure one This variable takes in account the municipality relations with the intergovernmental grants and transfers and the property/professional taxpayers. The PCA identifies three components, presented in table 4, explaining 68% of the variance.

Table 4: Components of fiscal dependence

Indicators	Comp. 1	Comp. 2	Comp. 3
Percentage of variation explained	33,45 %	19,34 %	14,99 %
Property tax rate for 1999	0,820	0,027	-0,194
Percentage of potential tax base uses in1997	0,815	0,488	-0,073
Inhabitant tax rate for 1999	0,696	0,047	0,224
DGF's transfert per inhabitant in 1997	0,692	-0,198	0,209
Professional tax rate for 1999	0,351	0,724	-0,344

Index of tax pressure per inhabitant in 1997	0,109	0,676	0,395
Percentage of financial autonomy in 1997	-0,385	0,623	-0,046
Potential tax revenue in KF of 1997	0,112	0,012	0,893

Extracting method: Principal Components Analysis

Rotation method: Oblimin with Kaiser Normalization

The first component explains 33.45 % of the variance. Municipalities positively related to this component have tax levy more than the national average. They are highly indebted. Municipalities included in the second component (19.34 % of the variance) have a dependency of professional tax. Municipalities at the top of scale in the third component (14.99 % of the variance) are theoretically tax wealthy.

Measure two Municipalities are financially dependent when they are heavily indebted and have few possibilities to borrow from banks. The PCA identifies two components, presented in table 5, explaining 76% of the variance.

Table 5: Components of finance dependence

Indicators	Comp. 1	Comp. 2
Percentage of variation explained	46,11 %	30,00 %
Financial debt leeway in 1997	0,913	0,071
Amount of debt per inhabitant in 1997	0,896	0,194
Percentage of self financing in 1997	0,666	-0,347
Self financing capacity in KF in 1997	-0,219	0,892
Outstanding debt in KF in 1997	0,411	0,744

Extracting method: Principal Components Analysis

Rotation method: Oblimin with Kaiser Normalization

The first component explains 46.11 % of the variance. Municipalities strongly indebted have lack of financial liberty. Municipalities included in the second component (30.00 % of the variance) although strongly indebted have a great potential to reimburse their debt or invest.

3.1.3 Control mode

In this part, we look at local internal and external control mode, information mode, municipality size, and level of public service activities delegated.

This local internal control mode has two dimensions. First we look at the local practices of internal control. Second, we look at the needs aim and substance related to local organization internal security.

Measure one We use two indicators: the permanence of internal control and number of services of internal control in place. The latter apply most of the time to conform to rules and laws. Budget and accounting control services, law expertise and control of public demand are defined as basic audit needs of operations and information control. These controls are the public internal control support. Others service control like management control and follow up of municipality satellite organisms are less systematic.

The PCA identifies one component, presented in table 6, explaining 65 % of the variance.

Table 6: Component of level of internal control practices

Indicators	Comp. 1
Permanence of internal control	0,798
Number of existing internal services	0,798

Extracting method: Principal Components Analysis

Measure two Local internal control uses audit as a tool to control the management as supplementary aim. Management control and evaluation of local public policies add value to traditional public control axed on accounting and budgeting conformity. Two logical ways, one oriented on finality complete the one centred on tools. Base on different goals of local internal control according to OEC (1999) we select the indicators as show in table 7.

Table 7: Components of local internal control needs

Indicators	Comp. 1	Comp. 2	Comp. 3	Comp. 4
Percentage of variation explained	35,43 %	16,60 %	12,28 %	10,87 %
Tool helping elected officials to make a decision	0,881	0,207	0,271	0,196
Improvement of performance of services	0,825	0,010	0,472	0,140
Analysis and monitoring the quality of implementation of politic choice	0,771	-0,021	0,343	0,158
Guarantees of the quality of information	0,012	0,902	0,096	0,018
Protection and safeguarding of assets	0,264	0,676	0,148	0,527
Guarantees of respect of budget short term goal	0,416	0,078	0,873	0,033
Guarantees of respect of established policies	0,333	0,127	0,854	0,213
Guarantees of respect of law and regulations	0,191	0,125	0,146	0,946

Extracting method: Principal Components Analysis

Rotation method: Oblimin with Kaiser Normalization

The PCA identifies four components explaining 75 % of the variance. The first component explains 35.43 % of the variance. Its shows that the supplementary needs related to improve performance and to assess public policies. The three other components figure basic needs according to internal control object. The second component (16.60%) deals with informational and asset protection assurance. The third component (12.28%) deals with politic and budgetary assurance. The fourth component (10.87%) deals with legal assurance.

The external control mode has multiple dimensions. We look at the goals and needs of internal control more specifically the CRC control practices which have certain similarity to external audit. We analyse its control and information purposes related to its external environment. We describe and measure public external control weaknesses which could incite to take an external audit.

CRC external control purposes are similar to internal control needs. We take in account two types of purpose that are basic and supplementary types. We look at these purposes in the context of finding tools related to assurance, improvement of performance, and evaluation *a priori* and *a posteriori* of local public policies.

Measure three The basic purposes of local external control look at local management risk and reliability towards design and smooth running of operations. We assume that external audit intervention could have for purpose to share the responsibilities related to delegation of power. The additional purposes relate to improve performance. We assume that the evaluation *a priori* is a tool to help at strategic decisions and the evaluation *a posteriori* help to analyse the quality of implementation of local public policies.

Table 8: Components of objective related to local internal control

Indicators	Comp. 1	Comp. 2
Percentage of variation explained	46,57 %	12,80 %
Improvement of efficiency of common public programme	0,887	0,288
Improvement of local public policies	0,870	0,295
Improvement of common economic and efficiency	0,859	0,374
Tool helping elected officials to make a decision	0,713	0,331
Reliability of common systems and operations	0,664	0,385
Analysis and monitoring the quality of implementation of politic choice	0,656	0,320
Lessening of elected officials and local bureaucrats responsibility	0,226	0,852
Guarantees of local management risks	0,410	0,736
Attestation of published information	0,424	0,553

Extracting method: Principal Components Analysis
 Rotation method: Oblimin with Kaiser Normalization

The PCA identifies two components, presented in table 8, explaining 60 % of the variance. The first component explains 46.57 % of the variance. Its shows the supplementary external control related to performance and evaluation specifically on system and operations reliability. The second component (12.80%) deals with internal control assurance.

Measure four The CRC functions are gathered around control and information. We split the latter between basic tools and additional aims. Table 9 presents the possibilities study.

Table 9: Components of CRC control function

Indicators	Comp. 1	Comp. 2
Percentage of variation explained	39,05 %	26,33 %
Contribution of local management competences	0,877	-0,057
Contribution of reliable management tools	0,821	-0,061
Help to master local public management	0,705	0,028
Audit	0,028	0,813
Inspection and monitoring	-0,083	0,811

Extracting method: Principal Components Analysis
 Rotation method: Oblimin with Kaiser Normalization

The PCA identifies two components explaining 65 % of the variance. The first component explains 39.05 % of the variance. It deals with tools to master local public management. The second component (26.33%) deals with inspection and monitoring.

3.1.4 Information mode

Measure one CRC information deals with internal and external information. The CRC control test results which is non public present independent information on local management practices. These results could incite to change the decision processes and take part in local management improvement. At the opposite, the relation audited-auditor in an external audit favours openness to local actors and participation in rendering. Table 10 presents the possibilities study.

Table 10: Components of CRC control information

Indicators	Comp. 1	Comp. 2
Percentage of variation explained	44,80 %	22,94 %
To be accountable to electors	0,854	0,080
External circulation of information and increase of openness	0,803	0,439
Strengthening of political legitimacy of elected	0,080	0,815
Improvement of internal information	0,387	0,729

Extracting method: Principal Components Analysis
 Rotation method: Oblimin with Kaiser Normalization

The PCA identifies two components explaining 67 % of the variance. The first component explains 44.80 % of the variance. It deals with the legitimacy of public information. The second component (22.94%) deals with the CRC participation to improve internal information system.

3.1.5 Management mode

Measure one An explanation of contracting external audit is the lack of public supervised control. We use indicators following proposition from Sénat report number 520 published in 1998 to analyse the external public control developments. Table 11 presents the possibilities study.

Table 11: Components of external public control developments

Indicators	Comp. 1	Comp. 2
Percentage of variation explained	36,32 %	16,90 %
Efficiency of lawfulness control	0,698	0,222
Strengthening of internal control processes	0,682	-0,132
Council mission to CRC	0,635	0,323
Set up of code of right use of control	0,630	0,153
Development of local social audit	0,468	0,773
Attestation report on accounts of local community	-0,050	0,753

Development of local management tools	0,522	0,617
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Extracting method: Principal Components Analysis
 Rotation method: Oblimin with Kaiser Normalization

The PCA identifies two components explaining 53 % of the variance. The first component explains 36,32 % of the variance. It deals with control developments. The second component (16,90%) deals with development mode.

Measure two We use budget documents, municipality release, or press release to analyse communication to electors. Table 12 presents the possibilities study.

Table 12: Components of level of practices and diversification of local financial communication

Indicators	Comp. 1	Comp. 2
Percentage of variation explained	44,58 %	22,33 %
Number of administrated information forms	0,805	0,175
Number of fields of municipality communication	0,732	0,310
Number of available information tools to elected officials	0,694	0,018
Information of finance and economic partners	0,205	0,984

Extracting method: Principal Components Analysis
 Rotation method: Oblimin with Kaiser Normalization

The PCA identifies two components explaining 66 % of the variance. The first component explains 48,58 % of the variance. It deals with the development of financial communication. The second component (22,33%) shows the relation with financial and economic partners.

3.1.5 Size

Measure one We use physical, financial, and economic indicators to take in account the size variable and management mode to take in account delegation level of local public services. Table 13 presents the possibilities study.

Table 13: Components of size and delegation level of local public services

Indicators	Comp. 1	Comp. 2
Percentage of variation explained	73,80 %	24,61 %
Personal cost per rendered service in 1997	0,992	0,092
Magnitude of communal budget in 1997	0,989	0,107
Population at the census of 1999	0,987	0,102
Level of delegated public services to private sectors	0,102	0,992

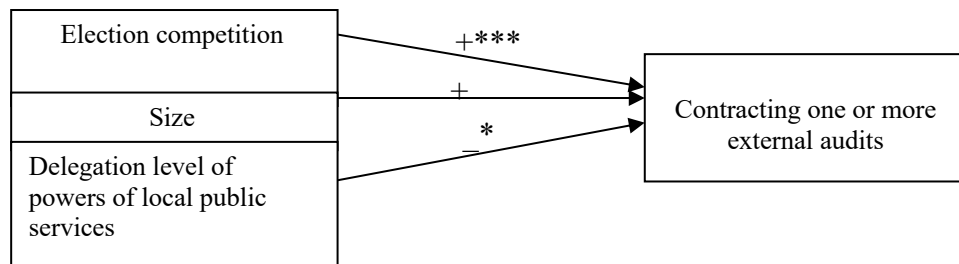
Extracting method: Principal Components Analysis
 Rotation method: Oblimin with Kaiser Normalization

The PCA identifies two components explaining 98 % of the variance. The first component explains 73,80 % of the variance. It deals with the municipality size. The second component (24,61%) shows the delegation level of local public services.

4. Empirical results

We analyse the influence of specific factors as potentially behaviour key elements on the decision to contract an external audit within the context that the elected officials contract an external audits. The result is presented in figure 3:¹

Figure 3: Key variables on contracting one or more external audits between 1995-2000



Our results show that the elected official behaviours are influenced positively by both a fierce election competition and the municipality number of inhabitants and budget size and negatively by a high delegation level of local public services.

We also perform variance analysis and non parametric tests on the independent variables and dependant variable. The tests show that the CRC intervention aim and the dependence concept are significant although they were not in the global statement of contracting an external audit. Therefore, we identify three frequencies of number of audit. Table 14 shows theirs impact according to 0 to 3 or 0 to 2 audits within the study period.

Table 14: Result of statistical analysis of variance and nonparametric tests on external audit number

	Audit times 0 to 3	Audit times 0 to 2
Political competition		
Component 1	S***	S***
Index of election competition	S***	S***
Tax dependence		
Resident and state	S*	NS
Theoretical tax wealth	S***	NS
Financial dependence		
Positive	S*	NS
Finalités de l'intervention des CRC		
Component 2 Control function	S	NS
Component 1 Information function	S	S*
Size and management mode		

¹ T-statistic : *** significant at the 0.001; ** significant at the 0.01; * significant at the 0.05; and significant at the 0.1. We keep the latter because we do an exploratory study.

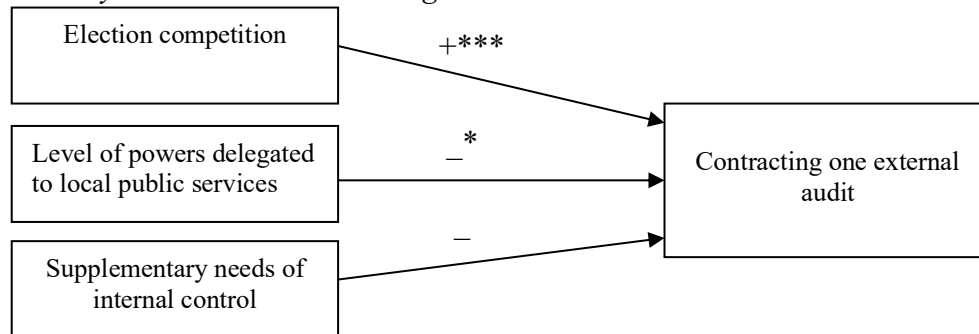
Size	S**	NS
Management mode	S	S*

We analyse the elected official behaviour contracting one, two, and three external audits.

4.1 One external audit

Figure 4 shows the result for one external audit.

Figure 4: Key variables on contracting one external audit between 1995-2000

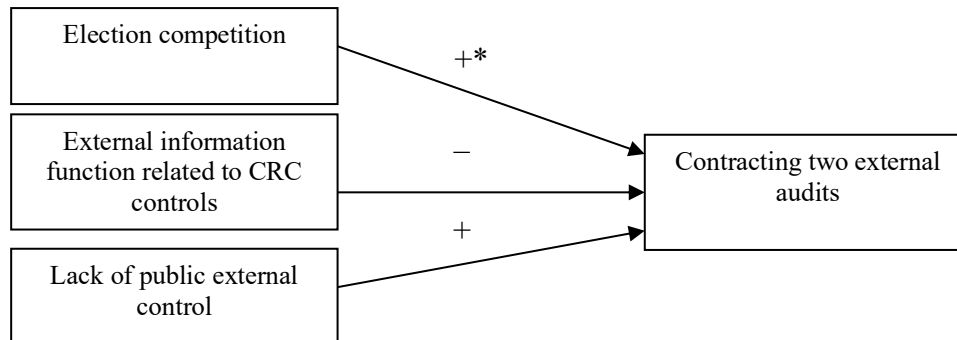


The elected official behaviour is positively influenced by a fierce election competition. The two other variables, the level of powers delegated to local public services and productivity and performance of internal control needs, influence negatively the demand of external audit. That audit often happens in first year mandate and following fierce election competition. It is generally a financial audit oriented to external and basic internal control information. It commands higher fees than the other number of audits and are done by audit public office or consultant member of international or French network. We name it “political audit”.

4.2 Two external audits

Figure 5 shows the result for two external audits.

Figure 5: Key variables on contracting two external audits between 1995-2000



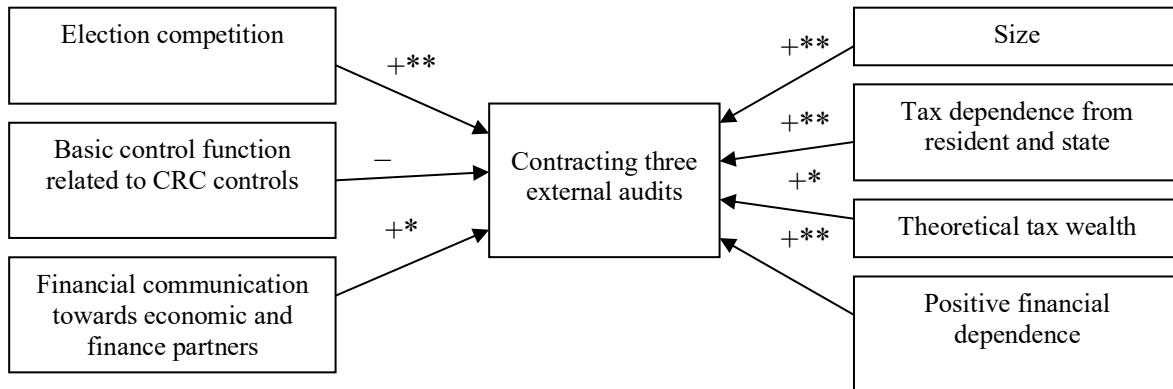
The elected official behaviour is influenced positively by both a fierce election competition and the lack of public external controls and negatively by the CRC external information. The CRC interventions influence the elected official behaviour to contract

an external audit. The 75% of the first of the two audits are contracted for external information that is financial audit, which relates to the election competition. The second audit contract is often a conform audit at the end of the mandate. We name it “assurance audit”.

4.3 Three external audits

Figure 6 shows the result for three external audits.

Figure 6: Key variables on contracting three external audits 1995-2000

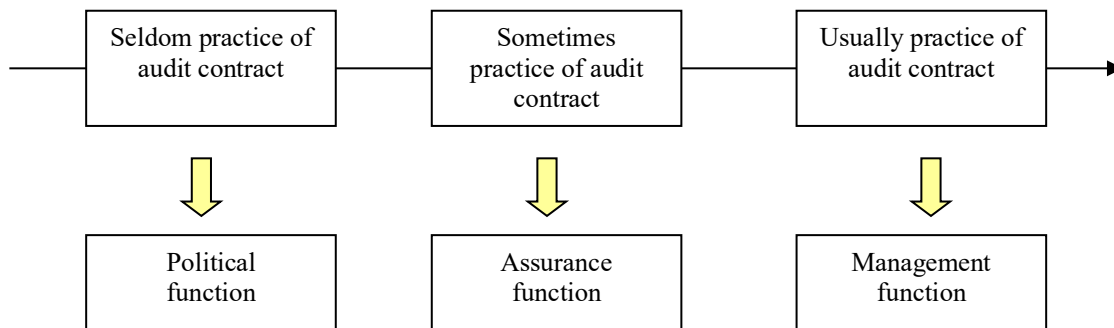


Many variables influence the elected official behaviour contracting three external audits. The election competition, size, financial communication to economic and finance partners, and positive external dependence are the most influential variables.

Most of the municipalities contracting three audits are large size, tax richness, and financially independent. Two third of them contract a managerial audit which happens in middle mandate term and the unit cost is less than the other number of audit. We name it “management audit”.

Finally, we identify three different elected official behaviours related to three different audit purposes. Figure 7 synthesises the elected local behaviour in contracting external audits.

Figure 7: Behaviour types according to the number of external audit 1995-2000



5. Conclusion

Our analyse point out multiple purposes to contract an external audit. Assurance and control purposes related to external audit control function and internal and external information purposes suggest that contract practices are oriented to technical policy role and managerial prescriptive role. These multiple purposes confirm our functional typology construct of external audit contract. In that way, the external audit contract is a monitoring tool, a local decision aid, a way to legitimate public policies, and accountability mode for delegated responsibility from electors.

5.1 Research model validated

Our results, presented in table 15, are statistically significant for most of our model variables. However, their weight is subordinated to the behaviour of elected officials who contract the external audit. We measure two influence types, the contract engagement (Engt.) and the number of external audit. We also differentiate technical and political purposes of external audit based on information function and normative and managerial purpose based on control function. These practices of external audit are consistent with management information system. In some cases where financial communication practices and internal and external control are part of an incomplete, weak, and/or inexistent local management information system, the external audit complete or take place of it. In other cases, the external audit oriented towards external information function is related to financial communication at least when a new elected official team take place. Lastly external audit could also be integrated to local internal control system. It takes part of monitoring municipality satellite organisms fixing weak and/or lack of bureaucratic internal control.

Table 15: Statistical results of political and organisational influence²

	HYPOTHESIS	Engt.	Number of audit		
			One	Two	Three
Political factors	H1: influence election competition influence	+++	+++	+	**
	H2: influence of competition to be a party candidate				
	H3: influence of tax dependence				**
	H4: influence of finance dependence				**
Organisational factors	H5: influence of insufficient legal external control			+	
	H6: influence of internal control mode		-		+
	H7: influence of financial information mode				+
	H8: influence of management mode	-*	-*		

² T-statistic : *** significant at the 0.001; ** significant at the 0.01; * significant at the 0.05; and significant at the 0.1. We keep the latter because we do an exploratory study.

	H9: size influence	+			***
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The results of empirical analysis show that the engagement of one or more external audit could take multiple purposes according to contextual function and local organisational structure. The influence of these criteria single out that the external audit is a governance mechanism integrated in the local management information system.

5.2 Towards a mandatory French municipality external audit

The organisational global view, concept and theoretical global framework of analysed external audit as a governance mechanism which is part of local management information system makes an adequate framework to predict political and organisational factors which influence the contract practice of external audit. More, the external audit assumes social and economical purposes as in the private sector (Robertson 1993). (Flint 1988) considers it as a social control related to supervision and as a watchdog. (Gaa 1992) states that this social contract structure relations between auditee-auditor. (Scott 1984) believes that it is a social mechanism to improve contractual engagement process. Our study show that the external audit favour local democracy. Acknowledging our results should help French policy maker and decision maker to make up their mind and agree on a mandatory external audit.

Results from this study need to be interpreted with caution for the following reasons. First, we have use bureaucrats and elected official data obtained from a survey because external audit contract are not publicly disclose in France. This approach might have limited our sample size. The survey method remains an important avenue for researcher to obtain actual external audit contracts for a large sector of the economy of France. Although this approach is consistent with prior studies, we acknowledge that our results may not be generalized to other sector or the entire local municipal audit market.

As an avenue for future research, one could extend the analysis to a different period to see if the observed elected official behaviour relation reported in this study would continue to hold. Such an extension is on interest because it could help policy maker to make up their mind about mandatory external audit.

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