



RECHNUNGSHOF
RHEINLAND-PFALZ

EURORAI Seminar on 18 October 2018

in

Székesfehérvár / Hungary

“The auditing of companies who are stakeholders in municipal regional authorities”

- Experience report: Rhineland-Palatinate Court of Auditors -

Government Director Ferdinand Wagner,
Departmental Head of Municipal Participation



Agenda

- Auditing
 - Responsibility for audit
 - Auditing resources
 - Auditing standards
 - Auditing topics (examples)
 - Types of audit
 - Audit results (examples)
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Auditing Rights: supra-local activity audit

(Section 110 (5) *GemO-RP* [Municipal Bylaw] in conjunction with Section 111 (1) Section 92 (1) *LHO-RP* [Federal State Budget Rhineland-Palatinate])

The Rhineland-Palatinate Court of Auditors audits the “**Activity**” of the municipality with the privately organized companies and institutions, in which they hold the sole or proportionate, direct or indirect participating interest.

Subject of the audit is the administration of the participating interests and the conduct of the municipality as partner or shareholder, in particular their tax and controlling activities.



Auditing Rights: supra-local activity audit

The Rhineland-Palatinate Court of Auditors also directly audits the municipalities “Participations”.

Companies and institutions in a legal status of

- **public law** (e.g. own business, public agency): **statutory** audit assignment.
(Section 110 (5) *GemO-RP*, Section 111 (1) *LHO-RP*)
- **private law** (e.g. GmbH, AG): the auditing rights that must be bindingly granted in the case of majority participations arising from the articles of association or articles of incorporation (section 87 (1) P. 1 No. 7 lit. c) *GemO-RP* in conjunction with the articles of association)

Subject of the supra-local audit is the **overall budget and economic governance** of the companies and institutions. In this instance, the results of the closing audits or, where applicable, the local audits were taken as the basis for the auditing activities.



Auditing rights: powers of the Courts of Auditors of other federal states

The Courts of Auditors in other federal states are often limited by the statutory auditing authorisations in the case of public companies and the possibilities offered by participation audits conducted in the municipalities.

A regulation exists in Rhineland-Palatinate that is comparable with an indirect auditing authorisation for Courts of Auditors in the case of municipal companies in the legal form of private law, in the following federal states for example:

- Saxony (Section 96 (2a) *SächsGemO* (Saxonian Municipal Bylaw))
- Lower Saxony (Section 1 (2) *NKPG* (Lower-Saxonian Municipal Auditing Act))



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Subjects of audits and associated responsibilities

The Courts of Auditors in Rhineland-Palatinate is responsible for **approximately 400 private companies** where the municipality is the majority shareholder.

This entails 24 municipal auditing offices auditing **approximately 100 companies** on behalf of the district administrative authority as the lower authorities of the general state government, under the professional supervision of the Court of Auditors.



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Auditing Resources

Court of Auditors:

A division for communal companies in private legal form
(Division Head, 6 Auditors)

Municipal auditing office:

No organisational separation of the company audit from the municipal audit; within the framework of the supra-local audit, the target number of auditors required is approximately 54 FTA in total.



Audit measures and topics

Audit measures

- Economic efficiency
- Correctness
- Legality

Audit topics (examples)

- Lawfulness of the business purpose
 - Personnel costs
 - Committees
 - Material costs
 - Revenues
 - Dividend payouts
 - Economic viability of the organisation
-

The business areas of the municipal companies (example 1)



The business areas of the municipal companies (example 2)





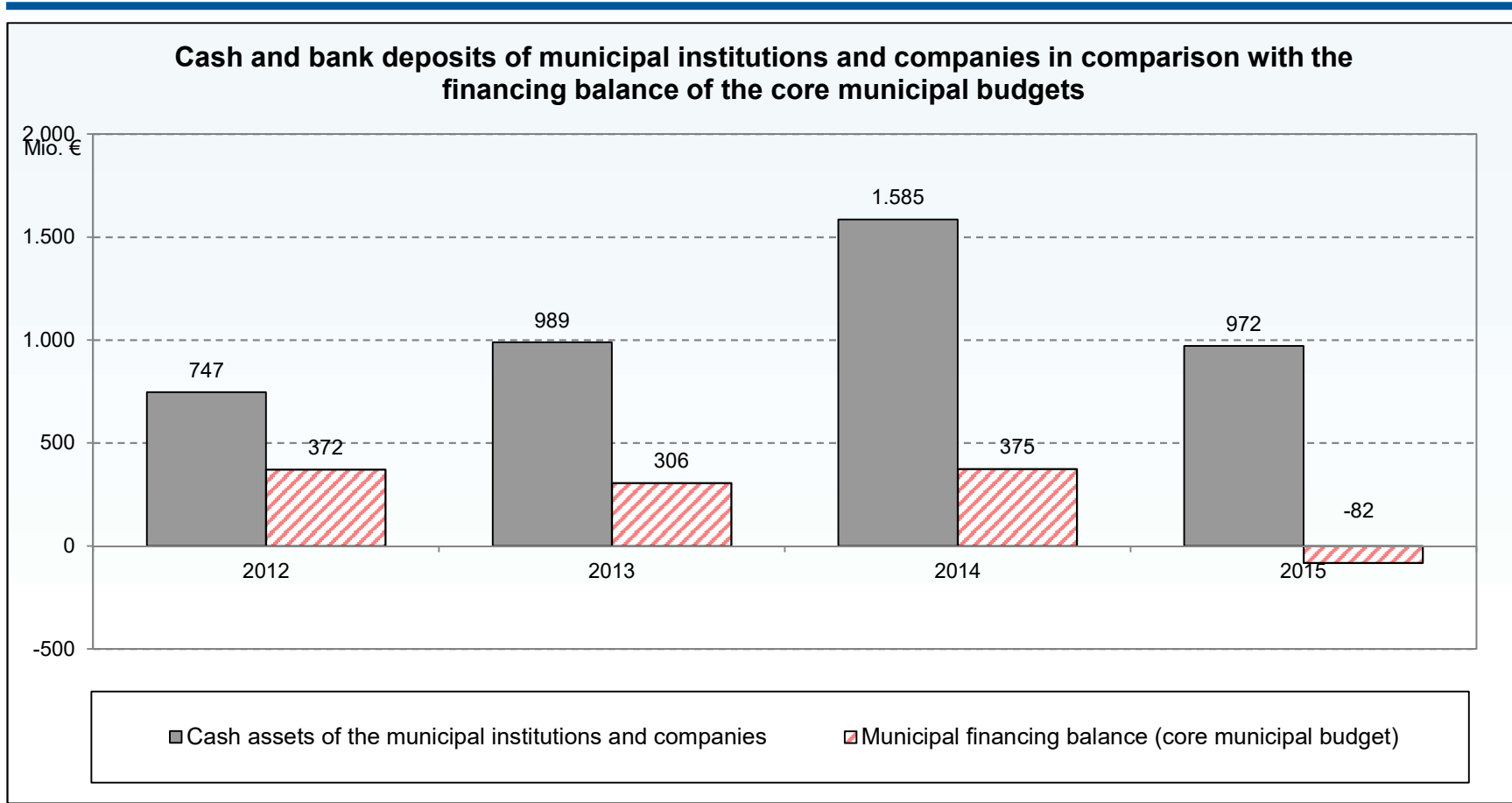
Types of Audits

Audit of the budget and economic governance of the individual companies within the framework of a **group audit** (= simultaneous auditing of the municipality and company with the “overall-group company” being focused from an organisational and finance perspective”)

Branch-related **cross-sectional audits** (of municipal housing developers for example)

Audit of the budget and economic governance of **individual companies**

Audit Results: Example (1)



Audit Results: Example (2)

Group Audit

Stadtwerke GmbH of an autonomous town/city

	2011	2012	2013	2014	2015
	-€1,000 -				
Equity Capital (balance)	49,759	58,127	65,977	70,533	76,517
I. Subscribed Capital	11,000	11,000	11,000	11,000	11,000
II. Capital Reserve	26,890	26,890	26,890	26,890	26,890
III. Other Profit Reserves	10,314	9,169	17,438	25,287	29,843
IV. Annual Net Profit	1,555	11,068	10,650	7,356	8,784
Equity Capital Profit	26.2 %	30.2 %	36.0 %	40.9 %	48.7 %
Cash and credit with credit institutions (balance)	671	1,296	12,373	21,425	6,346
Dividend Payouts	2,500	2,700	2,800	2,800	2,800

Missing capital amounts of the autonomous town/city

	2012	2013	2014	2015
	- €1,000 -			
Capital surplus/Missing capital amounts	- 33,139	340	- 6,334	- 18,454

Audit Results: Example (3)

Group Audit

Stadtwerke GmbH of an autonomous town/city:

Year	2011	2012	2013	2014	2015
	- €1,000 -				
Profit Reserves Setting	544	1,133	1,250	1,340	1,135
Payouts	170	170	170	170	170

Profit Reserves 2015: €18 million

Missing capital amounts of the large district town/city:

Year	2011	2012	2013	2014	2015
	- €1,000 -				
Capital surplus/Missing capital amounts	- 6,221	- 5,230	- 8,903	- 5,221	1,421



Audit Results: Example (4)

Group Audit

Payroll Processing in the Group

Town/City Administration:	250 individual payments and 2.4 FTEs
Stadtwerke GmbH:	100 individual payments and 1.5 FTEs

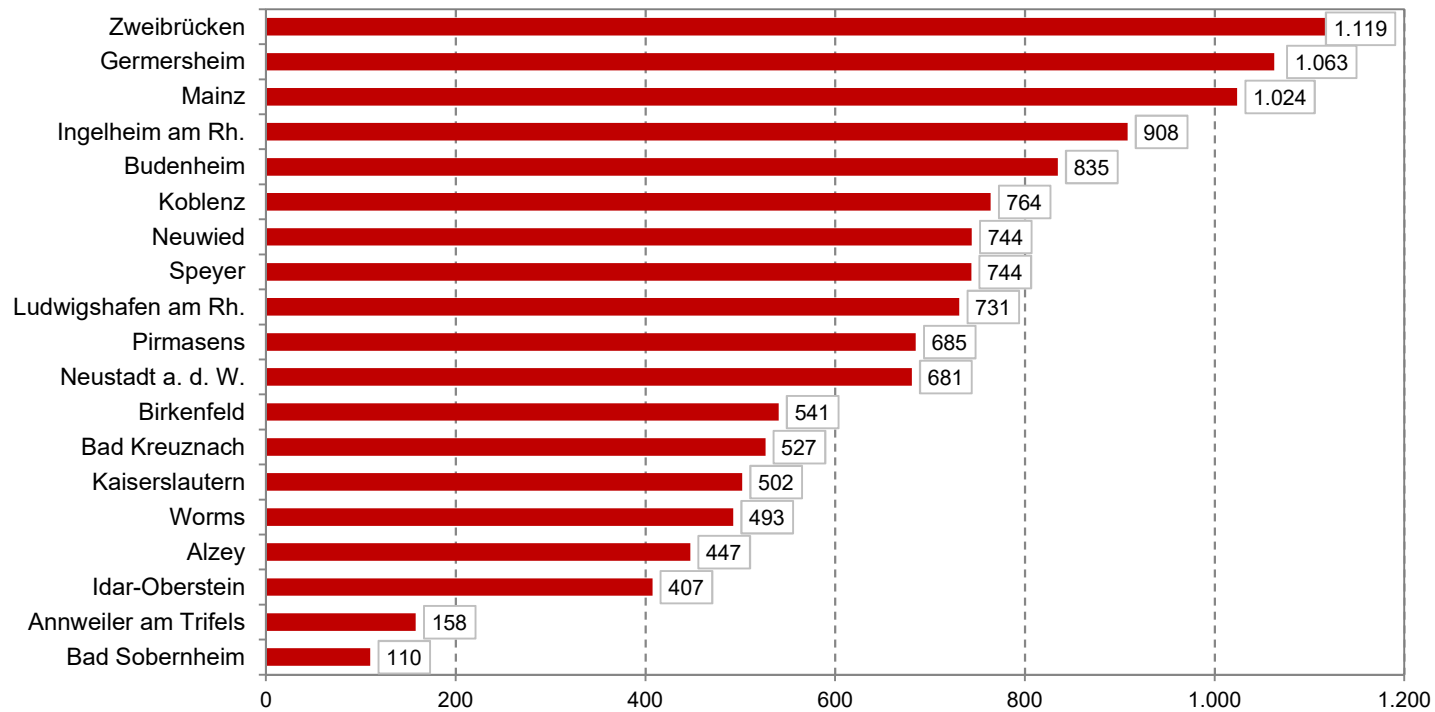
Personnel Requirement Reference Value: 160-180 individual payments/FTEs

Based on the lower reference value, in the case of centralised payroll processing within the „Group“, a personnel requirement of approximately 2.2 FTEs. A reduction by at least 1.5 FTEs and a reduction of expenditure of €75,000 annually is possible.

Audit Results: Example (5)

Representative Audit

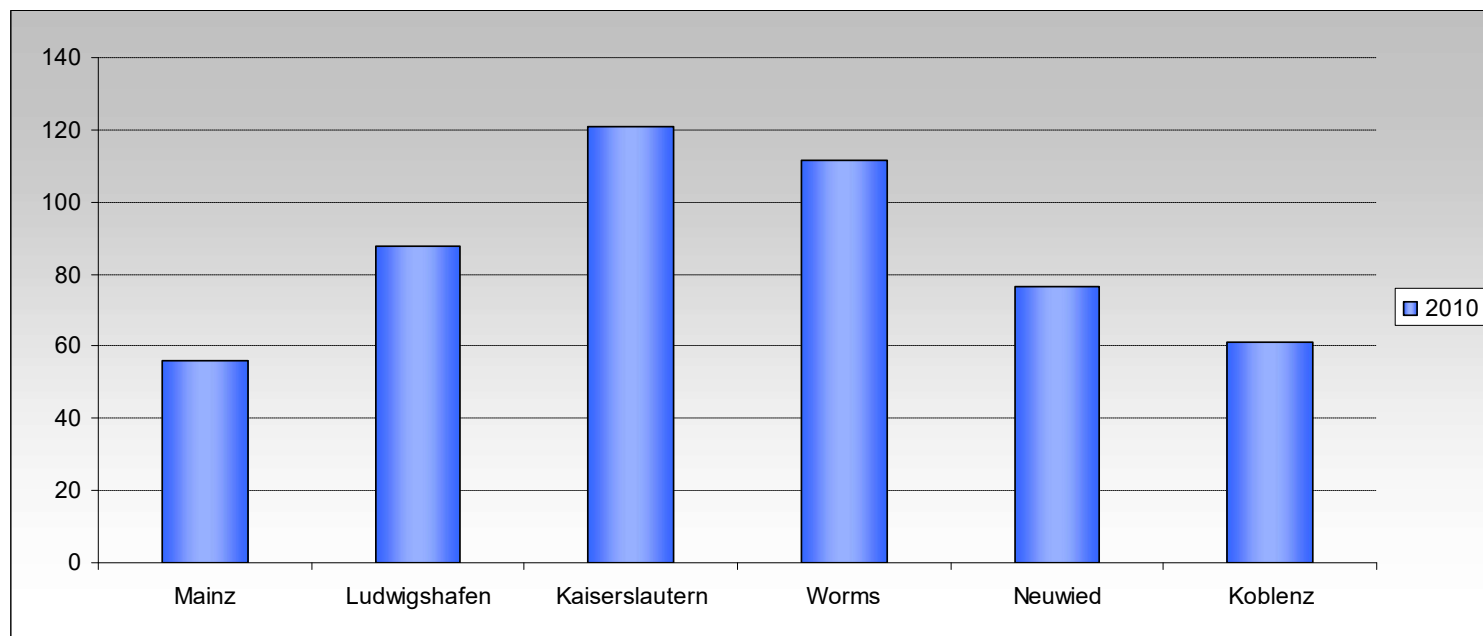
Personnel expenditure of municipal housing developers
per residential unit in Euro



Audit Results: Example (6)

Representative Audit

Managed residential units per employee (full-time equivalent) – large housing development company



Audit Results: Example (7)

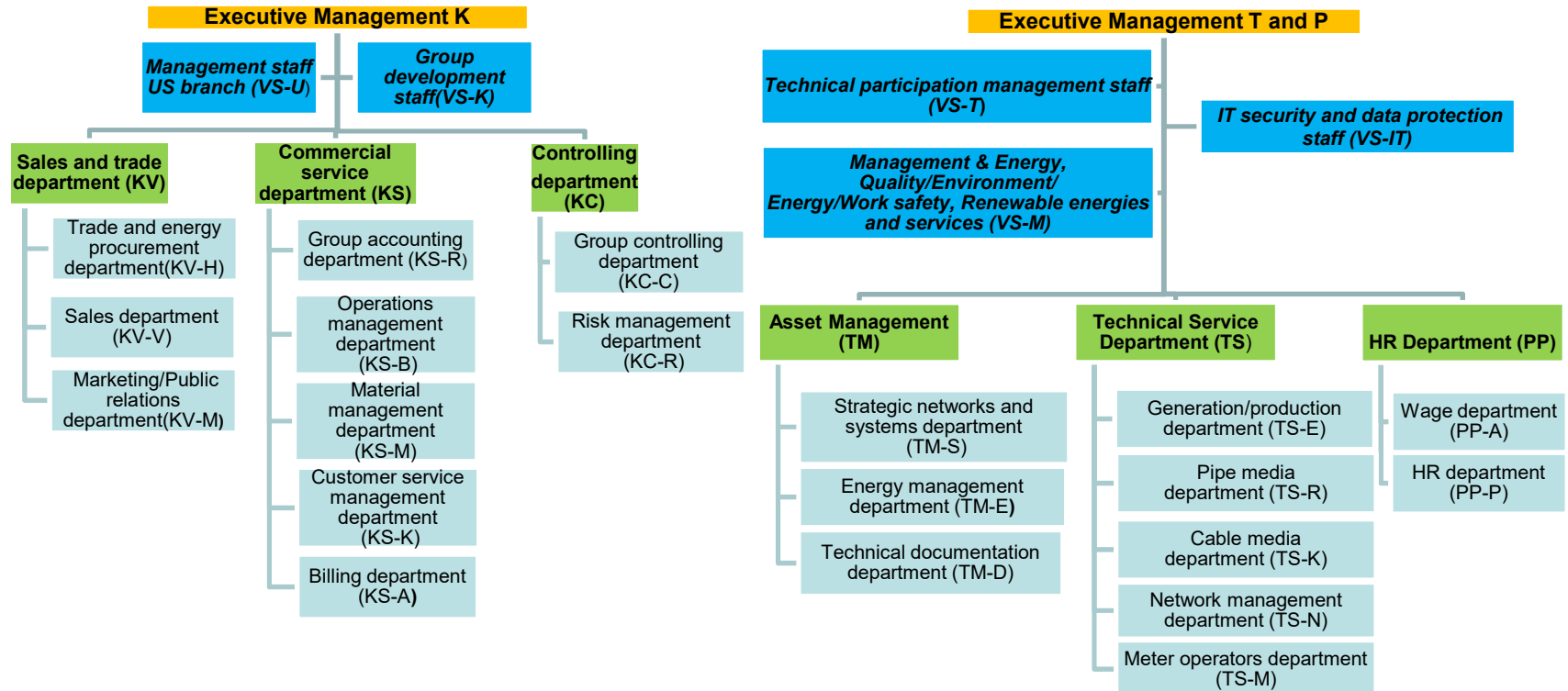
Representative Audit

Personnel expenditure for Managing Directors of the municipal housing development companies

Company	Total Personnel expenditure/Managing Director/Chairperson (€)	Positions Managing Director/Chairperson	Personnel Expenditure per Position (€)	Personnel Expenditure per m ² of residential living space
1	475,586	1.68	283,087	0.72
2	261,381	2.00	130,691	1.17
3	243,947	1.00	243,947	1.32
4	217,046	1.00	217,046	0.62
5	209,600	1.00	209,600	0.25
6	151,236	1.00	151,236	0.63
7	150,855	1.00	150,855	0.83
8	122,257	1.00	122,257	0.58
9	120,488	1.18	102,153	0.82
10	101,171	1,25	80,937	2.75
11	85,768	1.00	85,768	0.67
12	83,691	1.00	83,691	2.26
13	76,476	1.00	76,476	2.28
14	76,354	1.00	76,354	3.40
15	75,172	1.00	75,172	0.62
16	52,745	1.00	52,745	1.41
17	16,000	0.10	160,000	0.51
18	11,280	0.30	37,600	2.27
19	4,329	0.07	61,843	1.41

Audit Results: Example (8)

Company Audit



Audit Results: Example (9)

Company Audit

Salary Structure of the Group's Management

Employee	2014			
	Basic annual salary	Result dependent bonus	Percentage of bonuses of basic salary	Total
Division Manager KC	€94,448.52	€49,914.66	52.85%	€144,363.22
Division Manager KS	€94,448.52	€49,914.66	52.85%	€144,363.22
Department Manager KS-R	€85,302.12	€38,000.25	44.55%	€123,302.41
Division Manager KV	€94,448.52	€49,914.66	52.85%	€144,363.22
Division Manager TM	€100,448.52	€53,112.30	52.88%	€153,560.86
Head of Technologies and Special Tasks	€ 81,326.32	€37,989.61	46.71%	€119,315.97
Department Manager TM-E	€90,655.82	€32,868.86	36.26%	€123,524.72
Department Manager TM-S	€77,324.38	€31,683.59	40.97%	€109,008.01
Division Manager TS	€100,448.52	€53,112.30	52.88%	€153,560.86
Staff Manager VS-T	€ 94,448.52	€19,243.24	20.37%	€113,691.80



Audit Results: Example (10)

Salary Group	Target staffing level on 30 June of the year (full-time positions), number				Average
	2012	2013	2014	2015	2012-2015
1	0.0	0.0	0.0	0.0	0
2	1.9	1.9	1.0	1.0	1.45
3	0.9	0.9	0.9	0.9	0.9
4	1.9	1.9	1.9	1.9	1.9
5	51.6	39.6	29.5	26.5	36.8
6	89.3	81.2	77.0	66.5	78.5
7	128.5	139.1	136.3	139.3	135.8
8	63.0	61.1	69.6	61.7	63.85
Subtotal EG 1-8	337.1	325.7	316.2	297.8	319.2
Percentage	74.28%	72.57%	70.96%	69.74%	71.92%
9	33.3	31.0	32.2	37.4	33.5
10	26.6	28.7	33.0	32.7	30.3
11	19.8	23.4	23.2	21.5	22.0
Subtotal EG 9 – 11	79.7	83.1	88.4	91.6	85.7
Percentage	17.56%	18.52%	19.84%	21.45%	19.31%
12	11.0	8.0	10.0	11.6	10.15
13	5.0	11.0	10.0	8.0	8.5
14	3.0	4.0	4.0	3.0	3.5
15	2.0	2.0	2.0	3.0	2.25
Subtotal EG 12 – 15	2.0	25.0	26.0	25.6	24.4
Percentage	4.63%	5.57%	5.83%	6.00%	5.50%
Non-tarif/tarif-exempt/private service contract	16.0	15.0	15.0	12.0	14.5
Percentage	3.53%	3.34%	3.37%	2.81%	3.27%
total	453.8	448.8	445.6	427.0	443.8
Total personnel costs	€29,418.409	€29,955.139	€31,882.444	€32,549.00	€30,951.248
Average personnel costs per employee	€64,827	€66,745	€71,549	€76,227	€69,741

Audit Results: Example (11)

Company Audit

Result of the personnel audit: numerous positions were evaluated far higher as the relevant tariff agreement foresaw.

Annual Expenditure according to Employee Group

Employee Group	Extra Expenditure in €
Management assistants/Division manager	102,500
Master Foreman	148,000
Technician/System Operator/Fitter	783,000
Department Manager	295,000
Customer Consultant	82,800
Porter	12,200
Sum:	1,422,900

Audit Results: Example (12)

Company Audit

Expenditure for company committees (supervisory board, general meeting) in an autonomous town/city with 21 own and affiliated companies

- Salary expenditure of the companies for committee members:
2012: €300,282 2013: €401,873
- Highest salary for Municipal Councilors in company committees:
2012: €27,720 2013: €31,770



Audit Results: Example (13)

Company Audit

Committee Salary Structure of the Participants

Company	Meeting Fee	Expenditure Compensation	Dividend-Dependent Payout
- Number -	- Per meeting-	- annually -	
Nine	-	-	-
Four	€25 - €100	-	-
Six	€100 - €130	€600 - €4,000	-
Two	€110 - €200	€1,030 - €6,000	€4,000 - €17,680

Audit Results: Example (13)

Company Audit

Extent and development of the salaries of Managing Directors

VersorgungAG of an autonomous town/city
(balance sum around €250 million, 444 employees)

Year	Executive Director				Technical Director			
	Annual Basic Salary	Bonuses	Total	Increase compared to last year	Annual Basic Salary	Bonuses	Total	Increase compared to last year
2011	€162,560.00	€40,240.00	€202,800.00		€164,677.17	€20,000.00	€184,677.17	
2012	€168,799.98	€99,186.86	€267,986.84	32.14%	€168,677.17	€99,186.86	€267,986.84	45.11%
2013	€171,600.00	€112,531.50	€284,131.50	6.02%	€171,600.00	€112,531.50	€284,131.50	6.02%
2014	€179,760.00	€119,241.00	€299,001.00	5.23%	€179,760.00	€119,241.00	€299,001.00	5.23%



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Thank you for your attention

Regierungsdirektor Ferdinand Wagner
Rechnungshof Rheinland-Pfalz
Referat Kommunale Beteiligungen
Gerhart-Hauptmann-Straße 4
D-67346 Speyer
ferdinand.wagner@rechnungshof.rlp.de
www.rechnungshof.rlp.de