

3rd meeting : Audit procedures regarding the financial situation analysis of the local municipalities as part of the control of their annual accounts



Monitoring and control of the municipalities, the Valais model

Audit Office of the Canton of Valais (Switzerland)

EURORAI Seminar - 4th April 2014

Tenerife

Alexandre BERCLAZ

Certified Public Accountant

Licensed audit expert

Contents

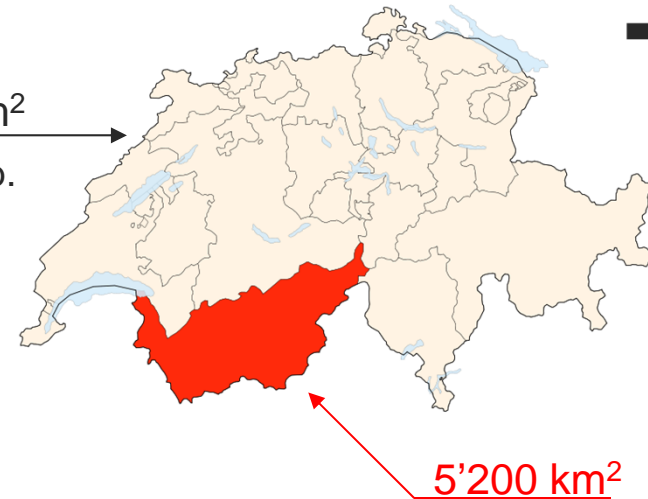
- 1. Introduction**
- 2. Legal bases**
- 3. Monitoring performed by the cantonal
Department in charge of finance**
- 4. Controls performed by the Audit Office of the
Canton of Valais**
- 5. Conclusion**

1. Introduction (1)

■ **Switzerland**

- Federal structures
- 26 cantons
 - 16'000 to 1'300'000 inhabitants per Canton
 - **Canton of Valais (320'000 inhabitants)**
- 2'400 municipalities (**Valais 143**)

41'000 km²
8 mio inhab.



5'200 km²

1. Introduction (2)

- ***The Canton of Valais***

- A tourist region
- Need of significant investments

- ***Municipal autonomy***

- ***The «Leukerbad» case by the end of the 90's***

- Case was presented at EURORAI Seminar in Rostov (October 2011)
- Included in the Seminar for local Communities of Hungary in Budapest (April 2012)



1. Introduction (3)

- ***The «Leukerbad» case by the end of the 90's***
 - Debts 160 mio € (88'000 € per inhabitant)
 - 1998 : the municipality was partially put under state administration by the Canton of Valais
 - Parliamentary commission of inquiry
 - Taken measures regarding that municipality
 - Remediation contract, creation of a company in charge of the realization of the measures endorsed
 - Measures taken for all the municipalities
 - amendment to the legislation
 - and to the monitoring framework

2. Legal bases (1)

- Municipalities financial management Law and implementing Ordinance of 2004
- *Reinforced municipal autonomy ... with implementation of tighter legal guidelines*
- *Role of the Canton : monitoring of the municipalities / setting up suitable tools*
- *Principles regarding the municipal autonomy*
 - The municipality is responsible for the management and the control of the municipality finances
 - The municipal council is responsible for the financial management of the municipality
 - The municipal council takes the necessary measures to implement an effective and appropriate for its business internal control system

2. Legal bases (2)

- *Tighter legal guidelines, including*

- Greater budgetary discipline

- **budgetary balance** : an excess of expenses is admitted only if, after recognition of depreciation expenses, the balance sheet does not have a shortfall.
- Establishment of a multi-year financial planning (at least 4 years)
- Requirement for a minimum depreciation rate (10%)
- Budget adoption by the legislative power (primary assembly or general council), which was not the case before
- Legislative is the only competent body to allow every new non compulsory expense exceeding 5% of the prior year gross revenue

2. Legal bases (3)

- *Tighter legal guidelines, including*

- Transparency and information policy in management and evolution of the municipal finances
 - Cantonal Finance Department sets out guidelines providing with the contents and structure of the chart of accounts and budget (**harmonization**)
 - **Financial plan** consists of the introductory message, the statement of operation of the financial planning and the investment programme
 - The municipality has to disclose **five evaluation criteria** of its financial situation with assessment of the obtained level

3. Cantonal Finance Department (1)

- *Main actor and respondent towards the municipalities*

- **Tasks**
 - **To advise and monitor** the municipalities in the field of the financial management

 - **Introducing tools to carry out that monitoring**

 - Set out additional instructions to the implementing Ordinance, including
 - chart of accounts references
 - accounting consolidation
 - audit of the annual accounts

3. Cantonal Finance Department (2)

■ *Tools in the field of monitoring*

- Monitoring of **5 financial indicators** and annual report on the development noticed for all municipalities
- Defined indicators
 - self-financing level
 - self-financing capacity
 - ordinary depreciation rate and global rate
 - indebtedness per inhabitant
 - gross debt ratio
- Development of a file allowing the **automatic and standardized calculation** of the indicators

3. Cantonal Finance Department (3)

■ *Municipality of Sierre*

- 16'000 inhabitants

- 2012 financial statements

- Cash flow : 13'000'000 €

- Net investments : 20'700'000 €

- Net fortune : 156'600'000 €

3. Cantonal Finance Department (4)

- *Example : Municipality of Sierre (published 2012 financial statements)*

Self-financing level : self-financing as a % of the net investment

1. Degré d'autofinancement (I1)	2011	2012	Moyenne
(Autofinancement en pour cent de l'investissement net)	90.2%	62.4%	75.0%

Valeurs indicatives

$I1 \geq 100\%$	5 - très bien
$80\% \leq I1 < 100\%$	4 - bien
$60\% \leq I1 < 80\%$	3 - satisfaisant (à court terme)
$0\% \leq I1 < 60\%$	2 - insuffisant
$I1 < 0\%$	1 - très mauvais

3. Cantonal Finance Department (5)

- *Example : Municipality of Sierre (published 2012 financial statements)*

Self-financing capacity : self-financing as a % of the financial income

2. Capacité d'autofinancement (I2)	2011	2012	Moyenne
(Autofinancement en pour cent des revenus financiers)	14.8%	13.5%	14.2%

Valeurs indicatives

$I2 \geq 20\%$	5 - très bien
$15\% \leq I2 < 20\%$	4 - bien
$8\% \leq I2 < 15\%$	3 - satisfaisant
$0\% \leq I2 < 8\%$	2 - insuffisant
$I2 < 0\%$	1 - très mauvais

3. Cantonal Finance Department (6)

- *Example : Municipality of Sierre (published 2012 financial statements)*

Ordinary depreciation rate : depreciation as a % of the administrative assets to be depreciated

3. Taux des amortissements ordinaires (I3)	2011	2012	Moyenne
(Amortissements ordinaires en % du PA à amortir)	10.0%	10.0%	10.0%

Valeurs indicatives

I3 ≥ 10%	5 - amort. suffisants
8% ≤ I3 < 10%	4 - amort. moyens (à court terme)
5% ≤ I3 < 8%	3 - amort. faibles
2% ≤ I3 < 5%	2 - amort. insuffisants
I3 < 2%	1 - amort. nettement insuffisants

3. Cantonal Finance Department (7)

■ *Monitoring of the financial indicators – indicative values (4th criteria)*

○ Indebtedness per inhabitant (gross debt less current financial assets per inhabitant)

- more than 7'200 € : excessive indebtedness
- from 5'600 to 7'200 € : highly significant indebtedness
- from 4'000 to 5'600 € : significant indebtedness
- from 2'400 to 5'600 € : measured indebtedness
- less than 2'400 € : low indebtedness

3. Cantonal Finance Department (8)

- *Example : Municipality of Sierre (published 2012 financial statements)*

Indebtedness per inhabitant

4. Endettement net par habitant (I4)	2011	2012	Moyenne
(Dette brute moins PF réalisable par habitant)	-1385	-925	-1153

Valeurs indicatives

I4 < 3'000	5 - endettement faible
3'000 ≤ I4 < 5'000	4 - endettement mesuré
5'000 ≤ I4 < 7'000	3 - endettement important
7'000 ≤ I4 < 9'000	2 - endettement très important
I4 ≥ 9'000	1 - endettement excessif

3. Cantonal Finance Department (9)

- *Example : Municipality of Sierre (published 2012 financial statements)*

Gross debt ratio : gross debt as a % of the financial income

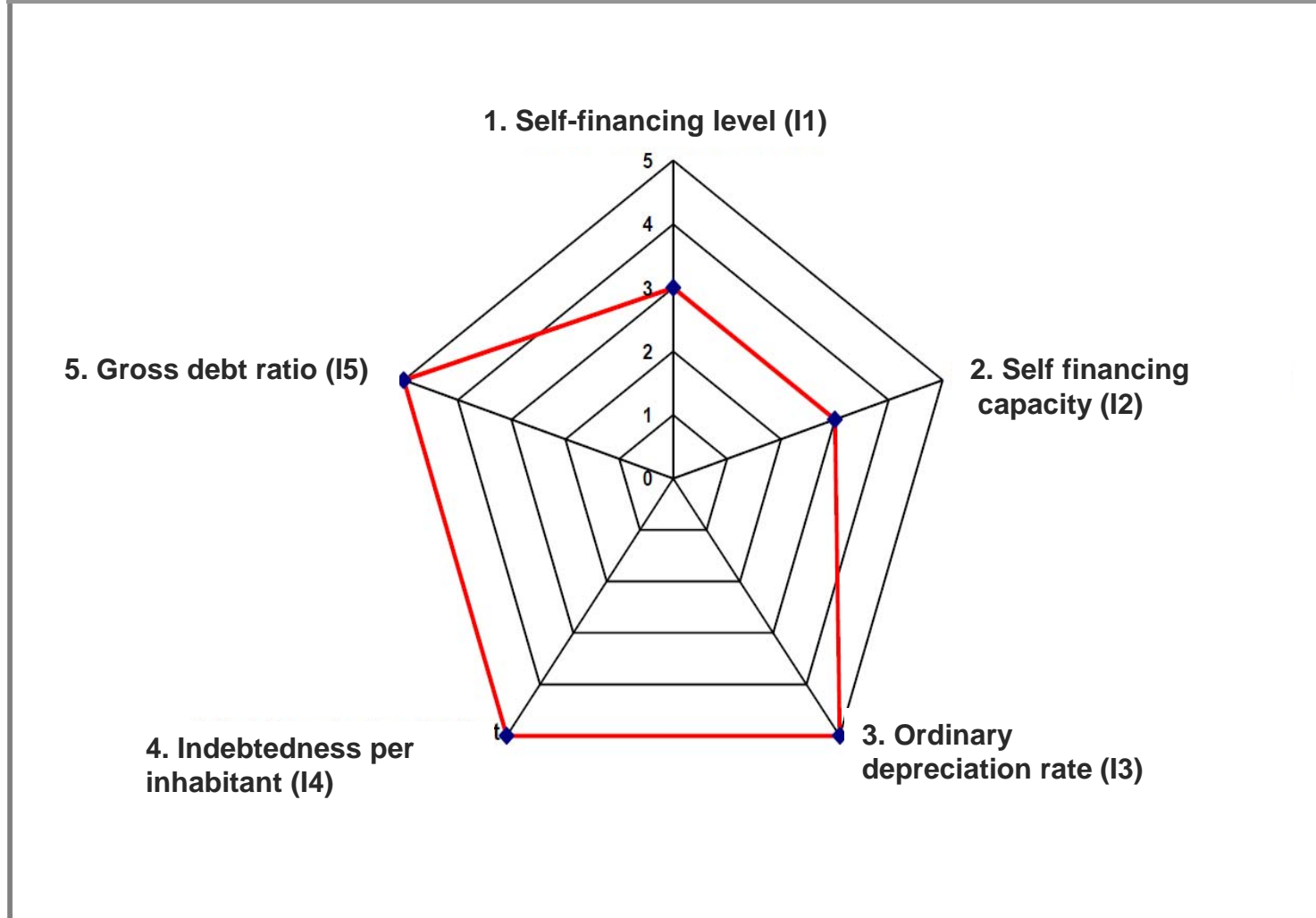
5. Taux du volume de la dette brute (I5)	2011	2012	Moyenne
(Dette brute en % des revenus financiers)	60.1%	77.8%	68.5%

Valeurs indicatives

I5 < 150%	5 - très bien
150% ≤ I5 < 200%	4 - bien
200% ≤ I5 < 250%	3 - satisfaisant
250% ≤ I5 < 300%	2 - insuffisant
I5 ≥ 300%	1 - mauvais

3. Cantonal Finance Department (10)

Graphic representation of the indicators – average for the years 2011 and 2012



3. Cantonal Finance Department (11)

■ *Other tools*

- Acknowledgment of the **auditors'** short-form report being an integral part of the financial statements
 - qualification : audit firm and auditor in charge are subject to the approval of the Confederation according to the Swiss audit legislation
 - Auditors are appointed for 4 years and have to be independent from the municipal authority
- Example of the auditors' short-form report related to the 2012 financial statements of the municipality of Sierre

3. Cantonal Finance Department (12)

Opinion d'audit

Selon notre appréciation, le compte annuel, pour l'exercice arrêté au 31 décembre 2012 est conforme aux prescriptions légales (LCo et Ofinco) et aux règlements y relatifs.

Autres constats

Nous attestons que nous remplissons les exigences légales et réglementaires de qualification et d'indépendance conformément aux prescriptions de l'art. 83 de la LCo, des art. 72 et 73 de l'Ofinco et qu'il n'existe aucun fait incompatible avec notre indépendance.

En outre nous constatons que dans le cadre de notre révision

- l'évaluation des participations et des autres éléments de la fortune financière est appropriée ;
- le niveau des amortissements comptables est conforme aux dispositions de l'Ofinco ;
- l'endettement net de la Municipalité est nul ;
- selon notre appréciation, la Municipalité est en mesure de faire face à ses engagements ;
- l'entretien final avec le Conseil Municipal a eu lieu ;

Nous recommandons d'approuver le compte annuel qui vous est soumis.

3. Cantonal Finance Department (13)

■ Other tools

- Follow-up of the budget and the financial statements by the municipality with the help of the check-list

▲ Commune municipale Valaisia no OFS 000 – comptes 2013				
Bases légales:				
175.1 Loi sur les communes (LCo) du 5 février 2004				
611.102 Ordonnance (Ofinco) sur la gestion financière des communes du 16 juin 2004				
1	Exigences liées aux délais et à la mise à disposition	oui	non	Remarque no
1.100	Les comptes ont-ils été approuvés par l'assemblée primaire ou le conseil général avant le 30 juin ? (art. 7 al. 1 LCo)			
1.2	Si les comptes sont refusés une première fois, est-ce que la seconde assemblée primaire s'est réunie dans le délai de 60 jours ? (art. 7, al. 2 LCo)			
	<i>Les comptes ont-ils été transmis ? (art. 15 al.3 LCo)</i>			
1.3	en deux exemplaires ?			
1.4	au département (SAIC – Section des finances communales) ?			
1.5	dans les 60 jours dès l'expiration du délai de dépôt ?			
2	Exigences liées au contenu et à la structure			
2.1	Le compte contient-il le message introductif ? (art. 30 al. 2 litt. a Ofinco)			

3. Cantonal Finance Department (14)

4 Comptes indicateurs				
4.1	Est-ce que l'application comptes indicateurs a été transmise à la section des finances communales ? (art. 61, al. 1 Ofinco)			
4.2	Est-ce que l'application comptes indicateurs a été complètement remplie ?			
4.3	Est-ce que la/les différence/s de la feuille de validation a/ont été justifiée/s ?			

5 Exigences liées à la vérification des comptes				
	<i>Est que le rapport de révision fait part des conclusions des réviseurs relatives à : (art. 85, al. 1, LCo)</i>			
5.1	l'évolution de l'endettement			
5.2	l'équilibre financier à terme			
	<i>Est-ce que le rapport succinct atteste ? (art. 75, al 3 Ofinco)</i>			
5.3	la qualification et l'indépendance du vérificateur ? (litt. a)			

3. Cantonal Finance Department (15)

- *Performance of the monitoring using the various available information (indicators, auditors' report, check-list, etc.)*
- *Proposals of eventual measures to be adopted by the cantonal Government towards a municipality, particularly*
 - in case of **shortfall** to be amortized
 - when the auditors **do not recommend** the annual accounts **to be approved**
 - example of decision hereafter

3. Cantonal Finance Department (16)

LE CONSEIL D'ETAT, = Gouvernement cantonal

Vu l'article 159 alinéa 1 de la loi sur les communes du 5 février 2004 qui prévoit qu'en cas de découvert au bilan lors de l'entrée en vigueur de la loi, soit le 1^{er} juillet 2004, la commune adopte un plan financier prévoyant des mesures d'assainissement ainsi que l'amortissement du découvert dans un délai de dix ans ; ...

d é c i d e :

1. l'amortissement annuel du découvert inscrit au bilan de la commune de [REDACTED] est accepté tel que proposé et arrêté comme suit :
 - Année 2005 : 1'702'260 francs (comptabilisé dans les comptes 2005)
 - Année 2006 : 229'000 francs c.r.
 - Année 2007 : 247'500 francs c.r....
4. les éventuels excédents de revenus supplémentaires du compte de fonctionnement sont obligatoirement affectés à l'amortissement du découvert au bilan;
5. le Département des Finances, des Institutions et de la Sécurité, représenté par l'Administration cantonale des finances est chargé de notifier la présente décision ;
6. le contrôle et le suivi de la présente décision incombent à l'Inspection des finances.

3. Cantonal Finance Department (17)

- *Production of an annual report on the municipal finances*



- Transparency : publication on the internet site of the Canton

http://www.vs.ch/NavigData/DS_23/M22458/fr/Rapport%20sur%20les%20finances%20communales%202011.pdf

- Follow-up of the annual developments/trends

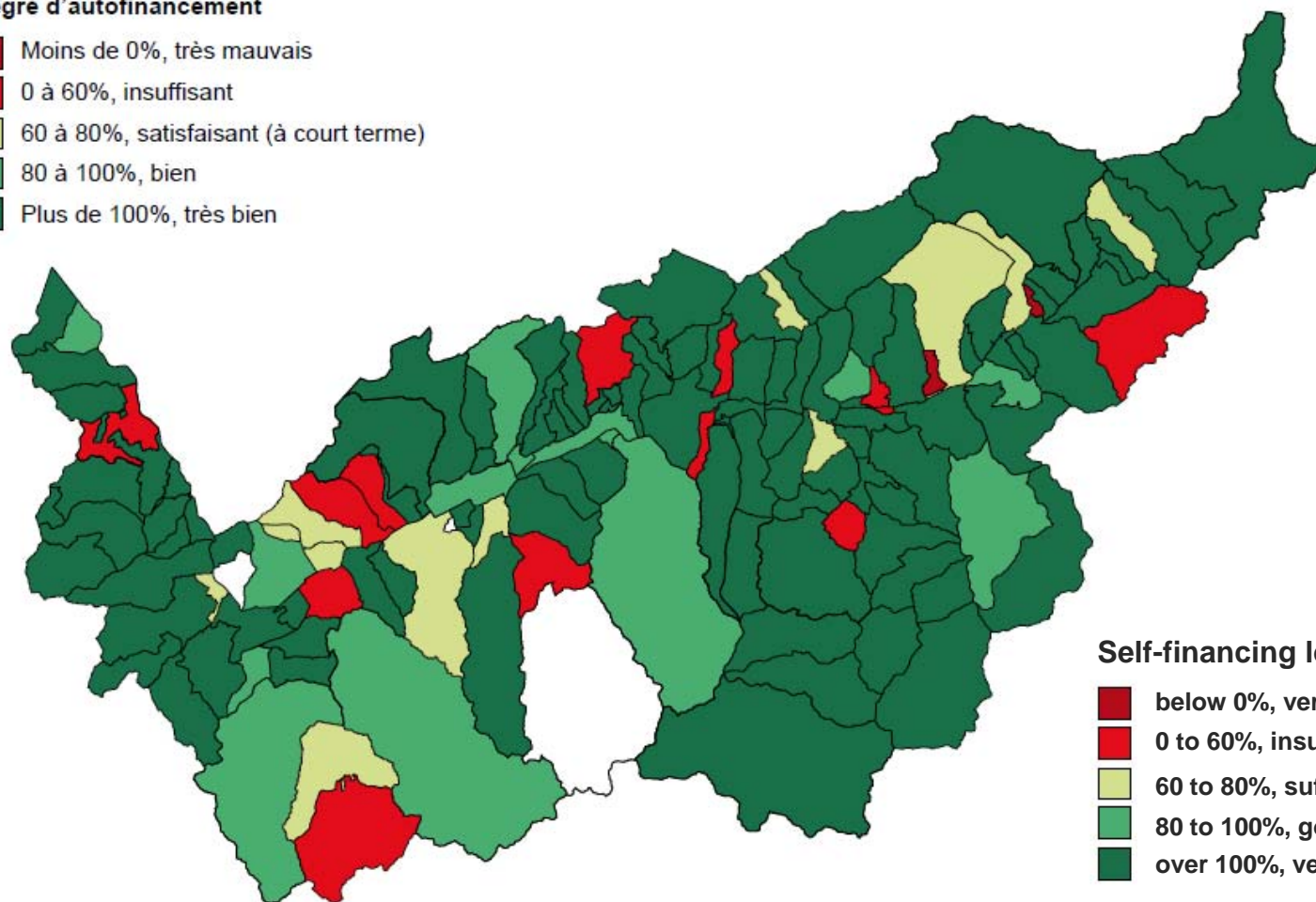
3. Cantonal Finance Department (18)

Carte: degré d'autofinancement 2011.

Map : 2011 self-financing level

Degré d'autofinancement

- Moins de 0%, très mauvais
- 0 à 60%, insuffisant
- 60 à 80%, satisfaisant (à court terme)
- 80 à 100%, bien
- Plus de 100%, très bien



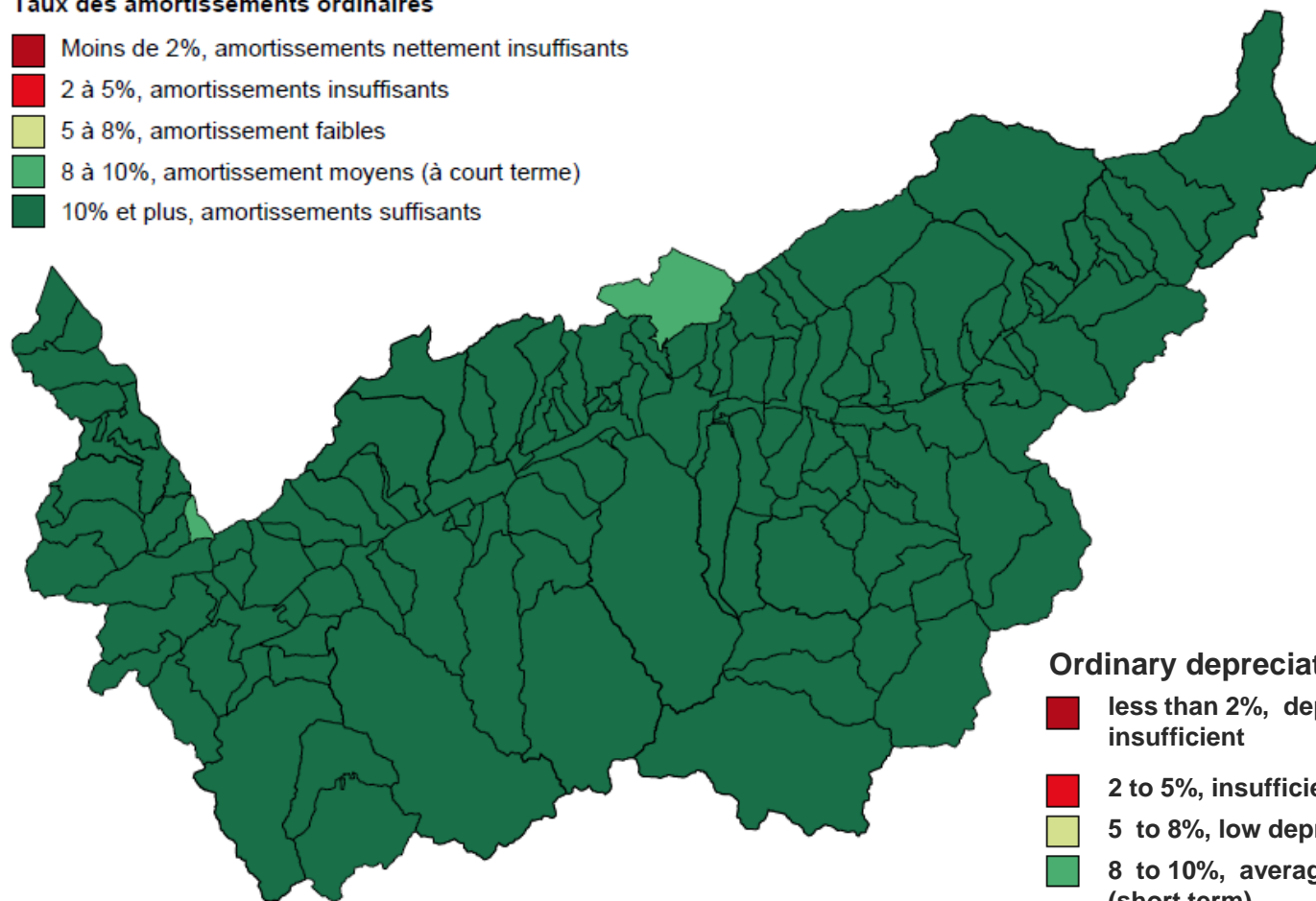
Self-financing level

- below 0%, very bad
- 0 to 60%, insufficient
- 60 to 80%, sufficient (short-term)
- 80 to 100%, good
- over 100%, very good

3. Cantonal Finance Department (19)

Taux des amortissements ordinaires

- Moins de 2%, amortissements nettement insuffisants
- 2 à 5%, amortissements insuffisants
- 5 à 8%, amortissement faibles
- 8 à 10%, amortissement moyens (à court terme)
- 10% et plus, amortissements suffisants



Ordinary depreciation rate

- less than 2%, depreciation clearly insufficient
- 2 to 5%, insufficient depreciation
- 5 to 8%, low depreciation
- 8 to 10%, average depreciation (short term)
- over 10%, sufficient depreciation

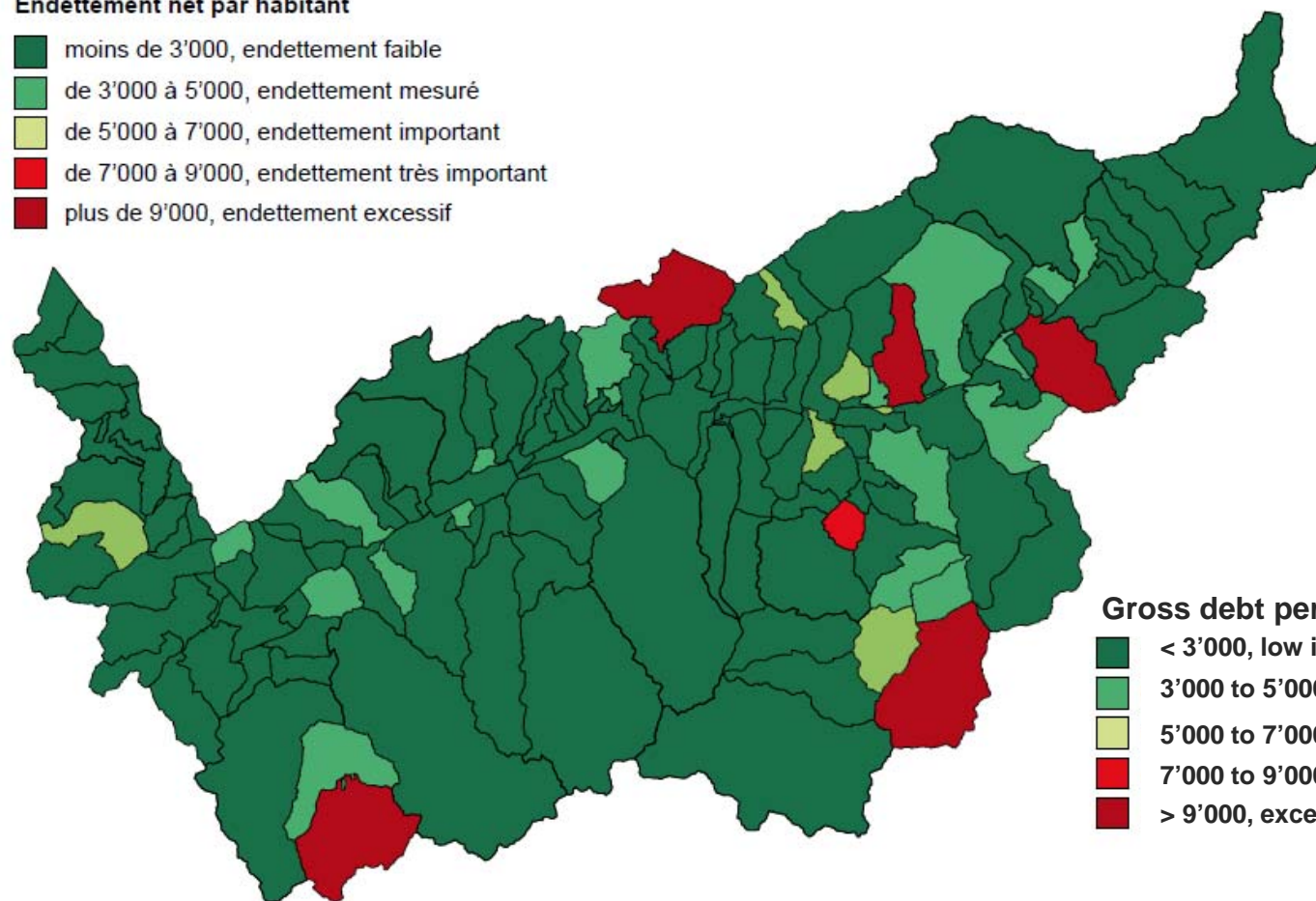
3. Cantonal Finance Department (20)

Carte: endettement net par habitant 2011

Map : 2011 gross debt per inhabitant

Endettement net par habitant

- moins de 3'000, endettement faible
- de 3'000 à 5'000, endettement mesuré
- de 5'000 à 7'000, endettement important
- de 7'000 à 9'000, endettement très important
- plus de 9'000, endettement excessif



Gross debt per inhabitant

- < 3'000, low indebtedness
- 3'000 to 5'000, measured indebtedness
- 5'000 to 7'000, significant indebtedness
- 7'000 to 9'000, highly significant indebtedness
- > 9'000, excessive indebtedness

4. Audit Office of the Canton of Valais (1)

- *Supports the Department in charge of finance in his monitoring mission*
- *Is not a substitute for the auditors' mission*
- *Assumes control and follow-up of the measures adopted by the Council of State or the Department*
 - Council of State decisions in 2005 et 2006 for 15 municipalities with a balance sheet deficit (shortfall)
 - By the end of 2011, 2 municipalities still did not cover their shortfall

4. Audit Office of the Canton of Valais (2)

- ***Auditors of the Ltd Company in charge of the financial remediation plan of the Leukerbad Municipality / Situation by the end of 2012 :***
 - All the creditors have embraced the consolidation concept
 - Remediation plan moves forward in accordance with the decisions taken
 - Debts granted by the State of Valais amount to Fr. 14.9 mio vs Fr. 24 mio by the end of 2003

4. Audit Office of the Canton of Valais (3)

- ***Controls performed for all municipalities over a 4-year period***
 - Taxation – notification of municipal taxes (taxation by the Canton) / fair, equal treatment of the taxpayer
 - notification errors (downward trend due to increasing automatic data set out for natural persons / not the case for legal persons)
 - Changes required in 2 ways (also in favour of the taxpayer)
 - Taxation – debt litigation / fair, equal treatment
 - Good in general, but follow-up of debtors is more strictly performed at Canton level / isolated issues
 - Registration of payments performed by the State

5. Conclusion (1)

- *Decision to learn from a financial meltdown of a municipality for all the municipalities of the Canton*
- *Willingness to preserve and reinforce the municipal autonomy*
- *Municipalities were requested to reinforce requirements and transparency*
- *Professionalism of internal structures initiated, particularly through the implementation and/or formalization of an Internal Control System (ICS)*
- *Regular follow-up (budget / actual) performed and annual development/trend of indicators is taken into consideration*

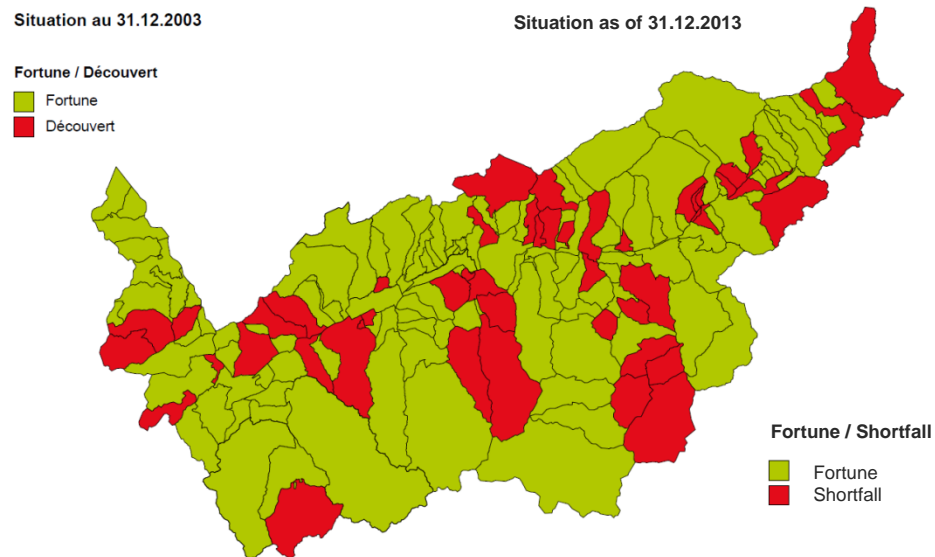
5. Conclusion (2)

- *Annual comparison of the situation for all the municipalities*
- *Professionalism of the auditors*
- *If need be, measures adopted by the cantonal Government*
- *Support from the Canton for the municipalities and the actors having to comply with legal requirements*
- *Continuous improvement in the global situation of the Valais municipalities*

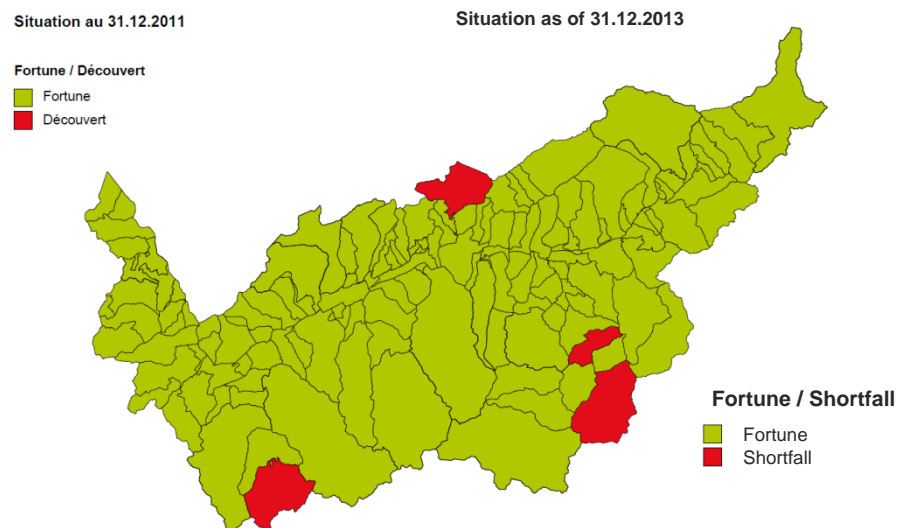
5. Conclusion (3)

Situation fortune / shortfall

- by the end of 2003 :



- By the end of 2011 :



To conclude ...

**Adoption of clear and uniform rules,
regular monitoring as well as a
professional and independent control
ensure sound financial situation of
the Valais municipalities.**

Thanks for your attention

