



Der Präsident des
Niedersächsischen Landesrechnungshofs
– Überörtliche Kommunalprüfung –

Financial Status Audit of districts in Lower Saxony

Richard Höptner,
President of the Lower Saxon regional court of auditors

EURORAI – Panel 3
Santa Cruz de Tenerife, 04.04.2014

Agenda

- Overview Lower Saxony
- Organization and Mission of the RCA
- Supra-local District Audit
- Financial Status Audit
 - Initial Situation
 - Focal Points
 - Key Figures
 - Results



Overview Lower Saxony



- Area: approx. 47.600 km²
- Population: approx. 7,8 Mio.
- GDP: 230 b€
(9 % of the German GDP)

Per: February 2014
Source: LSN



Lower Saxony - Administrative Units -



38 Units with ...
→ approx. 1100 municipalities

thereof ...

- 8 country-level cities
- 287 unified communities
- 129 joint communities
- 713 member communities



Position and Mission of the Regional Court of Audit

- The highest state authority, independent from the provincial government and only subjected to the law
- The RCA **audits**...
 - ... Budgetary and financial management of the region
 - ... corporate bodies of public law that are under country supervision
 - ... positions outside state administration, if they receive funds by the country or administer country assets
- The RCA **councils**...
 - ... the audited positions and the Landtag among others on financially important single measures and legislative projects.
- The RCA **reports**...
 - ... to the Landtag (Parliament) and the Government on economic aberrations



Local and supra-local municipal audit

- Local municipal audit by the courts of audits of the districts
 - Directly subordinate to the representation
 - Annual audit of annual statements
 - Annual cash management audit
- Supra-local Audit by the President of the RCA
 - All districts, municipal institutions, special-purpose associations, municipal investments, etc. on
 - Compliance and
 - Profitability of the budgetary and cash management
 - Comparing between districts
 - With a consulting target



Topics for supra-local municipal audits

- Audit of
 - The auditing offices
 - Investment Management
 - Municipal housing companies
 - Local foundations
 - Overview of the economically outsourced tasks
 - Building yards and road service
 - Kindergartens
 - Etc.
- Financial Status Audits (Compliance, in combination with an evaluation of the budgetary and financial situation)



Starting point and test objects for financial status audits

- The Transfer from Cameralistic to Double-Entry Bookkeeping:
 - 2005: Act for the reorganization of the municipal budget law and amending community economic regulations
 - Implementation of the New Municipal Accounting with a delay period till 2012
- Characteristics of the NMA
 - Results-oriented, output-based budget preparation and execution
(Product budget, budgeting, profit and loss calculation)
 - Double-entry accounting with a three component calculation
(financial budget, profit and loss budget and Balance)
 - Balance, annual statement and consolidated total statement



Concept Financial Status Audit

- Segments -

1. „Compliance“

- Formal Audit of the municipal supervision and cash management
- Implementation of the instruments of the New Municipal Accounting (NMA)

2. annual statement analysis

3. „continued Capacity“

- If needed also audit of the budget balancing



Financial Status Audit

Part I: „Compliance“““

■ Compliance

→ Formal Audit of the statutory provisions of municipal supervision and cash management

■ New Municipal Accounting (NMA)

→ Implementation of the different control instruments

→ Product budget

→ Profit and Loss budget

→ Financial budget

→ Budgeting

→ Profit and Loss Calculation

→ Controlling



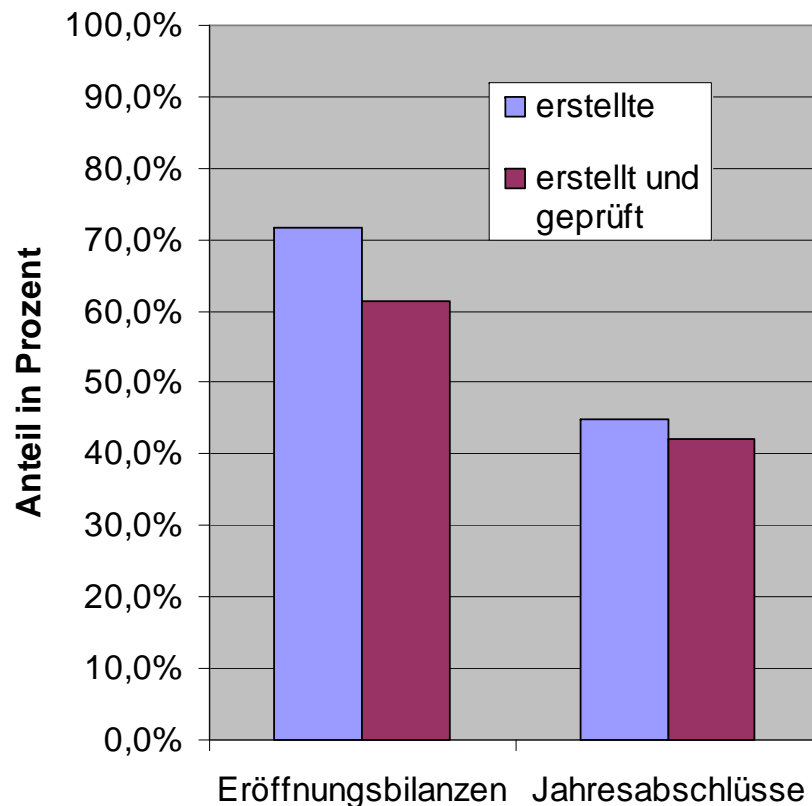
Results „ Compliance“ for the year 2013

- 15 Districts in 2013 audited
- Formal audit budgetary system
 - All districts have introduced double-entry bookkeeping
 - 14 of 15 districts were delayed in presenting the financial regulation at the communal municipal supervision.
 - 40 % of the audited districts had yet to create an audited first opening balance.
 - Only 2 out of 15 districts had audited annual statements.
- Formal Audit cash management
 - The use as well as supervision were as a rule in due form
 - The instructions for the cash register were however in need of optimization with the exception of one case.



Results „Compliance“ Implementation double-entry bookkeeping in Lower Saxony

Part of the units with first opening balance respectively with (double-entry) annual statement of the total number of units



1169 Units

thereof...

839 (71,8 %) with first opening balance

719 (61,5 %) with audited first opening balance

524 (44,8 %) with annual statement

493 (42,2 %) with audited annual statement

Reference date: 01.11.13

Financial Status Audit

Part II: „annual statement analysis“ (retrospectiv)

■ Annual Results

→ Revenues – Expenses

Total result

Current result

■ Net position

■ Indebtedness

Total Indebtedness

Investment Indebtedness

Liquidity Indebtedness

Reserves

■ Cash flow from ongoing administrative activities

→ Revenues from administrative activities
– Expenses from administrative activities



Results „annual statement analysis“

Example: 2 districts, business year 2010

	District A	District B
Balance sum	25.001.144 €	16.608.238 €
Annual Result, total	607.486 €	- 422.876 €
current	596.866 €	- 472.693 €
Net position	16.782.739 €	- 1.359.492 €
Indebtedness, total	8.206.185 €	17.921.719 €
investive	4.512.243 €	1.651.997 €
liquidity	90.114 €	11.300.000 €
reserves	3.603.828 €	4.969.722
Cash flow	812.000 €	- 1.031.805 €



Financial Status Audit

Part III: „continued Capacity“ (prognostic)

- Multi-year development of the following Key Figures:
 - Running expense coverage
 - Running Revenues/ running Expenses
 - Net Equity Ratio based on balance sum
 - Debt Ratio based on balance sum
 - Tax ratio
 - Re-Investment Ratio related to amortization
 - Amortization Ratio based on running expenses
 - Interest Coverage Ratio based on running revenues
 - Subsidy rate to affiliated companies
 - Expenses on personal based on running expenses



Results „continued Capacity“

Example: 2 Districts, business year 2010

	District A	District B
Running expense coverage	107,30 %	94,27 %
Net equity ratio	67,13 %	- 8,19 %
Dept Ratio, total	32,82 %	107,91 %
Tax Ratio	53,32 %	30,04 %
Re-Investment Ratio	57,23 %	197,04 %
Interest Coverage Ratio	2,34 %	2,25 %

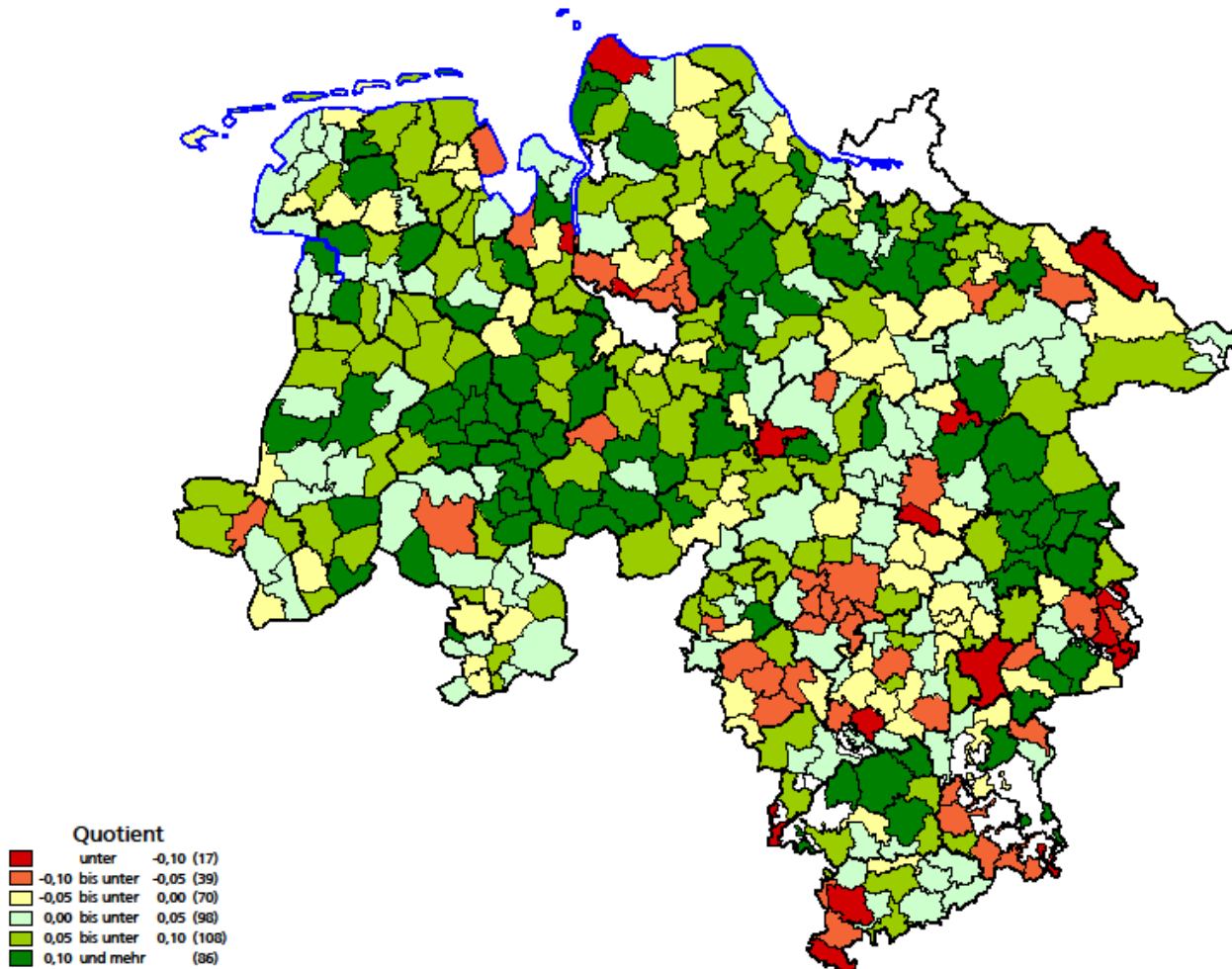


Consequences

- Audit in District B to evaluate causes
 - Revenue prospects
 - Situation of Assets
- For regulatory purposes
 - Limitation budgetary permissions
 - Limitation of awarding co-funded Allocations



Map „continued Capacity“



Indicator:

Five year average of the current profits in relation to running revenues (gross)

period: 2009 to 2013

Source:

LSN, Statistikdaten der Kommunalfinzen – Gesamtwirtschaftliche Darstellung

Thank you
for your Attention!

