

auditing in a time of austerity

towards a predicting audit office



EURORA, Edinburgh
October 24, 2014

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contents of presentation

- about city and audit office of Rotterdam
- context: crisis and local government
- consequences for auditing program, procedures and results

city of Rotterdam

- largest harbour of Europe (430 million ton)
- fifth harbour of the world (Shanghai: 730 m. ton)
- 620.000 inhabitants
- city council: 45 members; 10 political parties
- executive board: mayor and 6 aldermen
- budget of € 4 billion
- 12.000 civil servants
- independent audit office

audit office of Rotterdam

- director is only member
- audits conducted by bureau of auditors (ca. 15 fte)
- no financial audits on annual account
- completely autonomous
- average of 10 – 12 audits a year
- also director audit offices of Barendrecht, Lansingerland and Capelle (50.000 + municipalities)
- budget: ca. € 1,5 million a year

economic crisis and local government

- cuts in municipal incomes by central government
- cuts in municipal expenditures on e.g. subsidies
- cuts in municipal expenditures on own organisation (shrinking civil service)
- increasing expenditures on social security
- threat of municipal 'bankruptcy'

consequences for audit program

- audits usually ex post, on wide range of topics
- more focus on topical (and political highly sensitive) issues
- more ex (dur)ante audits
- Rotterdam: audits on
 - reduction of civil servants;
 - control of social security expenditures

consequences for audit procedures (1)

- audit subject changes continuously and substantially
 - regular interaction with auditees
 - no 'official' policy yet; need for initial decision / (business) case
- audit focus may be more on process than on results
 - check on assumptions and calculations
- assessment of direct relation between instruments and cost savings
 - attribution of (direct) costs to separate measures
 - comparison costs and direct financial benefits (cost-effectiveness)
 - assessing relative impact on total volume

consequences for audit procedures (2)

- tight deadlines of accuracy check on facts
- short time for adversarial procedures



audit on formation reduction (1)

- political goal: 2.450 less labour places, saving of € 93 mln
- instruments:
 - drastic reorganization
 - special arrangements on early retirement, starting own company, help finding another job etc.
- analysis of possible discussion on core tasks
- analysis of business case:
 - calculations and assumptions of arrangements correct and valid?
 - uncertainties into account?
 - relation with kerntakendiscussie?

audit on formation reduction (2)

- audit results:
 - business case far too optimistic
 - reduction of 2.450 fte will not be achieved
 - savings of € 94 mln will not be achieved
 - whole operation too undirected: no consideration which tasks to dismiss
- political consequences:
 - conclusions imply the need for more budget cuts
 - coalition tries to block political debate

audit on social security expenditures (1)

- total budget app. € 550 mln; app. 37.000 citizens
- deficit on designated budget of € 70 mln
- need to decrease inflow to social security, increase outflow
- analyse of 38 different measures:
 - continuously changing and new ones
 - need of regular consultation auditor and auditee
- each measure:
 - extra costs?
 - benefits (in terms of saved expenditures)?
 - is measure itself profitable?
 - impact on total budget and volume (a highly profitable measure may have very small impact)

audit on social security expenditures (2)

audit results

- most measures effect or costs unknown
- four measures profitable *and* high impact
- social security budget is in control, expenditures probably not over budget

consequences for audit results

- not only judging conclusions (as usually drawn), but also *predictive* conclusions
 - how will budget deficits develop?
 - will policy efforts succeed and to what extent?
 - risk of predictions not coming true
- conclusions may be politically sensitive
 - budget cuts result of difficult political negotiation
 - implication of the need of extra budget costs
 - audit office may be blamed for playing a political role
- overall: audit office more vulnerable than with more traditional audits