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**Communicating and reporting the audit:  
A comparative approach of practices in four countries –  
France, Germany, Spain and the United Kingdom**

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**Working papers for the first session  
“Audit letters and reports produced by regional audit institutions  
on the audit of local authorities”**

**Court of Audit of Rhineland-Palatinate:**

- Extracts from the Local Authorities Report 1997
- Extracts from the Report 2001 on the Audit of the Financial and Performance Management of the City of Pirmasens

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Court of Audit of  
Rhineland-Palatinate

Local Authorities Report  
1997

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# 1. Preliminary comments

With this report, the Court of Audit of Rhineland-Palatinate is for the first time presenting a summary of selected results and experiences gained from audits of the financial and performance management of towns and cities, municipalities and rural districts (*Landkreise*)<sup>1</sup>.

The purpose of the report is to provide advisory information for the regional parliament (*Landtag*) and the regional government (*Landesregierung*). At the same time the report should intend to make a contribution towards helping municipal administrations to identify weak points in their administrative activities for themselves and to remedy these, thus avoiding errors from the outset. In addition, it is also intended to provide the local control bodies (municipal council, district council - *Kreistag*, parliamentary audit committee and municipal inspection office) with stimuli for their own reviews, thus making a contribution towards reinforcing the administration's self-control.

## 1.1 Legal basis for supra-local audit

The term "supra-local audit" should be understood as an audit carried out by an external office independent of the municipal, self-administering body under audit. In the Rhineland-Palatinate, this audit has been the responsibility of the Court of Audit since it was instituted in the year 1947<sup>2</sup>.

The Court of Audit is an independent, supreme authority of the Land subject only to the law. Its members enjoy the same degree of independence as a judge (Article 120 of the Rhineland Palatinate constitution). In this way it can be guaranteed that audits will be carried out in conditions of complete objectivity. The Court of Audit is neither a body commissioned by municipal representative organs, nor is it the extended arm of the supervisory authorities of the Land. These parties have no influence on the audit. Accordingly, in the Rhineland Palatinate, the supra-local audit is not an issue or component part of regional supervision, but an independent regional task.

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<sup>1</sup> The Budget and Finance Committee has acknowledged this with their consent within the context of the formal discharge procedure for the year 1995 and have requested that this special report be published as a regional parliament (*Landtag*) document (printed papers 13/2090, P. 2).

<sup>2</sup> Article 110 Paragraph 4 of the Local Government Act (*Gemeindeordnung, GemO*) in association with Article 111 of the budgetary regulations of the Land (*Landeshaushaltsordnung, LHO*).

The Court of Audit can delegate the audit entirely or in part, and with revocable effect, to the municipal inspection offices set up within the 24 district administrations (*Kreisverwaltung*) subject to the professional and technical direction of the Court<sup>3</sup>. This power to delegate is in line with the requirement for the supra-local audit to be carried out as economically as possible. The Court of Audit has transferred auditing of villages/towns, of the smaller, non-associated municipalities and the majority of the associated municipalities (*Verbandsgemeinde*) and other corporations, institutions, foundations and associations to the municipal inspection offices. However, the Court still retains for itself the right to audit the financial and performance management of these by itself, at any time. The municipal inspection offices must carry out their auditing activities in accordance with the same basic principles and objectives as the Court of Audit. To ensure this, the Court issues instructions for the audit, discusses important matters associated with the audit with the municipal inspection offices in the course of regular working meetings, advises them in individual matters and assesses their audit reports.

## 1.2 Content and scope of the audit

The supra-local audit covers the entire financial and performance management of municipalities and associations of local authorities, including separate property funds and activities associated with companies set up under civil law. In this connection, financial and performance management extends to cover any administrative activity which has, or may have, a financial effect.

The increasing tendency to have municipal activities organised under civil law and to take this out of the field of the municipal budgets calls for the audit access to be restructured accordingly. Article 87 Paragraph 1 Clause 7c GemO<sup>4</sup> reflects this concern. In accordance with this approach, a municipality may only run or participate in a company or an establishment set up in a legal form under civil law if, where the municipality has a majority holding, the right to supra-local auditing of the financial and performance management of the company in accordance with the terms of Article 110 Paragraph 4 GemO is granted in the articles of association of the company. Public sector financial

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<sup>3</sup> Article 110 Paragraph 4 GemO, Article 14 Land Court of Audit Act (*Rechnungshofsgesetz, RHG*), regulations of the Land (*Landesverordnung, LVO*) dealing with municipal inspection offices (), dated 5 April 1979 (Bulletin of Laws and Directives of Rhineland-Palatinate, P. 107).

<sup>4</sup> In the wording of the Fourth Law of the Land (*Viertes Landesgesetz*) amending the regulations of communal law, passed on 2 April 1998 (Bulletin of Laws and Directives of Rhineland-Palatinate, P. 108).



control is an essential element of basic democratic principles, irrespective of whether the public sector is making use of public or private forms of organisation when fulfilling its duties.

The supra-local audit extends to compliance with the regulations and basic principles in effect for financial and performance management, with particular reference to whether the budgetary bye-laws and the budget have been observed, income and expenditure are justified and backed up by vouchers, and the budget accounts have been drawn up properly, whether actions have been undertaken in an efficient and economic manner, and whether it is possible to fulfil the set task with a lower degree of staffing or material expenditure, or in some other way more effectively (Article 90 LHO). The main points of concentration for auditing are aspects of economy, efficiency and effectiveness.

As far as it can be guaranteed that the set remit is consistently fulfilled (Article 93 Paragraph 1 GemO), decisions on communal policy taken within the context of the law in force are not subject to assessment by the supra-local audit. Accordingly, for example, the audit may not assess the basic decision in terms of its correctness, in that it places renovation of the town hall after the new erection of a school sports hall, or the extension of an access road for residents to accept through traffic. However, what must be audited is whether, for instance, the most economical solution has been identified prior to execution of the construction project (Article 10 Paragraph 2 *Gemeindehaushaltsverordnung*, GemHVO), whether there are any deficiencies in the tendering procedure, award of contract and associated accounting, whether in the execution of the project the general principles of efficiency and economy (Article 93 Paragraph 2 GemO) have been observed and whether the associated subsequent costs remain within acceptable parameters for long-term performance. Similarly, the financial consequences of decisions on communal policy may be highlighted.

The Court of Audit and the municipal inspection offices focus on different aspects in their auditing activities and regularly restrict themselves to random sample checks. Depending on the significance of their findings and the importance for the management of public funds of the area of administration audited, it is not infrequently the case that the administration itself or its local control bodies proceed to supplementary investigations on-the-spot.

### **1.3 Audit objective**

Audit reports, as is the case with this report, contain what is basically a list of errors and deficiencies, accompanied by recommendations and suggestions, but no praise. However, this should not lead to the conclusion that the performance and quality provided by municipal administrations have been insufficient. Generally speaking, it is rather the case that municipalities operate properly and efficiently, on the whole. Of course, this does not exclude the possibility that – isolated, even serious – errors and deficiencies may arise. From the criticism applied by the Court of Audit to a specific action of an administration, it is not possible to derive any value judgment on the administration as a whole.

The actual aim of the supra-local audit is to identify administrative actions which are inadequate in meeting material, legal or economy requirements, and to take steps to ensure that the results and the procedures are adjusted in line with requirements, that financial disadvantages are made good and that, above all, the necessary conclusions are drawn for the future so that the results of the work can be improved and tasks can be fulfilled in a more economical and effective manner. The Court of Audit identifies one important aspect of the supra-local audit in providing advice for administrations and in offering them assistance to allow them to fulfil their duties more efficiently. In this way, the in-depth knowledge of the subject and the wide range of experience accumulated by auditors in the course of their local investigations into the various administrations can be usefully exploited.

# Court of Audit of Rhineland-Palatinate

## Audit of the Financial and Performance Management of the City of Pirmasens

Reference: 6-7206  
Speyer, 20 August 2001

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## 1. General points

On the basis of Article 110 Paragraph 4 of the Local Government Act (*Gemeindeordnung, GemO*), in conjunction with Article 111 Paragraph 1 of the budgetary regulations of the Land (*Landeshaushaltsordnung, LHO*), the Court of Audit of Rhineland-Palatinate audited the financial and performance management of the town. The audit covered the years 1996 to 1999 and was restricted basically to the Social Welfare, Women' and Senior Citizens' Office and the Youth Welfare Office. The focus was on the activities carried out in recent times.

The audit was directed by *Ltd. Ministerialrat Götz. Ministerialrat Knierim, Oberrechnungsrat Keller, Oberrechnungsrätin Schulz and Rechnungsrat Flick* were entrusted with the carrying-out of investigations.

Their field work was carried out between August 1999 and March 2000, with some interruptions.

No cash audit of the town treasury was effected. The Municipal Inspection Office last audited the town treasury on 17 September 1999. At that time, no significant concerns arose.

The local audit (Article 110 Paragraph 1 GemO) was carried out to the inclusion of the budget year 1998, and formal discharge had been issued by the town council (Article 114 Paragraph 1 GemO).

On 8 February 2001, the Court of Audit passed on the draft of the audit report. With its letters dated 2 April and 11 May 2001, the town council provided its response. In addition, on 28 May 2001, the findings were addressed in the course of a final discussion. The administration's comments are presented in italics in the audit report.

The comments on budget planning and accounting results and those on financial capacity were updated on the basis of the accounting results for 2000 and the details of the budget for 2001.

Identified deficiencies which had already been made good by the administration in the course of the local investigations or on the basis of



the draft of the audit report and observations of no great significance – in respect of which it can be anticipated that they will be dealt with subsequent to the final discussion – are not included in the final audit report.

Where errors in administrative activities have resulted in damages for the town, a note – normally in simplified form – is inserted in the audit report indicating the necessity for compensatory payments. In these cases, the legal opportunities for providing compensation must be checked (including demanding refund, liability of the responsible parties, claiming on professional indemnity insurance) and the claims of the town must be pursued.

On 30 June 2000, the town had 45,355 inhabitants. In comparison with 30 June 1996, the number of inhabitants had fallen by 2495 (-5.2%)<sup>1</sup>.

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<sup>1</sup> Over the same period, the number of inhabitants in the Rhineland Palatinate increased by 1.1%.

## 2. Significant results of the audit

### 2.1 Financial situation and financial management

The financial strength of the town (including rate support grants) fell in comparison with the years 1996 and 1999 by 162 DM to 1521 DM per inhabitant. Most recently, it was 48 DM per inhabitant below the average for the Land<sup>2</sup>.

The rates of assessment of property tax A and trade tax were in all of the years below the average values (most recently by 6 and 20 percentage points). The rate at which property tax B was raised has been greater than the comparative value since 1998 (most recently by 4 percentage points).

Tax revenues and the above-average rate support grants stood most recently at 1624 DM per inhabitant, representing a level of financial resources 114 DM per inhabitant below average. Of the 12 off-county towns, Pirmasens achieved the lowest level of tax revenue (net) per inhabitant, and with its revenue from taxes and rate support grants, it was placed tenth.

Its budgets and budget accounts were not balanced. The shortfall required to balance the accounts in the administrative budget on an annual basis lays between 15.8 (1996) and 44 million DM (2000). The budget for 2001 indicates a shortfall of 50.3 million DM.

According to the estimates and outturns, capital budgets were balanced. Expenditure, between 1996 and 2000 amounting to a total of 161.6 million DM, were financed as follows: 39.5% from the town's own resources, 39% from grants, and 21.5% from borrowing arrangements.

Annually, the current account displayed shortfalls of between 4.8 and 26.2 million DM, amounting to a total of 88 million DM over the period audited. In the audit period, interest and redemption obligations were not in line with the long-term financial capacity of the town.

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<sup>2</sup> Average of off-county municipalities with autonomous administration and less than 50,000 inhabitants (Zweibrücken, Landau, Pirmasens, Frankenthal and Speyer). The figures for the comparison are taken from the financial statistics manuals.

No realistic forecast of the period of time which may be necessary until the budget is brought back into balance can be made.

The level of indebtedness of the town (without municipal companies and establishments) rose between the end of 1995 and the end of 2000 from 103.4 million DM (2132 DM per inhabitant) to 107.6 million DM per inhabitant (2373 DM per inhabitant). In comparison with the other off-county towns, most recently the town was placed sixth in terms of indebtedness per inhabitant (average 2755 DM per inhabitant, highest figure 3978 DM per inhabitant). Most recently, the debts of municipal companies and establishments amounted to 146.5 million DM.

The financial plan will not be balanced through to 2004. Expenditure of between 86 and 121 million DM is not financed.

The plan for 2001 through to 2004 envisages investments and investment promotion measures amounting to 82.4 million DM which are to be financed by grants and subsidies of 32.5 million DM (39%), taking out new loans of 21.9 million DM (27%), contributions of 12 million DM (15%) and other municipal resources of 16 million DM (19%).

Considerable risks exist in respect of the estimated grants and subsidies. In addition, account must be taken of the financial effects arising out of tax reform and compensatory family allowances. The development of interest rates represents a further risk for future budgets and must not be underestimated.

The town's efforts must continue to be directed primarily towards consolidation of the budget. It is essential for consumption expenditure and, in the immediate future, expenditure on investment, to be restricted to expenditure to which there can be no objection, and for all opportunities for improving current income to be fully exploited.

## 2.2 Administrative organisation

With 26 organisational units at individual office level, the administration is over-structured.

The allocation of tasks in the Social Welfare, Women' and Senior Citizens' Office was, in some areas, inappropriate.

## 2.3 Personnel and staffing schedule

The staffing level in the Municipal Inspection Office is higher than in the comparable off-county towns.

The "Job Exchange" model project gives rise to an additional requirement for staffing for the Social Welfare, Women' and Senior Citizens' Office. Over the medium term, the extra financial outlay should be balanced out by the development of case numbers and the reduction of social assistance payments.

Time-based spare capacity exists in the "Maintenance Office" of the Youth Welfare Office.

In the 2000 staffing schedule, no posts were shown for a number of employees not employed on a temporary basis only. Unoccupied posts were retained, although there were no duties assigned to these posts. Full-time and part-time positions were occupied contrary to regulations.

## 2.4 Findings on administrative action

### 2.4.1 Municipal Inspection Office

Cash desk and payment-point audits were not carried out to the prescribed extent.

### 2.4.2 Schools Administration Office

The available opportunities for energy saving were not adequately exploited.

#### 2.4.3 Social Welfare, Women' and Senior Citizens' Office

In respect of young people having reached the adult age, the available opportunities for self-help were not checked out.

Significant procedures and items of evidence were missing from the assistance files.

Maintenance checks were not carried out, or were not updated for years at a time.

Accommodation costs were excessive.

Heating and ancillary costs were accepted without checking.

The financial circumstances of those in receipt of assistance were not thoroughly checked out.

Income was not offset against assistance.

No refund of expenditure was demanded from heirs.

The care requirement for those in receipt of assistance in terms of subsistence and care within establishments must be determined afresh.

In individual cases, excessively high residential care payments were made.

The proper use of cash sums was only checked in isolated cases.

Contributions towards costs were set either not at all or at too low a level.

#### 2.4.4 Youth Welfare Office

Due to technical problems, a higher level of maintenance expenditure exists in relation to data processing.

The material costs paid for day-care groups are too high.

Parents' contributions towards nursery care do not cover the intended proportion of staffing costs.

The expenditure associated with the cleaning of nursery premises could be reduced.

#### 2.4.5 Auditing of Annual Accounts

For the exercise of auditing the annual accounts for 1998 in respect of total expenditure of 249 million DM and a shortfall of 36 million DM, the parliamentary audit committee devoted no more than 65 minutes time.