



Activity of the Court of Audit during the coronavirus pandemic in Saxony

EURORAI-Seminar on 5 November 2021



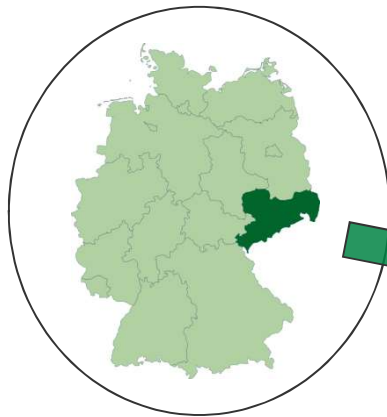
President retd. Prof. Dr. Karl-Heinz Binus



AGENDA

- The Saxony Court of Audit
- Activity of the Court of Audit during the coronavirus pandemic
- Statement of the Court of Audit on the Act
- Hearing procedure at the Court of Audit
- Accompanying Audits
- Financial debt of the Free State of Saxony
- Ban on new borrowing in Saxony
- Conclusion

Free State of Saxony – General map



4 million inhabitants,
18,400 km²

capital city: Dresden,
541,000 inhabitants

Source – Map of Saxony: www.landesvermessung.sachsen.de, published by: Saxon state office for survey and geoinformation

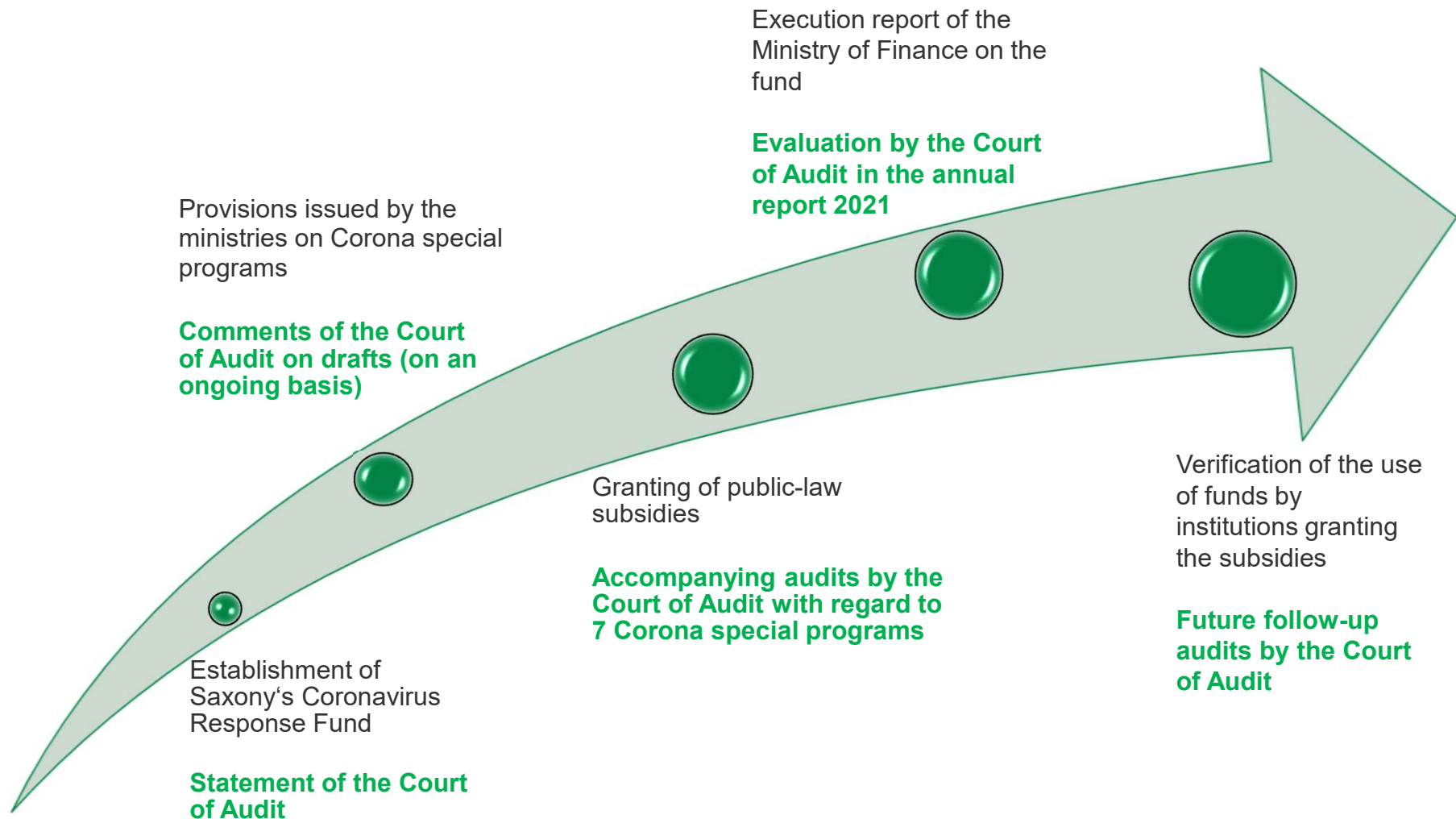
Source – Map of Germany: https://de.wikipedia.org/wiki/Datei:Deutschland_Lage_von_Sachsen.svg, own illustration

The Saxony Court of Audit

- 1707 Foundation of the Saxon Higher Court of Audit
- 1991 New establishment of the Court of Audit
- About 250 employees
- Audit volume of public financial management of around €20 billion per year
- Around 1,000 municipalities, counties, municipal enterprises, audit volume approx. €1.8 billion per year
- 3 audit departments auditing the business areas of the ministries and 1 audit department with responsibility for the supra-local municipal audit (audit cycle 5 years)



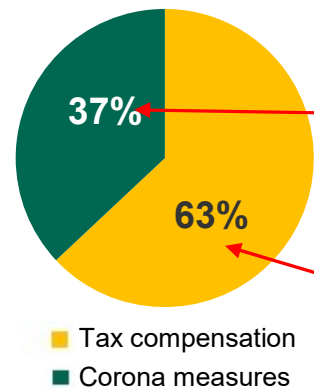
Activity of the Court of Audit during the coronavirus pandemic



Statement of the Court of Audit on the Act

Key figures concerning “Saxony’s Coronavirus Response Fund”

- Established by law on 9 April 2020, along with the supplementary budget
- Funded by the State to the amount of €6.7 billion
- Revenue from the federal budget and the EU planned for Corona measures
- Borrowing by the fund up to €6 billion possible
- As legally dependent separate assets, the fund is managed by the Saxon Ministry of Finance.



- Fund objectives:** Financing of public actions to address the impact and prevent further losses of the coronavirus pandemic
- Legal fund volume planned for:
 - Immediate Corona measures as well as administrative expenditure related to their execution of **€2.5 billion** and
 - Compensation for shortfalls in tax revenues **up to €4.2 billion**
- Transfer of funds inter alia through Corona special programs directly from the fund to recipients

Statement on the Act

Critical points

- The Court of Audit expressed its concerns about the Act in a statement on 7 April 2020.
- Criticism:
 - Approximate estimate of funding requirements, not resilient
 - Generally formulated definition of the purpose of the Fund
 - Incorrect compensation for reduced tax revenues in 2021
 - By involving the budget and finance committee of the parliament in the execution of the Fund mixing of executive and legislative competence



Hearing procedure at the Court of Audit

Course of action and Criticisms



Since March 2020 –
Hearing of the Court of Audit
on more than 24 Corona special
programs
(with their amendments)



- Involvement of all audit departments
- Statement of the Court of Audit on each of the special programs
- In addition, aggregated statement with general remarks



Criticisms, inter alia:

- Grants awarded for reasons of equity,
- Priority allocation of state funds,
- Wide range of subsidies and assessment bases,
- Lack of verification and accountability obligations in the funding procedure

Accompanying Audits

General Introduction

- The Court of Audit timely audited 7 Corona special programs to minimize the occurrence of risks to Saxony's budget; these included among others:
 - Measures for the cultural sector,
 - Immediate assistance loans to companies,
 - Equitable assistance for institutions of continuous education,
 - Immediate assistance for social organizations and
 - Immediate assistance for sports clubs.



Accompanying Audits

Current audit findings on Corona measures

- Priority of funding through "Saxony's Coronavirus Response Fund" - Compensation for reduced tax revenues
- Only 37% for measures to deal directly with the coronavirus pandemic
- Fund resources for measures to cope with the coronavirus pandemic fully committed after one year
- Executive pressure to act often detrimental to accuracy
- Actual needs insufficiently recorded, without necessary plausibility check
- Only limited follow-up audits, so misuse of funds and overcompensation cannot be avoided
- Insufficiently based on existing funding systems

Accompanying Audits

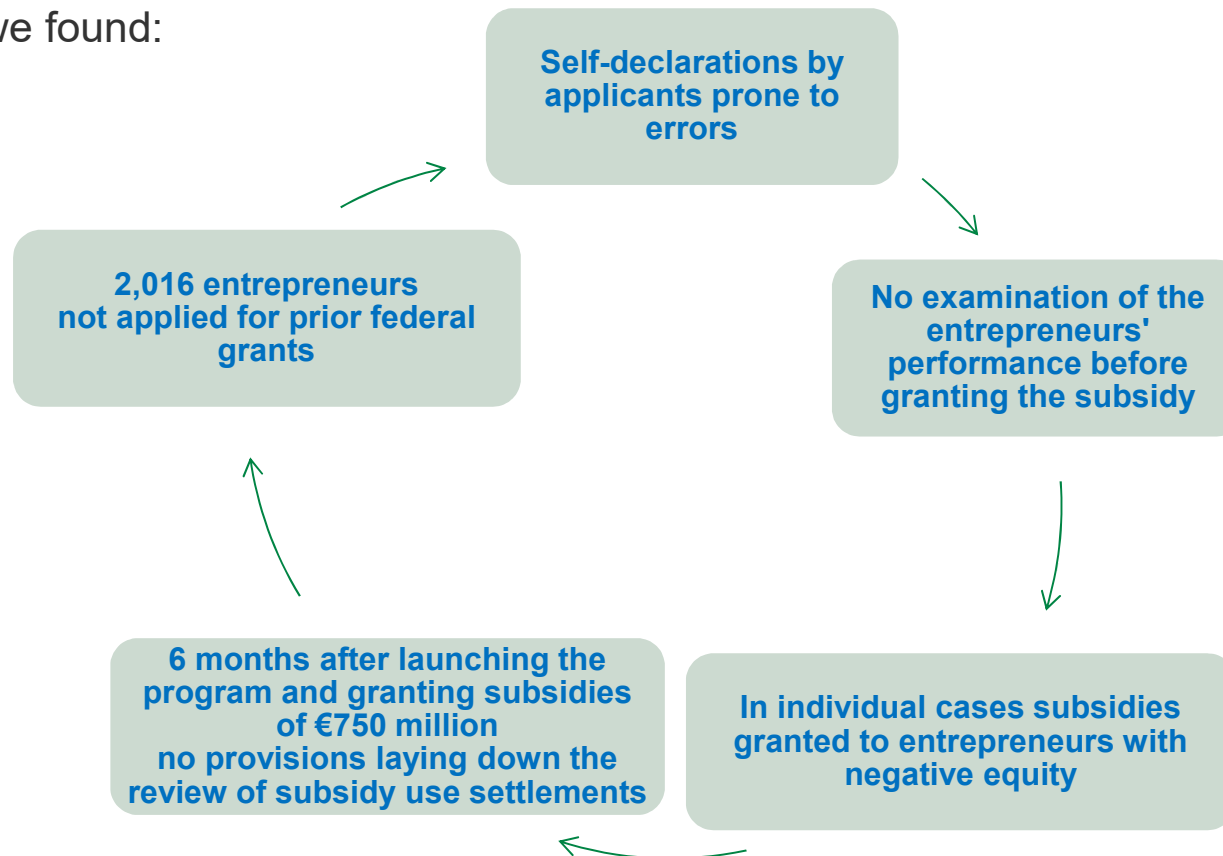
Current audit findings on Corona measures

- Efficient co-financing procedures with audits defined from the beginning: Proof of loan use and advance misuse control necessary
- Loss of revenue not clearly and conclusively defined
- Financial assistance disbursed often not checked for necessity and appropriateness neither in advance nor afterwards
- Consistent definition of liquidity shortage was missing
- Financial assistance also paid to institutions not facing a financial threat
- Control based solely on self-declarations, both in application review and in review of the subsidy use settlement, is not sufficient to reduce potential risks of misuse of funds
- Granting of immediate assistance not justified in many cases

Accompanying Audits

Example: Immediate assistance loans to companies

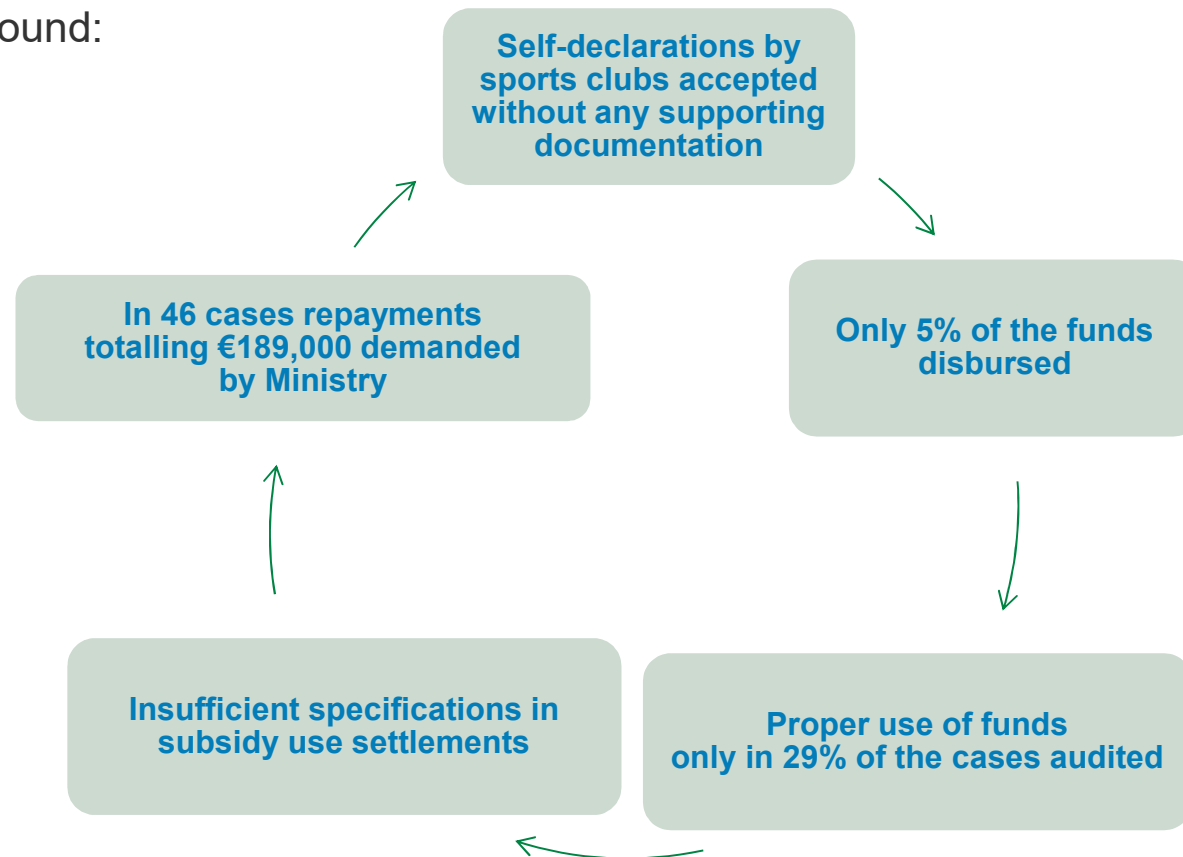
What we found:



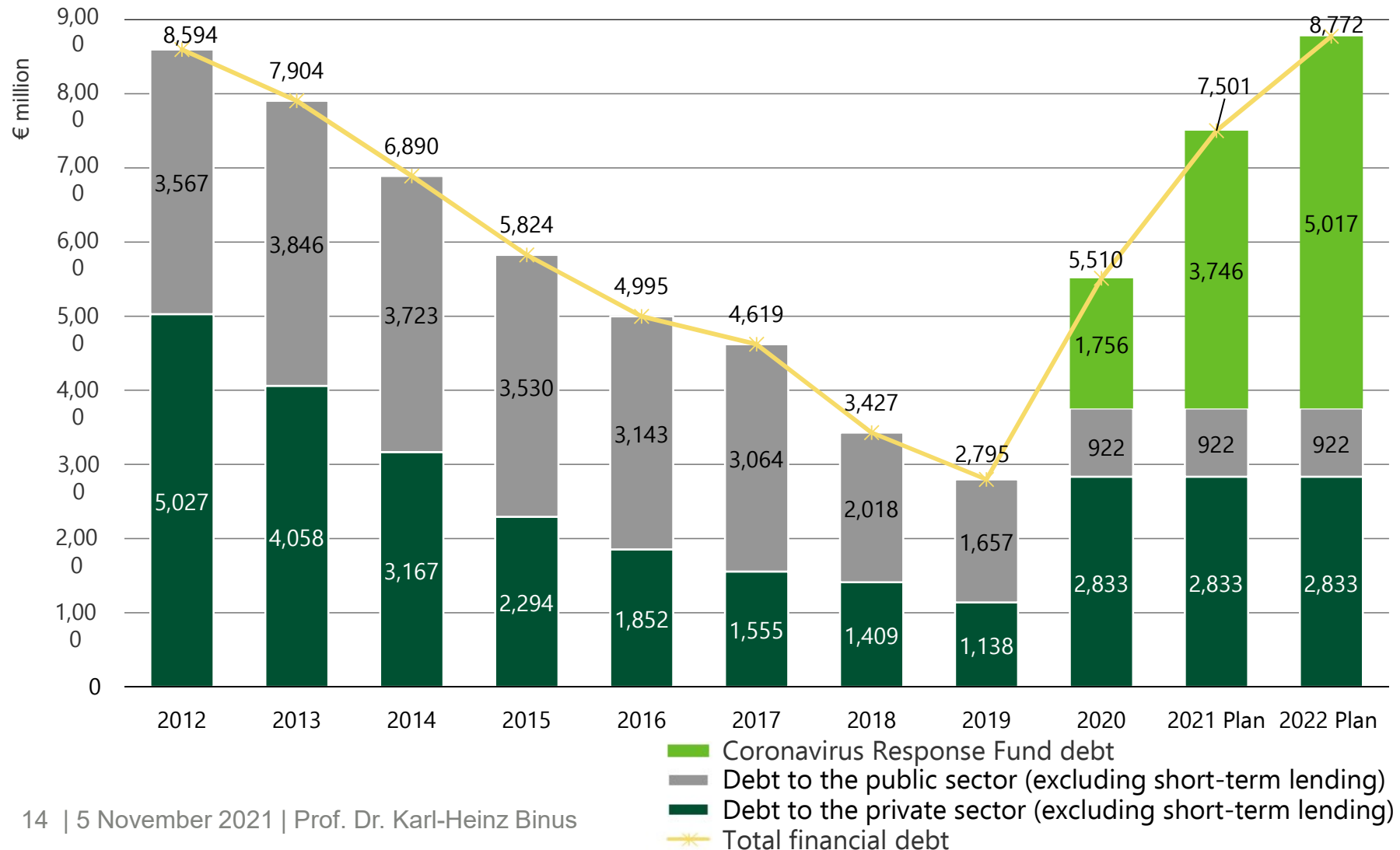
Accompanying Audits

Example: Immediate assistance for sports clubs

What we found:



Financial debt of the Free State of Saxony



Increasing financial debt will place a burden on future generations

2022: €8.8 billion

2019: €2.8 billion



Ban on new borrowing in Saxony

- The Constitution of Saxony provides for redemption within 8 years
- Redemption period under discussion at Coronavirus Response Fund
- Recommendations from the scientific community: extending to 20 years
- Other countries with periods ranging from 3 to 50 years

- **The Court of Audit strongly opposes stretching the redemption period**
- Discussion was set in progress without the regulation being able to prove itself in the constitution
- 8 years as an appropriate solution between the medium-term and long-term period and determined by the constitutional legislator in 2013
- Short timeline tempers the spending patterns related to the short legislative period
- **Burden on future generations should be avoided**

Conclusion

- Up to now, the Saxony Court of Audit has been involved in a wide range of activities:
 - as an advisor (with statement on the Establishment Act)
 - as a participator (hearing on Corona special programs)
 - as an auditor (accompanying timely audits)
 - as an observer (taking note of reports on execution)

Further audits of Corona programs foreseen in the future





Thank you for your attention!

