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"Accompanying audit of the Court of Audit of Saxony for the purposes of implementing the modernisation of administration within local authorities"

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1 The problem

Local administrations are faced with far-reaching and in some cases fundamental changes. The current reform process is linked to the following requirements:

- greater flexibility in how local affairs are dealt with;
- streamlining administration;
- greater efficiency and effectiveness;
- greater transparency;
- relaxing traditional forms of responsibility;
- decentralisation;
- privatisation;
- citizen-friendly administrative activities;
- demarcation of responsibilities between "politics" and administration.

Within this process of reform, the Court of Audit of Saxony (SRH) sees its primary task as that of providing advice and accompanying support. Both local administrations as well as the legislative and regulatory bodies should receive support for the pending reform measures, this support specifically to take the form of recommendations on the implementation of reform measures.

2 Auditing methods and setting limits to the audit

Accordingly, in order to develop practical hints and aids to decision-making within the reform process, an accompanying audit was carried out as part of this reform process, the results of which were made available to a wide public in the form of what was termed an Advisory Statement from the Court of Audit. Recommended approaches were represented in concrete form by means of examples such as a model guiding principle, model contract and model job descriptions. Checklists for the individual aspects of the reform process - e.g. the guiding principle, products, contracts - are intended for the use of local administrations for self-controlling purposes within the implementation process. At the same time, areas for decision-making are identified for the further reform process, calling for a response from the legislative and regulatory bodies or as an essential aspect of ensuring that the process continues and to provide a basis of legal security for local authorities.

The Advisory Statement is based on findings from surveys of the actual situation in 1999 and 2002 in 50 local authorities and from audits accompanying the reform process in seven local authorities, carried out over the period from 1999 to 2002.

This paper will contain a number of statements on procedures relating to auditing measures, on the status of administrative modernisation in local authorities in Saxony and on the areas for decision-making within the further reform process regarded as relevant from the point of view of the Court of Audit of Saxony. The subject of the paper is not the information and recommendations which have been collected on the individual aspects:

- financial management,
- capital assets,
- participation management,
- project management,
- guiding principle,
- personnel management,
- organisation,
- the application of information and communications technology,
- product creation,
- cost and performance accounting,
- budgeting,
- controlling,
- the responsibility and commitment of the citizen,
- contract management.

The surveys of the current situation (1999, 2002) took place in:

- 8 counties (local administrative districts having legal status, which are in turn divided into municipalities)
- 7 off-county municipalities (large cities) with autonomous administration,
- 10 county municipalities (small cities or towns) with between 10,001 and 100,000 inhabitants which are part of a district and
- 25 county municipalities (towns or villages) with between 3,000 to 10,000 inhabitants which are part of a district.

The survey concentrated on the following aspects:

- implementation status,
- reasons and targets,
- modernisation scope,
- basic principles and preconditions, and
- problems and obstacles.

The selection of the local authorities for the accompanying audit was made on the basis of an application procedure. A corresponding invitation was published in the members' journal for the *Städte- und Gemeindetages* (Council of Towns, Cities and Municipalities), being extended to all counties, towns and cities and municipalities. 11 local authorities applied. An intensive audit at local level was carried out for:

- 2 counties,
- 3 large towns as the administrative centre of local administrative districts and
- 2 county municipalities which are part of a district.

The audits related exclusively to those areas of administration included in the modernisation of administration being worked towards or already implemented. Studies of the financial situation were also carried out. In order to provide a concrete context for the already existing information on the current situation, structured questionnaire sheets were produced for the following topic groups and dealt with in all 11 local authorities before the local surveys were commenced:

- financial data,
- financial management and personnel matters,
- the basic principles and preconditions for administrative modernisation,
- elements of new steering instruments.

Important preconditions for the audit were a systematic approach and, above all, a comparison of the involved local authorities. In this way, the areas on which the audit was concentrated - until now based mainly on theoretical basic principles - could then be confirmed in accordance with the status of the reform process within local authorities in Saxony. The following subject groups were created for the accompanying audits, with a separate questionnaire sheet being produced for each one:

- financial data, budgeting and personnel;
- project organisation/project implementation;
- guiding principle;
- the use of information technology;
- product creation;
- budgeting/decentralised responsibility for resources and results;
- cost and performance accounting (CPA);
- controlling and reporting (including participation management);
- citizen friendliness;
- contract management;
- requirements on the body issuing standards.

For each main aspect of the audit, a contact was identified for the Court of Audit of Saxony within the individual local administration, with work being undertaken on the declared auditing project with the support of this person. This process was consciously geared towards

co-operative action. Each local authority audited as part of the exercise received an audit report with recommendations for the further process of reform.

For the purposes of coordinating and steering this advisory activity, the Court of Audit set up a working group. It consisted of representatives of the Council of Towns, Cities and Municipalities of Saxony, the Council of Counties of Saxony and from the "Kommunale Verwaltungsmodernisierung Sachsen" (Modernisation of Local Government in Saxony) project. The procedures applied and results obtained from the audits and the drafting of the Advisory Statement were regularly discussed within this working group. At greater intervals, the 11 local authorities which had applied for an accompanying audit were involved in these consultations. In the final phase of the project, a process of discussion and agreement took place with the Saxony State Interior and Finance Ministries.

In the first instance, the accompanying audit included surveys and a comparison of the status of administrative modernisation within local authorities in Saxony in the years 1999 and 2002. It then went on to examine basic aspects within the reform process and recommendations on action in respect of individual steering instruments. The related evaluation to ensure that the results produced were easier to read and provided better guidance within the Advisory Statement was applied basically as follows:

- introduction,
- findings from the accompanying audit,
- targets set,
- internal and external factors,
- hints and recommendations,
- special aspects for smaller municipalities.

Checklists and sample terms of reference were appended as annexes along with model examples. The text contained references to a glossary in the appended section.

The entire auditing process took place in a phase-based form over five separate phases of auditing.

3 The current situation within the local authorities in Saxony

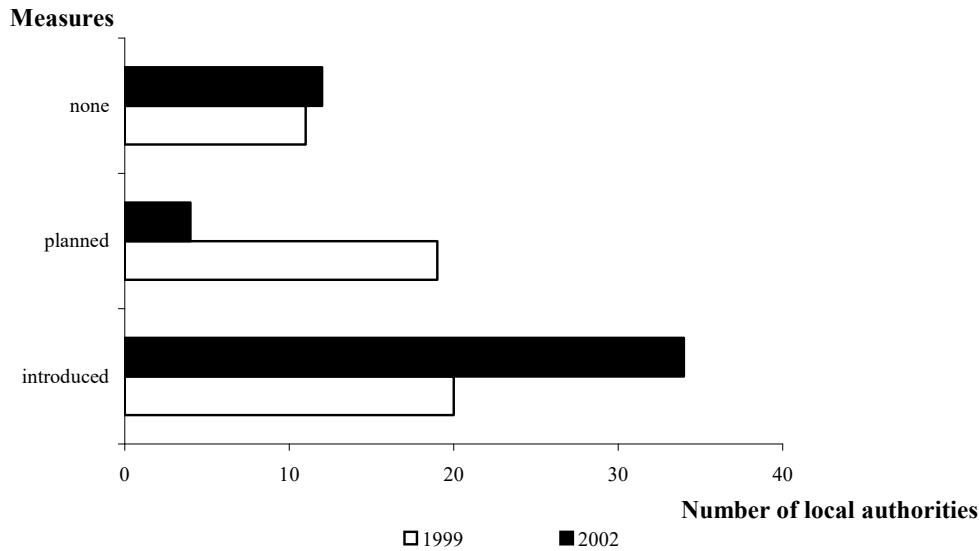
3.1 Status of implementation of administrative modernisation

Within local authorities in Saxony, the degree to which administrative modernisation measures have been implemented has increased distinctly. In 2002, there were concrete measures being applied in a large number of local authorities, although the introduction of new steering instruments had been simply an intention in 1999.

The proportion of local authorities with concrete measures in place increased from 40% (1999) to approximately 70% (2002). By way of contrast, the proportion of local authorities with no measures being planned or implemented remained practically constant at around 20%.

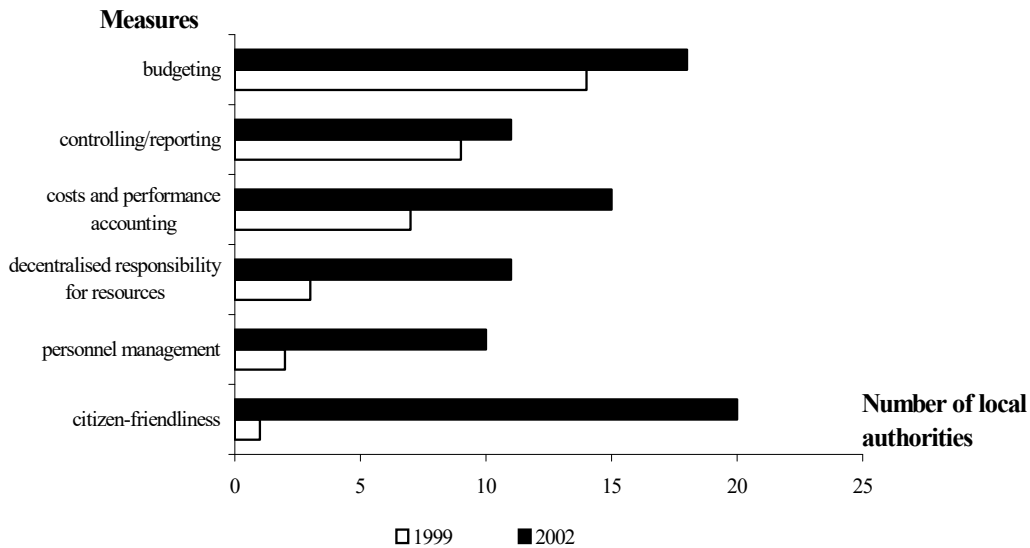
The introduction of new steering instruments developed as follows:

Modernisation measures



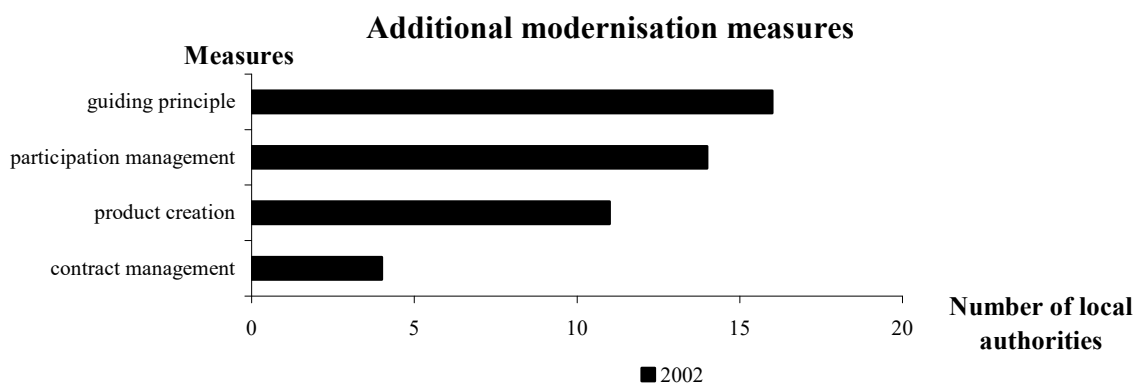
The individual activities in the modernisation process within local authorities can be presented as follows:

Introduction of individual modernisation measures

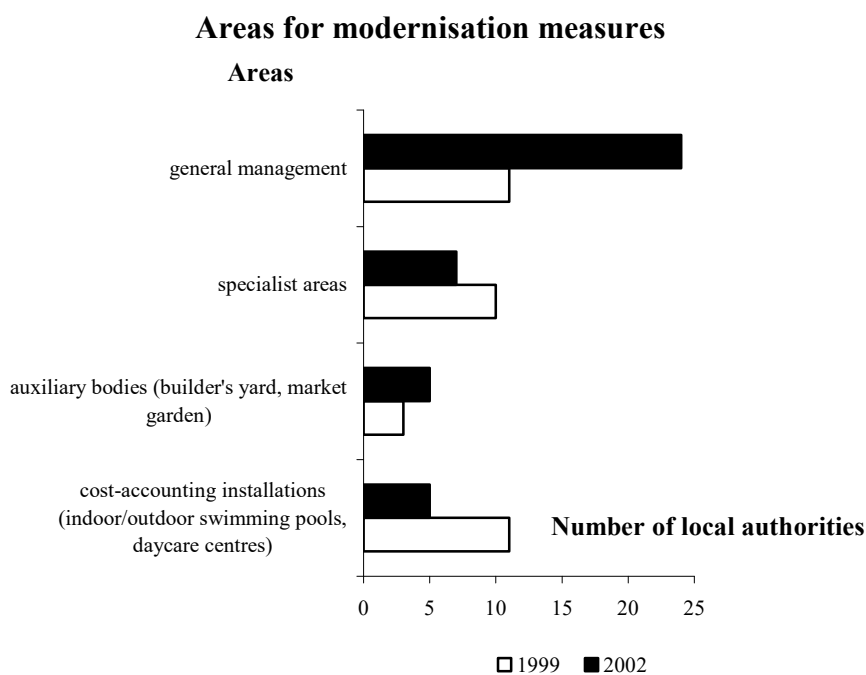


In 2002, as in 1999, budgeting was implemented by the majority of local authorities (2002: approximately 53%) in the reform process. In 2002, it was above all citizen-friendliness (2002: approximately 59%) and cost and performance accounting (2002: approximately 44%) which were indicated to a greater extent as elements for reform.

In addition, in 2002 the guiding principle (approximately 47%), participation management (approximately 41%) and product creation (approximately 32%) were indicated by the local authorities. A subordinate role was identified for contract management between the council and management of the administration (approximately 12%).



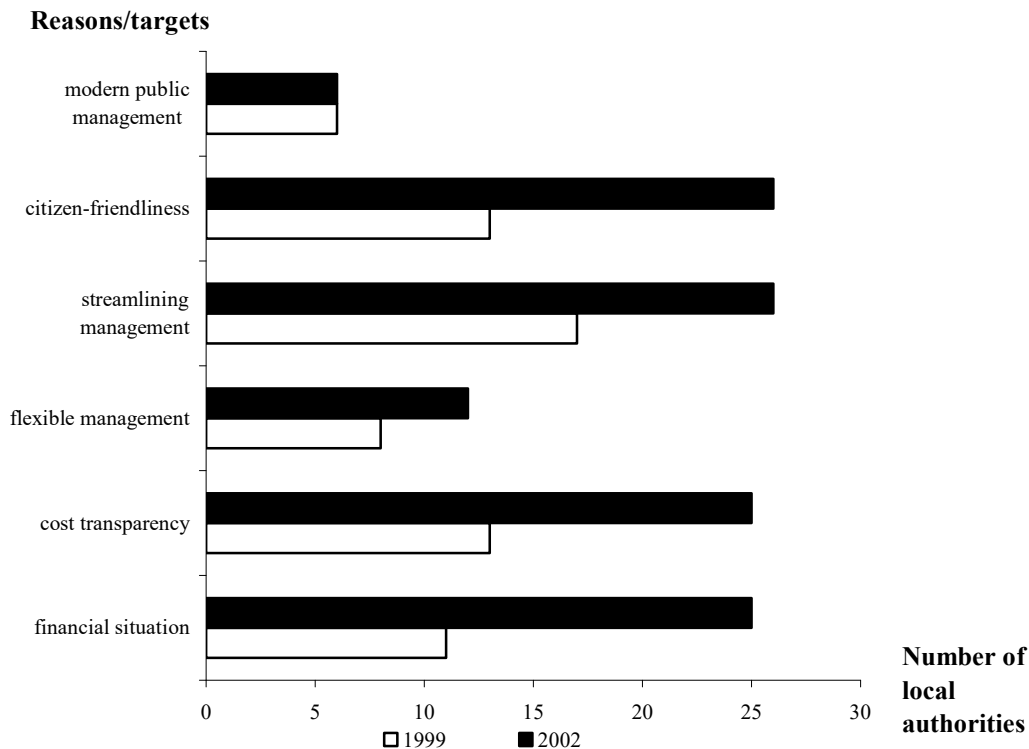
In 2002, compared with 1999 modernisation measures increasingly related to the entire administration:



3.2 Targets for the modernisation process

For most of the local authorities (2002: approximately 75%) the main reasons were the tight financial situation, cost transparency, improved citizen-friendliness and streamlining of the administration, while in 1999 the streamlining of administration was still the dominating factor.

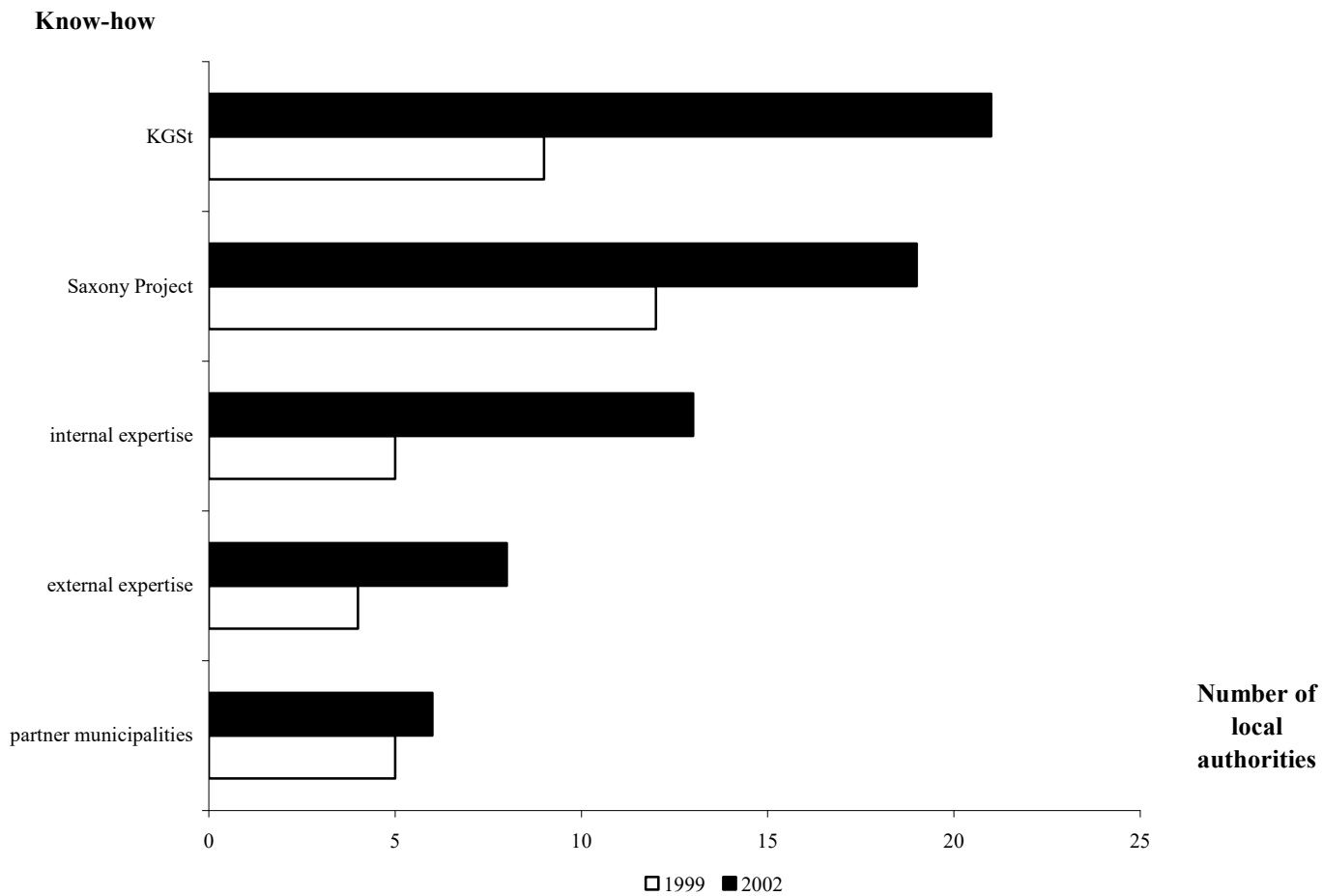
Reasons and targets for the modernisation process



3.3 Orientation aids in identifying targets, accompanying and supporting implementation

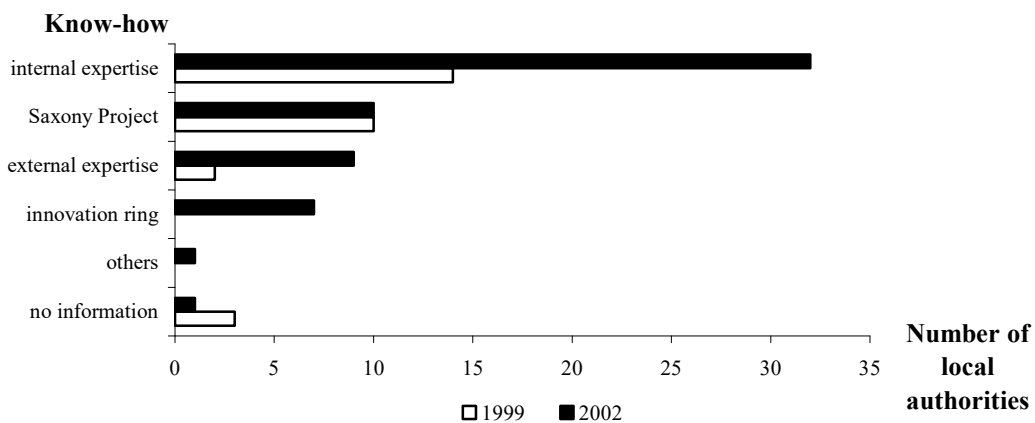
In **identifying targets** (1999 and 2002), a large number of local authorities referred to theoretical and practical knowledge, hints and recommendations from, for example, the **Kommunale Gemeinschaftsstelle für Verwaltungsvereinfachung Köln** (Municipal Community Office for Simplification of Administration of Cologne) or from the **"Kommunale Verwaltungsmodernisierung Sachsen"** (Modernisation of Municipal Administration in Saxony) project, when determining the direction for their approach. Extensive use was made of external expertise.

Orientation aids for identifying targets and planning



In the **implementation** of new steering instruments, use was made of **internal expertise** in most local authorities.

Accompaniment/ support



3.4 Preconditions for the modernisation process

In 1999, and even 2002, a large number of basic principles and prerequisites for the reform process had not yet been put in place by the local authorities already implementing reform measures. This meant that **for 25% (1999) and 21% (2002) of local authorities, there were no written concepts or regulatory provisions** in place on the introduction of administrative modernisation.

Nor were the required conditions in terms of information technology created in all cases. Accordingly, within local authorities **these conditions were missing for 30% (1999)** and this figure was still **24% in the year 2002**. Similarly, **no go-ahead had been given by 24%** for the production of a **concept for the application of information technology** in the year **2002**.

Of a large proportion of the local authorities already practising the introduction of new steering instruments in 2002, **71%** are of the opinion that the **expectations** associated with administrative modernisation **have been fulfilled**.

The individual successes of the modernisation process were in many cases evaluated similarly. Accordingly, **65% of local authorities indicated an increase in awareness of costs among staff** and **50% of local authorities reported savings in expenditure** (e.g. material and personnel expenditure), **improved citizen-friendliness/customer-orientation** and **increased cost transparency**.

Significantly fewer local authorities (38%) identified **an improvement in internal procedures**.

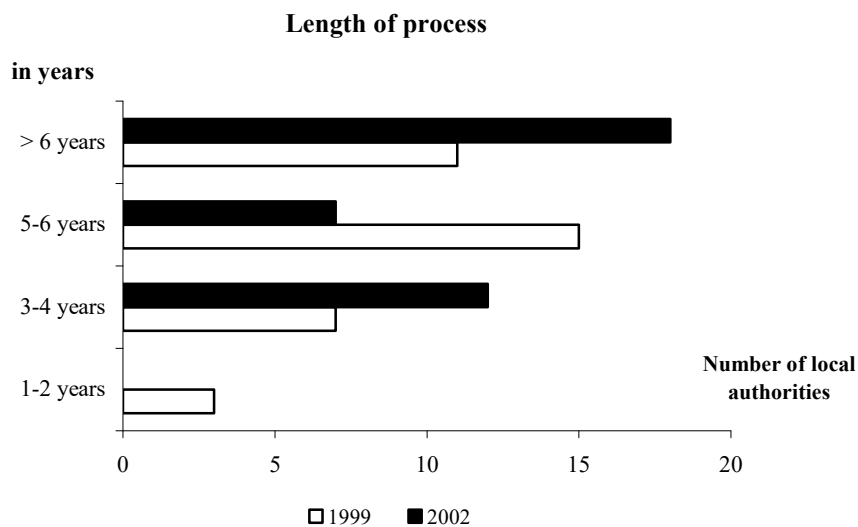
The **monetary expenditure** to date for implementation of the modernisation process **could not be quantified** by most local authorities. Among the comments made was that the process of introducing new steering instruments was protracted in its form. As a result, successes are not immediately evident and are also difficult to measure.

3.5 Problems and obstacles, length of implementation process

Those local authorities planning or implementing measures reported a large number of significant problems or obstacles in the implementation of new steering instruments. In **1999 and 2002**, the situation was dominated above all by **rigid legal framework conditions**. **In addition, in 2002, the legal regulatory provisions covering civil servants, service and employment also had an effect**, being identified to the same degree as the problem areas:

1999 %	Problems and obstacles	2002 %
14	poor acceptance among employees	21
4	poor acceptance in the political sphere	11
38	pressure to consolidate budgets and modernise administration	42
46 ↘	rigid legal peripheral conditions (municipal and budget law)	↘ 50
16	lack of qualifications among staff	21
20	lack of necessary IT conditions	32
28	legal regulations covering civil servants, service and employment	↘ 50

Because of the problems/obstacles still to be overcome and the tight financial situations of the local authorities, these estimate that the **length for implementation** of the 2002 process of reform will be considerably greater in comparison with 1999.



The majority of local authorities are assuming an implementation duration in excess of 5 years. The reform process will require a longer period of time than originally anticipated.

4 Areas for decision-making in the ongoing process of reform

4.1 Basic decisions in terms of budgetary law

In the autumn of 2000 the Conference of Ministers of the Interior decided on a far-reaching reform of the legislation on budgeting for local authorities along two parallel lines of development. As an initial variant, cameralistic accounting is to be further developed with cost and performance accounting playing a distinctly greater role. The second option is setting up an accounting system for local authorities in line with commercial accounting, which would represent a complete change of system.

In some federate states there are already pilot projects being carried out as well as possible implementation variants along a variety of routes (right to choose between double entry and cameralistic accounting, replacement of cameralistic by double entry accounting) being trialled. For the State of Saxony, the decision has still not been taken in this respect, as the corresponding concepts are still under development within the Ministry of the Interior.

Within this context, it must be pointed out that any change of accounting methods will not have any effect in terms of changing the budgetary situation of the local authorities. Any restriction of activities in the field of new management on the restructuring of the external accounting system is not supported by the Court of Audit of Saxony.

Prior to the decision of the legislator on the future system of accounting, the requirements in respect of the financial system must be defined and the following considerations applied:

- What accounting system is in a position to fulfil the enhanced requirements (e.g. presentation of municipal assets and recording the consumption of resources for the given period)?
- With which accounting system can the objectives for the municipal economy (efficiency/economy in the interests of the public good, constant fulfilment of duties, balancing of the budget) be better achieved, once all the pros and cons have been weighed up?
- What financial, organisational and technical expenditure is necessary in order to successfully extend or introduce the preferred system of accounting?
- What outlays arise in terms of work? Is it certain that local government duties can be fulfilled or will additional employees be required?
- What software can be used? Has this been adequately tested, does it fulfil all the requirements for local financial management? Does the software supplier occupy a monopoly position?
- What effects in terms of material savings arise (over the medium and long-term) as a result of the selected system of accounting?
- Which elements of administrative modernisation are promoted or hindered by the selected system of bookkeeping with its introduction?
- What burdens arise for the municipalities providing information and what advantages and disadvantages for the users of the financial statistics?
- What other adjustments (e.g. legal and sub-legal regulations, statistics) are necessary?
- What transitional periods must be granted to local authorities?
- What transitional regulations must be applied?
- When will the introductory process be completed in all local authorities?

A costs/benefits analysis should be undertaken as an absolute necessity on the basis of the experiences gained within pilot local communities, including those in other federate states.

As far as the future of public financial management is concerned, the Court of Audit of Saxony attaches greater significance to the necessity of valuating the existing assets (completely or in part), the consumption of resources past and present and, building on this, for example, defining unambiguous requirements for a balanced budget (e.g. regulations for exemptions, dealing with deficiencies), than to the selection of accounting method.

4.2 Valuation of capital assets

The present way in which municipal capital assets is treated is inadequate.

The Court of Audit of Saxony urgently recommends that the treatment of capital assets within the financial management of local authorities should be examined. Clarification must be provided as to whether and how valuation of capital assets should take place in future within the municipal accounting system, and whether and how the erosion of value should be presented as a result of instances of depreciation.

A decision on the complete or partial valuation of capital assets and calculation of depreciation calls for concrete terms of reference and procedural instructions in the form of legal and sub-legal regulations. Accordingly, for example, provisions for the valuation and depreciation of capital assets are, among other things, a precondition for arriving at a

comparable starting basis for the individual local authorities for negotiations on the equitable adjustment of revenues and expenditure between local authorities.

As the Court of Audit of Saxony sees it, the outlay necessary within local authorities for an initial valuation of capital assets is relatively high. Above all, it ties up additional personnel resources for a specific period of time. If the legislator should call for assets to be valued as a binding requirement, whether and how a corresponding financial offset is to be provided must be examined.

4.3 Cost and performance accounting - internal accounting

Due to the existing close connections with the other elements of reform, the introduction of cost and performance accounting has become a much discussed topic of central importance. It assumes a series of reform elements (e.g. products, the valuation of capital assets), and is itself a precondition for further elements of reform (e.g. contract management, output-oriented budgeting).

If a decision is made to introduce cost and performance accounting, then in this connection it is essential that stipulations must be fixed for, among other things, the aspects of valuing capital assets, presenting these capital assets in the budget, presenting the budget plan and the annual accounts, as well as output-oriented budgeting. The current presentation of the budget plan and the annual accounts on the basis of classification and grouping numbers will no longer be appropriate, if cost and performance accounting is decided on. Consequently, the presentation on the basis of products becomes appropriate. The binding introduction of a budget plan prepared on the basis of products, would have to take place in this connection, also in respect of its suitability for approval. Building on the basis of the existing framework product plan for Saxony, terms of reference for all local authorities in Saxony would be logical, at least for product groups and areas.

The legislative and regulatory bodies should decide on the following topics:

- the introduction of cost and performance accounting (yes, no, optional),
- the valuation of capital assets including stipulating depreciation methods,
- dealing with capital assets within the budget,
- product-oriented budget planning (depending on the introduction of cost and performance accounting) and
- output-oriented budgeting (depending on the introduction of cost and performance accounting).

It lies within the responsibility of the legislative and regulatory bodies to provide planning and legal security for local authorities as rapidly as possible, within the context of the introduction of cost and performance accounting. Otherwise, the process of reform will be unnecessarily jeopardised.

In determining the new steering instruments to be introduced, an appropriate relationship between cost and benefit must be guaranteed.

Within the reform process, it is imperative that local authorities are given state support.

4.4 Modification of the budgetary law currently in force

Until the implementation of basic decisions in terms of budgetary law, the budgetary legislation currently in force should be subject to logical and consistent further development.

Due to the multi-faceted problems of the local authorities identified in the course of audits in terms of producing a capital account, the legislators should give consideration to issuing explanatory comments on asset accounting in the form of administrative instructions or the like.

It is also recommended that administrative provisions or the like should be issued dealing with the production of evidence of assets for cost accounting bodies.

4.5 Further comments

For the purposes of administrative activities at a level above that of the individual authority, the e-government solutions of individual administrations require coordination. By means of a municipal data network it would be possible to create a basic condition for digital procedural processing and joint access to data records of local authorities among themselves. Furthermore, it is possible to envisage solutions between local government, ministries, administrative regions offices and other subordinated ministerial areas.

With the applicable technical opportunities offered by the Internet, the conditions within the Federate State of Saxony in terms of municipal law and municipal budget law must be examined to identify the extent to which they must be modified in light of the introduction of digital signing.

The developments indicated and the legislation on service and collective bargaining are interrelated. As service regulations develop, the legislator will be increasingly required to provide for suitable remuneration for performance and commitment. In the field of wages and salaries, local authorities can themselves introduce this aspect into negotiations, along with other claims.

5 Final remarks

The change of system resulting from administrative modernisation extends to all areas of local government. Until now, as a basic principle, changes have been possible within the context of the standards in force. Implementation of the further process of reform increasingly calls for modified terms of reference, directives and laws, principally with relation to budgetary law.

The local authorities are expecting the legislative and regulatory bodies issue concrete decisions in material terms and with set dates for, among other things, changes in the system for municipal budgeting and accounting, and to create the preconditions for products to be compared between local authorities.

For the further reform process, a basic requirement is a high degree of autonomy in the administration of local authorities, with an appropriate minimum level of financial resources being provided. Local authorities must have a greater degree of financial security for their planning purposes. Savings hoped for through the modernisation of administration do nothing

to change the necessity for a basic reform of municipal finances. Only if autonomy in administration is secured for local authorities in financial terms, as regulated for in the Constitution, can any comprehensive restructuring of local administrations be successful.

In accordance with the principle of connectivity, the state must provide the necessary financial resources to allow tasks to be fulfilled when new obligations are imposed on local government units, existing obligations are considerably extended or standards are raised. This also applies when, due to legal regulations, what have in the past been voluntary tasks are then rendered obligatory.

At present, in many cases a large proportion of the volume of the municipal budget is tied into obligatory tasks. The capability of local authorities to act is also further hindered by a high degree of regulatory density, the relocation of additional obligatory tasks over to local authorities, and a high level of influence being exerted by the setting of priorities within local authorities as a result of state grants tied to specific purposes.

As a basic principle, local authorities should be accorded more scope for discretionary action in how they fulfil their duties. Staffing and equipment standards should be examined in all areas of administration to establish how necessary they are in respect of the concrete example, and in justified cases adjusted to reflect local conditions by the municipality's own decision, thus in many cases allowing them to be reduced. The necessary, the desirable and what can be financed should be harmonised more than in the past.

For concrete statements as regards those areas and for those tasks where standards can be lowered, and for which a greater degree of discretion could be granted, an initiative undertaken by the local authority umbrella organisations would be desirable.

Apart from promoting the processes of change within the administration itself, for political bodies a new understanding of political work is necessary. If they are to come more intensively to grips with matters relating to the strategic controlling of local authorities, the burden of detailed aspects of administrative management should be removed from elected representatives. This would see local authority representatives restricting themselves to their core competencies, with the administration acquiring the necessary enhanced scope as required for modernisation, as a result of more clear-cut demarcation of competencies.

As a reflection of the factors exerting an influence on the development of municipal administrations, a change occurs in the requirement for monitoring during the course of administrative modernisation, and at the same time, along with the joint effect on the changes in municipal budgeting and accounting, also on the basis of the ways in which tasks are being fulfilled - in an ever more differentiated manner - and the activities of municipal administrations on the market and with reference to the demand for consultancy services.

Out of this arises the question as to which functions public auditors have already played in the current process of modernisation, and to what extent the working practices of public auditors must change.

The intention behind administrative modernisation, new public management and the steps undertaken by the administration along the way towards increasing effectiveness and efficiency in the fulfilment of their duties result in further typical new problems being posed for monitoring, outlined as follows:

- auditing the administration in respect of fulfilment of its organisational duties. In accordance with the scope of municipal duties and on the basis of the established lack of organisation, carrying out organisational audits on administrations represents a permanent task for the supra-local audit. So carrying out calculations to determine personnel requirements within administrations can be regarded as an important organisational long-term task to be examined by the monitoring body;
- auditing the form and implementation of projects;
- carrying out information and communication analyses;
- auditing newly implemented planning, steering and control procedures.

In these areas, local government audit is increasingly moving away from the role of observation after the event, and taking on an active supporting function in processes of change, thus acquiring the profile of a corporate consultant.