

Accountability and efficiency – two core principles of good administrative action. A case study of the Regional Audit Office

An interview with Christian Koch, ret. Director of the Regional Audit Office Berlin

Christian Koch is a retired Lawyer and Director of the Regional Audit Office Berlin. In this written interview, he explains the responsibilities and competences of the Regional Audit Office Berlin and its contribution to modern public administration. He then outlines the greatest challenges public administrations face today in relation to the principle of efficiency.

The Regional Audit Office Berlin exercises financial control over the public administration of Berlin – however, it is bound by law, not the government. What are the exact responsibilities and competences of the Audit Office?

The Regional Audit Office Berlin audits the revenue and expenditure account and the statement of financial position, as well as the entire budgetary and economic management of Berlin pursuant to Art. 95 Constitution of Berlin (VvB). A very simplified version would be: The Audit Office's audits cover all costs that are or could be incurred by Berlin; there are no areas exempted from the audit.

The audit of the accounts (revenue and expenditure account, statement of financial position) should not be understood as the Audit Office calculating everything again. While this would have been the case before the introduction of information technology (IT), the Audit Office now primarily examines whether the IT procedure is suitable, secure and efficient. Moreover, the Audit Office examines as part of its audit of the budgetary and economic management whether the income and expenditures are properly documented.

That takes us to the two standards for the audit of the budgetary and economic management: regularity, i.e. compliance with laws and other regulations, and efficiency, i.e. a reasonable relation between the purpose pursued and the resources used. The audits focus on efficiency.

In addition to the audit tasks, the Audit Office can also advise the House of Representatives, the Senate, and individual administrations on the basis of its audit experience. This does not require the relevant measure to be audited. It is also entitled to make statements prior to measures of significant financial impact. However, this requires that the Audit Office is informed in due time as prescribed by law.

What measures are in place to ensure that there is no interference with or influence on the work of the audit offices.

Pursuant to Art. 95 VvB, the Audit Office is an independent state authority only subject to the law. This means that neither the House of Representatives, nor the Senate may issue instructions to the Audit Office. In particular, this applies to the addressees, date and object of audits. The House of Representatives and the Senate are only able to submit audit requests to the Audit Office. By law, the Audit Office is entitled to restrict its audits, and to leave areas unaudited.

However, this institutional independence does not suffice. This is why the members of the Audit Office are judicially independent pursuant to Art. 95 VvB, and therefore not bound by instruction. Members include the President, the Vice President and the Directors.

It is not entirely clear if the (regional) audit offices fall under any of the three powers (judicative, legislative, executive), or whether they stand alone, separate from this classification. Does this special status of the audit offices result in a strong position?

The strong position of the audit offices is already provided by the relevant constitution, as I have illustrated for Berlin. Apart from this, it should be noted that an audit office comprises two sections:

The President's Office which is comparable to the central office of other supreme authorities and responsible for internal services – i.e. personnel, legal, budget and administration matters –, as well as policy matters. Thus, this part of the Audit Office does not perform any executive tasks.

The other section is responsible for the Audit Office's core tasks; in particular the audit activities. It is divided into audit units managed by independent members. Key decisions, such as management letters to the audited entities or the completion of an audit, are made cooperatively. In part, this procedure is similar to those employed by the courts of appeal and high courts, only that the Audit Office cannot issue instruction or sanctions to the audited entities.

Thus, the audit offices cannot be classed under any of the three powers of the state in this regard. Due to their role in the 'budgetary cycle' of Parliament and government, the audit offices are said to be at an equal distance from legislative and executive.

How does the Audit Office perform the functions it is allocated? What procedures does it employ?

The audit procedures come first. This includes preparation, performance and conclusion.

Preparation starts with work planning. The audit units define the projects, and coordinate with each other before their final adoption. Audit objects are primarily selected in line with risk considerations, i.e. financial impact, complexity, potential for positive influence or avoidance of areas exempt from audit. Examples include restoration of the state opera, maintenance and repair of the public infrastructure (buildings, streets, parks), organisation of the town halls, real estate management, tax revenue, social welfare contributions and so forth. Sources of information for the selection of audits include decisions made by the administrations or companies, regulations, as well as media reports. Last, but not least, citizens will also often report irregular or inefficient conduct. The Audit Office may also react to current development with significant impact, and carry out an unscheduled audit in such cases.

The audit performance starts with the written notification of the audited administration or company. In particular, this includes: the object, period and scope of the audit, name of the Audit Director and the auditors, as well as a request for preparatory documentation, such as an organisation chart and the allocation of responsibilities. Local enquiries will then commence. The audited entities are legally obliged to furnish the Audit Office with all documentation it deems necessary, and to provide the requested information.

Once the enquiry stage has been completed, the audit findings are analysed. The auditors prepare a draft management letter addressed to the audited entity or a supervisory authority or, if applicable, to other entities. The draft management letter specifies any significant complaints and expectations. The auditors will write an audit opinion on further facts and backgrounds of the draft management letter.

The 'small panel' decides on the draft management letter. It consists of the Audit Director of the audit unit that has performed the audit, and another Audit Director in accordance with the allocation of duties. A small panel must reach a unanimous decision. Otherwise the President will accede to the small panel which then resolves with a majority of votes.

The audited entities and any other addressees of the management letter must issue a statement to the Audit Office within the period set. Insofar as complaints are not resolved or acknowledged, audit letters will be exchanged. As shown in the response to question 3, the Audit Office relies entirely on the strength of its arguments.

If further correspondence is no longer required or unlikely to be effective, the audit may be concluded. This would be the case if the Audit Office's complaints are (substantially) resolved. Again, the small panel decides on the conclusion of the audit.

They may also choose to inform the House of Representatives if the remaining complaints are substantial enough. The standard applied is whether Parliament should know about the relevant facts when resolving the discharge of the Senate, i.e. the government (relevance to discharge). In particular, this applies for inefficient conduct involving significant financial disadvantages and/or material violations of laws or other regulations. The Audit Office generally informs the House of Representatives in its annual report on the audit of the budgetary management and the revenue and expenditure account.

The 'large panel' decides on the annual report and any special reports. This decision is based on the draft contributions and reports submitted by the competent member sent to the audited entities in advance with an opportunity for comment. Once the large panel has discussed and resolved on the annual report, it is submitted to the House of Representatives and simultaneously forwarded to the Senate for comment.

This is followed by the parliamentary procedure. The Main Committee of the House of Representatives refers the annual report to the Subcommittee on Budgetary Control which assesses whether disapprovals should be issued against the Senate and conditions imposed on it, or whether the process is finished. The representatives nearly always adopt the findings and proposals of the Audit Office. The conditions and disapprovals of the House of Representatives are part of its resolution on the discharge of the Senate. The Senate administrations must then report on how they have complied with the disapprovals and conditions. The Audit Office is discharged separately by the House of Representatives.

The submission of the draft budget to the House of Representatives also involves particularities for the Audit Office. While the Audit Office budget is part of its own budget, the Senate must forward the submission to the House of Representatives unchanged and cannot amend it – as would be the case with other partial budgets. The Senate can only notify deviating opinions without amending the Audit Office budget.

The large panel procedures are not limited to reporting to the House of Representatives. It also resolves on material matters of the Audit Office, such as the rules of procedure, the audit regulations and work instruc-

tions. This underpins the Audit Office's position as an independent body of financial control with a cooperative approach.

Modern public administration is a citizen-centred, open and conscientious public service. How can the audit offices contribute to this objective?

The audit offices contribute to it with their audit activities. I cannot imagine regular and efficient conduct without a sense of responsibility. Public administration expenditures – and the audit offices themselves – are financed through taxes, i.e. third-party funds which, ultimately, have been entrusted to them. This is a material difference to companies supporting their business activities with their own funds. Income is important for public administration in this context. The Audit Office checks if such income has been realised on schedule and in full. This is rather difficult for the tax administration, because tax laws are extremely complex. Thus, the Audit Office also reviews how the Senate administration can contribute to easier and better management with its stipulations. Moreover, the Audit Office has repeatedly demanded a simplification of tax laws in its annual reports, and urged the Senate to bring relevant initiatives on federal level. The Audit Office also objects to errors through which the public sector has gained a financial advantage. This is not limited to cases covered by tax law, but also applies to charges and fees raised. In the past, the Audit Office highlighting errors has resulted in significant charge reductions, and therefore a lower burden on the citizens. In that sense, the Audit Office itself has acted in a citizen-centred manner. And being citizen-centred is also important when it comes to organisational audits. Here, the structure and process flows of the public administration or companies are examined for their efficiency, i.e. whether they are simple and free from avoidable costs, such as multiple competences, duplication of effort or unnecessary work steps. This reduces both, the financial and time investment. Citizens benefit from both.

Transparent and therefore open conduct and procedures of the entities is crucial for the performance of proper audits by the audit offices. Associated shortcomings identified by the Audit Office are in themselves reason for a complaint, even if it is found that the audited entity acts regularly and efficiently. In this context, the Audit Office highlights that transparent procedures reduce the risk of corruption. When corruption takes place, both parties strive to act as concealed as possible, remaining undetectable by others.

Administrations are obliged to act efficiently. What are the greatest challenges administrations and municipalities typically face in relation to the principle of efficiency?

The first challenge is primarily on my mind, because I used to be involved with the information and communication technology (ICT) segment. The innovation cycle is extremely short in this industry; it only lasts a few years. Public administration often requires almost the same amount of time from planning to actual application. This means that ICT is almost outdated by the time it goes live. It is also very difficult for public administration to attract qualified personnel in this field. This is due to the comparatively high salary level highly qualified IT experts are offered by commercial enterprises. Public administration – including the IT service provider of Berlin (ITDZ) cannot compete with that. Yet, in-house expertise does not become redundant because this is outsourced to a private company, at least to ensure proper award and adequate controlling.

Immensely complex and protracted processes are not limited to IT. They are also found in construction projects. The restoration of the state opera is a perfect example, and the Audit Office has reported to the House of Representatives on its audit. In the field of construction, the administration equally competes with architects and construction firms to acquire and retain qualified personnel, even if not to the same extent as with ICT professionals.

Tax matters – which we already discussed in question 5 – are another challenge. In addition to the complicated legal matters, this field is also affected by ICT issues, as well as competition for staff with tax advisers.

To sum up: The greatest challenges for efficiency are areas with complex legal regulations, lengthy procedures, new information and communication technology and competition for personnel. However, the last point is becoming increasingly important in other areas (e.g. school teachers): More than 20,000 of the 100,000 employees of the Berlin administration will retire in the next few years. This is on top of the already growing general skills shortages. Consequently, additional areas of public administration must become and remain competitive against commercial enterprises. A lot still remains to be done.

Literature

For further reading, I recommend the website of the Federal Audit Office (www.bundesrechnungshof.de) and the Regional Audit Office Berlin (www.berlin.de/rechnungshof).

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This paper reflects the opinion of the author.

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