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West German Government

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FINANCIAL ACCOUNTING AND REPORTING
IN WEST GERMAN GOVERNMENT

SUMMARY

In 1969, West Germany revised its system of public budgeting in an attempt to deal with the steep rise in demand for public services. These budget reforms have resulted in congruent systems of public sector financial management throughout the country. The West German experience could make a valuable contribution to current research efforts in the United States, and several other countries, to develop a conceptual framework for governmental financial accounting and reporting.

Many industrial market economies, shaken by recession and inflation over the past few decades, are voicing concerns about the significant growth in government spending each is experiencing. Because of strong competitive demands on limited resources, these concerns have focused on accountability issues. In certain countries, such as Canada, Sweden, the United Kingdom, and the United States, recognition of the need for improved financial management in the public sector has stimulated research into the conceptual foundations of financial accounting and reporting for government, particularly at the local level.

An incongruous, but understandable, feature of some of the U.S. research, however, is a general propensity to fall back on private sector accounting and reporting systems as reference points and models for application in a public sector conceptual framework.² This situation can be attributed not only to a traditional private sector orientation, but also to the sparse attention given to existing alternative philosophies elsewhere in the world. Consideration and appraisal of governmental accounting-information systems in other countries would steer research towards more appropriate comparative analyses, highlight areas where accounting technology transfers might successfully be attempted, and stimulate interest in creative innovations. The main advantage may well be, however, the opportunity to understand problems better when observing how they are tackled in different institutional settings.

The objective of this paper is to contribute to this effort by describing some of the main elements of financial accounting and reporting in West German government. Choice of West Germany for study is relevant for several reasons: it has a three-tier system of government, as also exists in the United States; it is a highly industrialized nation: its gross national product ranking fourth in the world; and it has heavy financial commitments to social programs. A more significant reason, however, is the fact that West Germany revised its system of public budgeting in 1969, giving the authorities the opportunity to clarify public policies and spell them out in related legislation. Thus, the West German experience must surely be of value in considering certain conceptual and implementation problems of governmental accounting in the United States.

Some Differences Between the Two Systems

Some of the main features of governmental financial accounting and reporting systems in West Germany and the United States are listed in Exhibit 1. As is true for many governmental units in the United States,

EXHIBIT 1 GOES ABOUT HERE

the annual operating budget forms the hub of the financial management and control system in West German government, cash flow is of primary

| <u>SYSTEM FEATURES</u> | <u>WEST GERMANY</u> | <u>THE UNITED STATES</u> |
|------------------------------|--|--|
| (1) <u>BUDGETING</u> | | |
| Method of preparation | By operating group/ department and by line item | Various |
| (2) <u>ACCOUNTING</u> | | |
| Type of bookkeeping | Single-entry, cameral | Double-entry, fund |
| Transaction recording | Consonant with budget basis | Possible conflicts between generally accepted accounting principles and budget basis |
| Commitment recognition | Maintenance of budget control lists | Encumbrances entered in accounting records |
| Revenue recognition | When legally receivable | When measurable and available |
| Expenditure recognition | Liability recorded when legally payable | Liability recorded when incurred |
| Depreciation recognition | Recorded by owned enterprises as well as by general government units providing services for a fee on a full cost coverage basis | Recorded in proprietary funds but not in governmental funds |
| (3) <u>REPORTING</u> | | |
| Reporting entity | Unit of government (legal entity) | Fund |
| Primary users | Governing and oversight bodies | Various |
| Financial statement | Specially designed to provide cash flow and budget performance information | Adapted from traditional, private sector models |

Exhibit 1 . Main Features of Governmental Financial Accounting and Reporting Systems in West Germany and the United States

importance, and the public sector uses a special system of accounting unlike that used in business. This system of cameral accounting, or Kameralistik, directly provides the information required for the two main components of the annual financial report: the cash statement and the budget report. Additional information used by creditors to assess financial viability, such as the summary of assets and the summary of liabilities and reserves, is included in the report as enclosures. Thus the accounting and reporting functions are harmonized to facilitate external control over the management of public resources. The annual cycle ends with an audit, a review of budget performance, as well as efficiency and effectiveness of operations, and submission of the annual report for acceptance, or "discharge," by the appropriate legislative body.

The Structure of Government in the Federal Republic

In order to appreciate the system of public financial management in the Federal Republic, it is necessary to understand the fusion of state and law, embodied in the term Rechtsstaat, underlying the structure of government. Johnson (1973, p. 14) describes this concept as follows:

"The Rechtsstaat idea as it finally emerged is defined in terms of the supremacy of law, the subordination of the administration of law, the liability of the state for the illegal acts of its agents, guarantees against unfair application of laws through appeal to administrative courts, and finally a continuous improvement in the system of public law to exclude from it those elements which reflect the capricious influence of political or administrative convenience."

Thus the Federal Republic's emphasis on legal norms, and its use of institutional ways to ensure that public administration be in compliance with the law, is bound into the notion of state identity. So, although public sector accounting and reporting principles are defined by law in both countries, it would be ideologically impossible to assign a secondary status in West Germany to legal compliance in accounting and reporting, as is recommended in the U.S. public sector.³

The Federal Republic of Germany is a federation (Bund) of constituent Laender and its government is organized on a decentralized basis. A Land is somewhat equivalent to a province or state, but because of translation inadequacies the German term will be used throughout. Some 24,000 Gemeinden, into which the entire country is divided, constitute the basic units of local administration. For convenience, the term "Gemeinde" is translated as local authority or local government. It is important, however, to distinguish between the Anglo-American concept of exercising democracy through local self-government, and the West German philosophy of concentrating democratic governing power in

the Federation and Laender. "All subordinate authorities are 'administrators' not governments. There is no such thing as 'local government' in Germany." (Chaput de Saintonge, 1961, p. 3).

The Gemeinden are grouped into about 400 Landkreise which exercise general supervisory control over them. Some Laender may also have Aemter which represent an intermediate tier of administration between a Landkreis and a Gemeinde. The general term Gemeindeverband is applied to those units of local administration, such as Aemter or Kreise, which comprise a number of lower-level units. As provided for in the Constitution, known as the Basic Law (Grundgesetz), each Land enacts its own local government laws. However, the Constitution also provides, under Article 28, para. 2, that the Gemeinden, which are legal corporate bodies, must be guaranteed the legal right to manage local community affairs. (International Institute, 1973, p. 15).

The local administration consists of an elected policy-making body: the Gemeinde- or Stadtrat (Council), and an executive body of one or more persons which advises the Council and is accountable to it.

By law, the local authorities have the right to financial autonomy, but this is curtailed by the fact that the main sources of revenue have been reserved to the federal and Land governments.⁴ Further, federal and Land law prescribe the code under which the local authorities levy their taxes, although the Gemeinden can fix the local tax rates within limits. Local decisions about fee levies, charges, and other revenues are also regulated. The most important local taxes are the business tax (Gewerbesteuer) and the tax on real property (Grundsteuer). Local authorities also receive various grants to help mitigate the inadequacies of revenue from taxes and other income. These include financial equalization grants from the Laender, and specific grants, such as rate support grants, from the federal and Land governments. The distribution of tax revenues between the three levels of administration is listed in Exhibit 2.

EXHIBIT 2 GOES ABOUT HERE

Local governments are involved in more than 60 percent of public investment expenditures, although they receive only about 30 percent of the public budget receipts. To make up for the short-fall, about 10 percent of local government receipts are derived from borrowing in the capital market (Streit et al; 1980, p. 278). In 1979, local government borrowings from public banks and private mortgage banks, which is subject to approval by the supervisory authority, totalled about 260.5 billion marks (Sandvoss and Zweig, 1981, p. 20) which exceeds the Federal budget of 214.5 billion marks for 1980 (Streit et al; 1980, p. 277).

FEDERAL

Financial Monopolies: Monopoly on Brandy and Inflammables;
Customs duties.

Consumption taxes: On mineral oils, coffee, tobacco, etc.,

Highway freight traffic taxes, insurance taxes, exchange taxes.

One-time property rates and equalization rates levied to equalize
taxes.

Supplementary rates on income and corporate taxes.

Charges within the framework of the European Economic Community.

LAND

Property tax; estate duty; motor vehicle taxes; tax on purchases of
real estate; capital investment taxes; beer tax; gambling taxes.

LOCAL

Real property tax and local business tax on capital and profits.

Local consumption and expenditure taxes: dog licenses, hunting
licenses, retail liquor licenses, entertainment tax, etc.,

Land-sharing participation in community taxes:

income taxes
corporate taxes
turnover taxes

SOURCE: Manfred E. Streit et al. Die Wirtschaft Heute (Mannheim:
Bibliographisches Institut, 1980), p. 275.

EXHIBIT 2. Distribution of Tax Revenues in Accordance with Article
106 of the Basic Law.

The Budget Reform

The reform of controls over the public finances, expressed in the Federal Budget Law of 19 August 1969, was a comprehensive attempt to deal with the increasing size and significance, as well as the changing nature, of the federal budget. By the mid-sixties, "the demand for public services was beginning to rise steeply and budgets at all levels of government were increasing at a rate which threatened to outstrip the rate of growth of available resources" (Johnson, 1973, p. 194). Uncoordinated, short-run budgeting had to give way, in the face of those expanding demands to careful analysis of redistribution policies from a long-run perspective. On 8 June 1967, the Law for the Promotion of Economic Stability and Growth (StWG) set out the economic policy function of the budget. It also created a special instrument for economic steering. Economic equalizing reserves were to be built up in the Federal Bank (Bundesbank) from: (1) decreases in outlays, particularly for investments, and new credit formation; and (2) a portion of the receipts which varied with the economy. The purpose of these reserves was to provide the resources for increases in net outlays under depressed economic conditions.

Because of the decentralized nature of government, there was an obvious need for inter- and intra-governmental coordination of economic expenditures. This was facilitated by the Financial Planning Council, established in 1968, whose members include the federal ministers of finance and economic affairs, the Laender ministers of finance, and four representatives of the local central organizations (Spitzenverbaende). In particular, a comprehensive system of budget reform was needed to (International Institute, 1978, p. 26):

- (a) Provide a legal foundation for the budget's function as an instrument of public policy, in addition to its classical role as evidencing coverage of needs;
- (b) Develop medium-term (five-year) financial planning as a comprehensive planning instrument; and
- (c) Coordinate financial and economic policies of all those carrying out public functions.

The Law on Budget Principles (HGrG), and the Federal Budget Law (BHO), both dated 19 August 1969, as well as the respective budget ordinances of the various Laender, reformed and harmonized the budget laws at all levels of government, while still providing leeway for local differences.

The high degree of congruence between the local government ordinances of the supervisory Laender is due to the provisions of the HGrG as well as to preliminary work by special committees.⁵ Under #1 and #48, Section 1 of the HGrG, the Laender were, in effect, required to apply the provisions of the HGrG to the local authorities if no legal

impediments existed. A local government affairs committee, Study Group III, was established by the Laender Interior Ministers to work on new statutory regulation and technical implementation matters. A Group subcommittee on local government budget law worked out details of the structure and grouping of local government budgets. The models developed by these working groups were submitted to the Interior Ministers' conferences in 1971 and 1972 for approval. The approved plans were then adopted by the respective legislatures, except for some local variations in details. Thus a public sector financial management system which is, in the main, philosophically harmonious now exists throughout the whole country.

Budgetary Control of the Public Finances

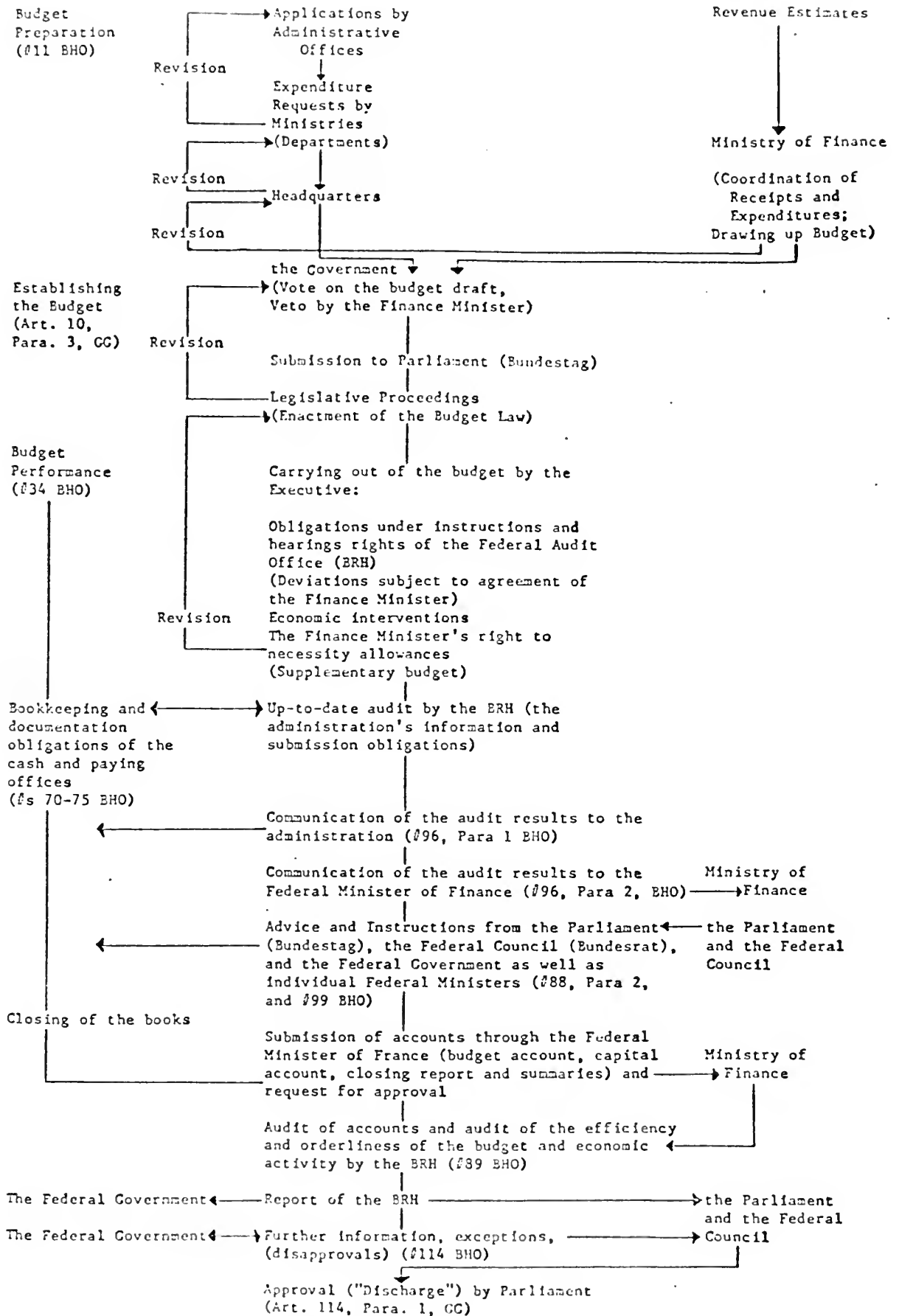
A budgetary control system lies at the heart of financial management in West German government. The budget cycle, illustrated in Exhibit 3, follows a traditional sequence of budget preparation, enactment of a budget law, budget performance, submission of the annual accounts by the administration, audit of the accounts, and approval ("discharge") of the accounts by the legislative body.

EXHIBIT 3 GOES ABOUT HERE

Budget Preparation

The annual budget package contains two essential components: an administrative, or operating, budget (Verwaltungshaushalt) and a capital, or investment, budget (Vermögenshaushalt). In addition, there is a budget statement, a financing statement, and a credit financing plan, as well as enclosures. The budget statement is a summary of the receipts, outlays, and credit authorizations contained in the individual budgets (§10 HGrG; §13 BHO). The financing statement computes the net balance of the budget financing (§10 HGrG; §13 BHO). This is arrived at by comparing credits taken out with debts repaid, as well as corresponding consideration of monetary proceeds and cash surpluses or deficits. A net financing surplus occurs when the government repays more debts than it borrows, while the reverse situation would result in a net financing deficit.

Deficits are usually covered by short-term credits to strengthen the cash position and the ultimate liquidation of these credits will be shown in the financing statement. The financing plan includes a presentation of the entire estimates of receipts from credits, and outlays for repayments, contained in the individual plans (§10 HGrG; §13 BHO).



SOURCE: Manfred E. Streit. *Die Wirtschaft Heute* (Mannheim: Bibliographisches Institut) 1980, pp. 277 and 283 (amended).

EXHIBIT 3: Control of Public Finance Under the Federal Budget Law (BHO) of 19 August 1969

The enclosures to the federal and Land budgets include, in particular:

- (a) A presentation of the receipts, outlays, and credit authorizations: grouped according to economic type; organized according to certain functions served; and summarized according to type and function; and
- (b) Statements of the receipts, outlays, and credit authorizations of the state enterprises and "special assets" such as the Federal Railways and Post Office.

Similar enclosures, including an explanatory report (Vorbericht), are provided for at the local level (#2, KommHV).

The Operating and Capital Budgets

The operating and capital budgets are assembled in very similar fashion. Each type of budget is organized by chapter (Kapitel) and within each chapter by heading (Titel) and line-item (Haushaltsstelle). The term chapter refers to the administrative service involved, such as: health services, universities, etc. (§13 BHO). Gathering together receipts and outlays by chapter provides for an overview of the scope of activity and costs of a particular governmental unit. A heading is a summary of like-types of receipts and outlays (§10 HGrG; §13 BHO). Their classification and purpose-designations, according to economic type, are set out in the groupings plan (Gruppierungsplan). The basic structure of the groupings plan follows, while a detailed outline is provided in the Appendix.

RECEIPTS

Grouping
Nr.

| | |
|---|---|
| 0 | Taxes, General Grants |
| 1 | Receipts from Administration and Services |
| 2 | Other Financial Receipts |
| 3 | Receipts of the Capital Budget |

OUTLAYS

| | |
|-----|--|
| 4 | Personnel Outlays |
| 5/6 | Expenditures for Non-personnel Administration and Service |
| 7 | Grants and Advances (Not for Investments) |
| 8 | Other Financial Outlays |
| 9 | Outlays of the Capital Budget |

The segmentation of the budget in accordance with the classical economic model of consumption and investment replaced the traditional preparation of ordinary and extraordinary budgets. Under the previous system, the ordinary budget contained all the outlays which were to be covered by customary receipts. The latter included taxes, user fees or charges, interest earned on invested assets, etc. Its purpose was to demonstrate the financial management of basic operating revenues. The extraordinary budget, on the other hand, showed how outlays were financed by other-than-usual revenues, generally by indebtedness. Its outlays were of a capital nature, either for debt liquidations or making investments. Thus the ordinary receipts were used for both capital-related outlays, while the extraordinary receipts were used only for capital-related outlays (Goetz, 1978, p. 46).

The new approach did not bring about as clear-cut a distinction between operating and investment activities as the titles of the two budgets suggest. For example, construction costs are capital budget items, whereas maintenance costs and investment-related debt service payments are included in operating budget outlays. Furthermore, the amount of information regarding indebtedness has been reduced. Only summaries of liabilities are provided in the annual financial report and there is no longer a requirement to show the relationship between investments and the debts incurred to finance them.

Generally speaking, certain specified investment-related transactions which exceed 800 DM in value (§1 KommHV) belong to the capital budget. Items not meeting these specifications are estimated in the operating budget. Regardless of classification, however, the two segments constitute a total budget. Connecting links are provided by inter-segment transfers: almost always from the operating to the capital budget. Usually, these are cash transfers of operating receipts surpluses to the general reserves of the capital budget for eventual investment financing. Transfers are rarely made in the opposite direction.

Not included in the budget estimates are: receipts and outlays for certain publicly-owned enterprises and hospitals which use double-entry bookkeeping; "in-and-out" agency-type transactions; and carry-forward budget and cash balances: regardless of the possible budgetary impact of prior year carry-forwards falling into abeyance.

Budgeting Principles

Budgets may cover single or multiple years and are prepared on a cash basis: that is, they contain forecasts of cash inflows and outflows falling due in each of the budget (calendar) years involved. The following theoretical principles, not necessarily ordered, underlie their construction (Wobser, 1970, pp. 71-2):

- (a) Equilibrium (Haushaltsausgleich): total estimated receipts must equal total estimated outlays (Art. 110, Para. 1, GG);
- (b) Anticipation (Vorherigkeit): the budget law which establishes the budget must be passed before the beginning of the financial year (Art. 100, Para. 2, GG);
- (c) Unity (Einheitlichkeit): all receipts and outlays must be included in one budget plan with no "special" budgets (Art. 110, Para. 2, GG; §8 HGrG; §11 BHO);
- (d) Completeness (Vollstaendigkeit): the estimates are to include authorizations to incur credit (Art. 110, Para. 1, GG); No secret funds (schwarze Fonds) may be built up (§ HGrG; §11 BHO);
- (e) Openness (Oeffentlichkeit): the budget is to be established by law. All Parliamentary debates about budget matters are to take place openly;
- (f) Total coverage (Gesamtdeckung): all receipts serve to cover all outlays, as opposed to the "earmarking" of particular receipts for particular outlays. Exceptions may only be permitted by law or in the budget plan (§7 HGrG; §8 BHO);
- (g) Cash-relatedness (Kassenwirksamkeit): without exception, the only cash receipts and outlays to be included in the budget plan are those which will foreseeably fall due within the budget period and thereby involve cash. This presentation of monetary movements is designed to promote economic transparency (ökonomische Transparenz) and to benefit financial management by requiring that coverage will only be provided for estimated actual needs (§8 HGrG; §11 BHO);
- (h) Line-item specialization (sachliche Spezialisierung): receipts are to be estimated on the basis of sources, while outlays and indebtedness assumptions are to be separated according to purpose (§12, Para. 4, HGrG; §17 BHO);
- (i) Budget clarity (Etatklarheit): resources which serve one and the same purpose are not to be scattered in different places within the budget (§12, Para. 5, HGrG; §17 Para. 4, BHO);
- (j) Use of gross amounts (Bruttoprinzip): offsetting or netting of receipts and outlays is not permitted. Receipts and outlays are to be estimated separately, using gross amounts for each (§12 HGrG; §15 BHO);
- (k) Exactness (Genauigkeit): exact valuations are to be attempted in estimating receipts and outlays. To the extent possible, subsequent actual amounts should agree with estimates;

- (1) Economy (Sparsamkeit): the concepts of economy and efficiency should underlie the preparation of the budget and its carrying out (§6 HGrG; §7 BHO).

In summary, both West Germany and the United States give priority to cash-flow forecasts and share the same concern for advance publicity about budget action. The West German total coverage principle (item (f) above) may, however, be expressly prohibited in certain U.S. governments because of the flexibility it allows administrators in the budgeting and management of available resources.

Both nations may experience difficulties in presenting voluminous amounts of data as well as meeting timeliness requirements for passing budgetary legislation. The State of Bavaria's three-volume budget for calendar years 1981 and 1982, for example, weighs about 18 lbs. Its budget law covering each of these years (Haushaltsgesetz 1981/1982), which is the lead document in the first volume, was not passed until August 6, 1981 and went into effect retroactively as of January 1, 1981. So, the anticipation principle (item (b) above) was only complied with for the 1982 budget.

The Accounting System

As a general rule, governmental units in the Federal Republic use cameral accounting (Kameralistik). Double-entry bookkeeping is, however, required for publicly-owned hospitals and is also used by some public enterprises engaged in commercial-type activities, such as the Federal Railways (Bundesbahn).

Cameral, or chamber (Kammer), accounting has been traced back to the Burgundy-French chamber system taken over by Emperor Maximilian I for his Austrian inheritance about the year 1500 (Johns, 1958, p. 2937). During a second evolutionary stage, techniques for keeping either public or commercial cameral accounts were developed by the 18th century cameralists who were both businessmen and public administrators (Walb, 1926, p. 215). After the second world war, cameral accounting was largely replaced by double-entry systems. West Germany, however, did not follow this trend and is streamlining the cameral system through the use of automated data processing.

Two basic sets of records are maintained in cameral accounting: a cash-book (Zeitbuch: literally, time book), and a ledger (Sachbuch: literally, object-book). Essentially, each cash transaction is posted twice: in the cash book in temporal sequence and in the ledger according to budget line-item (Haushaltsstelle). The following description of the workings of the system is drawn from the provisions of the Vacarian Local Government Budget Ordinance (KommVH).

Accounting Principles

The section on accounting principles (Sec. 12, Subsect. 1, §61) is very brief. Accounting is to be orderly, reliable, and efficient; and the accounting records must be complete, accurate, clear, distinct, verifiable, and posted currently. Although the goals of accounting are not spelled out, the commentary makes it clear that accounting's main tasks are: (1) to control budget performance by providing evidence as to whether the budget arrangements were adequate for carrying out functions, as well as whether outlays were covered by estimated receipts; (2) to control cash by disclosing whether cash transaction authorizations issued by the administration were processed by the municipal cashier's office, as well as which amounts remain on hand; and (3) to show whether the budget performance resulted in a budget surplus or deficit.

Until recently, cameral accounting could only be used for ex-post control purposes because the manual systems usually took a considerable amount of time to supply information. Given the introduction of automated data processing, however, the authorities express the hope that up-to-date accounting information can and will be used for current decision-making.

Temporal and Line-Item Postings

As mentioned above, receipts and outlays are entered in chronological sequence in the cash-book and according to budget item in the ledger (Sec. 12, Subsect. 1, §64). The subsidiary records supporting cash entries include: a daily balance book, a bank pass (deposit) book, a check control book, and a bills control book. If the cashier has custody of valuables, a Receipt and Delivery of Valuables book is also maintained. The ledger comprises the following component volumes: an administrative budget book, a capital budget book, a book for advances, and a book for trust funds. The latter two books may be combined and it is also possible to have a book for the custody of valuables.

The regulations contain a number of provisions for internal control, including the separation of posting duties so that the two sets of records may be independently checked against each other. Where possible, the cash-book is to be posted by the cashier and the ledger by the bookkeeper. The real element of control lies in the fact that receipts and outlays cannot be made without prior administrative authorizations. These authorizations are to be provided to the cashier and the bookkeeper independently, assuming a manual system, and entered in the accounting records. This process is provided for in the typical arrangement of a ledger accounting page illustrated below (v. Wysocki, 1965, p. 22).

| Budget Account | Authorized Amounts (Anordnungssoll) | | Carried Out | Pending |
|-------------------|--|--------------------------|--------------|----------------|
| | Balance from Prior Periods | Current Authorization | Actual (Ist) | Balance (Rest) |

To illustrate the bookkeeping procedures, assume that an authorization is issued to make a certain payment of 400 DM. This would be entered in the ledger in the "Current Authorization" column of the appropriate budget account. A payment by the cashier of 100 DM against this authorization would be recorded in the cash-book and in the "Actual" (Ist) column of the ledger account, leaving an open balance of 300 DM. This balance represents a legally-due but unliquidated commitment. If it is still pending at the end of the fiscal year, it is carried forward as a "balance from prior periods" and is not included again in the next year's budget estimates because it is covered by the prior year's budget.

The identity of the budget account determines whether the amount entered as "Actual" is an inflow or an outflow of cash. Thus there is no need for a cash account in the ledger as it would only duplicate the information in the cash-book. Both the cash-book and the ledger have posting references which give the location of the reciprocal entry in the other set of records. Proof that the cash-book and the ledger are in balance with respect to cash movements is provided in the format of the annual cash statement, described later.

The main focus of ledger accounting is on the authorized (Soll) amounts which may, or may not, be equal to the original budget estimates (Ansaetze des Haushaltplanes). How such differences are accounted for will be described later in connection with the budget performance comparison, contained in the annual report, which is based on the ledger. As is evident, carrying forward a commitment for either a receivable or a payable is similar to accrual accounting. So, the Soll recording fills a dual function of controlling for authorized cash transactions and providing for the recording of incomplete economic events. Such "accruals" are only recorded when particular events can be legally recognized, a situation which is congruent with the ground rules under which public administration operates. In the commercial world, accrual accounting is tied to income determination. So, for example, a commitment to pay interest would be recognized at the time(s) interest accrued on the debt rather than when the debt agreement called for the interest payment itself to fall due. As will shortly be described, the legal-accrual feature of cameral accounting can be viewed as a disadvantage when certain governmental operations, supported by user-fees, determine their costs under the reformed budget law.

The flexibility of cameral accounting is, however, evident in the technology for recording intragovernmental transactions. If, for example, one governmental unit provides services for another unit of the

same government without an actual reimbursement taking place, the value of the services is entered in the Soll receipts of the supplier and the Soll outlays of the client, thus affecting a budget transfer between the two. Because, however, a Soll entry must eventually be matched with an Actual (Ist) posting, a fictitious Actual posting is also made for each unit of government to match the respective Soll postings:

Supplier: Receipts: Soll and Ist _____ DM

Client: Outlays: Soll and Ist _____ DM

The cash inflows and outflows will both be overstated by the amount of the fictitious cash entry, but the cash balance itself will be unchanged. This same approach is also used to record other types of non-cash transactions, such as accounting for depreciation, particularly by commercial-type entities using cameral accounting. Some problems related to the use of cameral accounting for cost accounting purposes are highlighted in the following discussion of cost-accountable facilities.

Cost-Accountable Facilities

Traditionally, German governments have provided a wide range of services to their constituents, or to the public at large, and with or without user charges. The volume and diversity of publicly-owned facilities now operating in the Federal Republic is evident from the listing in Exhibit 4.

EXHIBIT 4 GOES ABOUT HERE

In the United States, some of these facilities, such as funeral homes and pawn shops for example, would usually be privately owned and operated. Others, notably schools and recreational facilities, would typically be funded and operated through special taxing authorities called school districts and park districts.

Those West German public facilities which customarily and predominantly are financed through reimbursements (Entgelte) and are designated as cost-accountable facilities (kostenrechnende Einrichtungen). They are now required under the budget reforms to include in their operating budgets two types of imputed (notional) costs: "reasonable" (angemessene) straight-line depreciation and "reasonable" interest on invested capital. The interest rate used in the calculation is to be an average of the market rate of interest for comparable financing and the rate which can be earned on monetary investments. Any capital obtained from contributions, allocations, or grants is to be excluded from the invested capital base (#12 KommHV). Budget estimates for these two types of imputed charges are to be offset by including identical amounts in the estimated receipts.

Individual
Operating
Budget
Classification

Public Facilities

- | | |
|---|--|
| 2 | Schools |
| 3 | Cultural activities: museums, orchestras, theaters |
| 4 | All social and youth welfare facilities and veterans' welfare; senior citizen homes; lodgings; public canteens; infants' creches; kindergartens; shelters; orphanages; youth homes and hostels, etc. |
| 5 | Hospitals; care stations; dental clinics; medical advisory stations; other health care facilities; sports fields and facilities; stadiums; baths; parks, gardens, and other recreational facilities |
| 6 | Street lighting; street cleaning; parking facilities |
| 7 | Sewers and garbage removal; markets; slaughter and stock yards; funeral homes; pawn shops, etc. |
| 8 | Public utilities and transportation; gas, water, and electricity works; street and underground railways; airports; harbors; freight; dairies; salt-works; spas and baths, etc. |

SOURCE: #12 KommHV, Erl. 2.1

EXHIBIT 4: Publicly-Operated Facilities and Related Individual Operating Budget Classifications

This new requirement represents one of several budget reforms designed to introduce ideas from the field of business economics into public financial management. The rationale put forward for including such charges in the operative budgets comes from private sector cost accounting practice. It is intended to provide the local council (Gemeinderat) with a more complete understanding of the extent to which user fees cover the total costs of these facilities. From a systems design perspective, however, this attempt to bring financial and management accounting together suffers from several defects. First, the combined system is not centralized and integrated as it is in the private sector. For purposes of cost control and efficiency, the system should be centralized to provide for examination of cost flows from the types of costs (Kostenarten) to the cost centers (Kostenstellen) and out through the cost carriers (Kostentraeger).⁶ Instead, the system concentrates on the cost carriers: that is, the individual budgets (Goetz, 1978, p. 221). The question just raised about the lack of integration has to do with the way the imputed costs are neutralized through offsetting credits to estimated receipts. This method artificially inflates the financial accounting figures (Goetz, 1978, p. 229). This problem is avoided in the West German private sector through the use of interlocking accounts which allow for costs to be externally reported on one basis and internally calculated on another. A further problem of integration has to do with the use of cameral accounting. Cost determination requires full accrual, that is, recognition of costs in the accounting periods in which they were incurred. Cameral accounting, however, records costs in the periods in which they legally fall due. Dates for cost incurrence and legal maturity, as illustrated above, need not necessarily coincide.

A final problem has to do with the budget principle of full-coverage (Goetz, 1978, p. 240). With better understanding of total economic costs, local councils can make more informed decisions about fee-setting. However, the decision process will be politically guided. Because there is no earmarking of particular receipts for particular outlays, external accountability for fee-setting decisions is virtually eliminated. This circumstance considerably reduces incentives for efficient and effective cost management in these cost-accountable facilities.

The Annual Report

The objective of the annual report (Jahresrechnung), as expressed in Art. 102 GO, is to show the results of the budget management, including the balances and changes in the assets (Vermogen) and liabilities (Verbindlichkeiten). The report should make clear how the budget plan was carried out in the fiscal year, which receipts and outlays were authorized and achieved, whether the budget estimates were sufficient or whether additional resources had to be found to carry out the functions, and whether the administration kept within the given outlays authorizations.

The report consists of two basic components: a cash statement and a budget report, as well as five enclosures.

The Cash Statement

The cash statement is divided into two main parts, one detailing transactions affecting the operating and capital budgets, the other summarizing the changes in the trust funds and advances balances during the period (#78 KommHV).

The main purpose of the cash statement is to report on cash-flow management during the year, and its format is illustrated in Exhibit 5.

EXHIBIT 5 GOES ABOUT HERE

In Part I, the first three columns detail amounts which the cash-desk (Kasse) was authorized to receive or pay out. A comparison is then made between total authorizations in column 4, and actual cash movements in column 5. The differences between these two sets of figures, shown in column 6, are the amounts of authorized but unrealized cash receipts and cash outlays which can be carried forward to the next budget year. In other words, they are legally matured receivables and payables.

Interpreting the cash statement could be challenging because of possible ambiguities in its structure and terminology. First, there is no evident identification of the cash on hand at the end of the period. According to the regulation (#78 KommHV), the difference between the total actual receipts and total actual outlays, in column 5, is to be identified as the "cash on hand (Kassenbestand) according to the books." However, in column 5 only the net change in the cash balance is detailed. In Exhibit 5, for example, the final amount in column 5 shows a net cash decrease for the year of 110. To calculate the actual cash position at the end of the year one would need to know the beginning cash balance but there is no line-item for this information. Further, the wording of the columnar headings could prove confusing and explanations are warranted.

Column 1: Final Cash Balances from Prior Year

This title does not refer to a net cash balance on hand. The receipts and outlays carried forward represent the differences between authorized amounts which fell due in the prior year and lesser amounts which were actually received or paid out.

Cash Statement for the Budget Year 19__

| Columns | 1 | 2 | 3 | 4 | 5 | 6 |
|------------------------|-------------------------------------|--|---------------------------------------|-------------------------|--------|----------------------------------|
| 1. Local Govt. Budget | Final Cash Balances from Prior Year | Authorizations against Budget Balances from Prior Year | Authorizations of Current Budget Year | Total (Cols. 1 + 2 + 3) | Actual | Cash Balances for Following Year |
| 1. Operating budget | | | | | | |
| Receipts | 100 | - | 600 | 700 | 630 | 70 |
| Outlays | 80 | 110 | 590 | 780 | 750 | 30 |
| Proof and cash balance | + 20 | - 110 | + 10 | - 80 | - 120 | + 40 |
| 2. Capital Budget | | | | | | |
| Receipts | 80 | 110 | 400 | 590 | 550 | 40 |
| Outlays | 55 | 120 | 375 | 550 | 540 | 10 |
| Proof and cash balance | + 25 | - 10 | + 25 | + 40 | + 10 | + 30 |
| 3. Total | | | | | | |
| Receipts | 180 | 110 | 1000 | 1290 | 1180 | 110 |
| Outlays | 135 | 230 | 965 | 1330 | 1290 | 40 |
| Proof and cash balance | + 45 | - 120 | + 35 | - 40 | - 110 | + 70 |

| Columns | 1 | 2 | 3 | 4 |
|-----------------------------|--|---------|----------|--|
| II. Trust and Advances Book | Balances Brought Forward from Prior Year | Paid In | Paid Out | Balances Carried Forward to Following Year |
| Trust monies | + 200 | + 300 | - 450 | + 50 |
| Advances | - 60 | + 200 | - 180 | - 40 |
| Proof and cash balance | + 140 | + 500 | - 630 | + 10 |

FORM RC: #78 KommHV

Column 2: Authorizations Against Budget Balances from Prior Year

Amounts in this column were provided for in prior budgets but did not mature until the current year. Consequently, the cash-desk was not previously authorized to accept receipts or make outlays against them. Thus they are not duplicated in the first column.

Column 3: Estimate Authorizations of Current Budget Year

The third column lists amounts authorized for receipts and outlays falling due in the current year and provided for in the current year's budget.

Column 4: Total

This subtotal of the first three columns contains a mixture of items which the cash desk was authorized to receive or pay out in the current year: amounts unliquidated at the beginning of the year which fell due in the prior year, and amounts falling due in the current year which were provided for either in the current year's budget or in budgets of prior years which could still be utilized in the current year.

Column 5: Actual

The total cash movements, in and out, during the current year are listed in column 5.

Column 6: Cash Balances for Following Year

Any differences between total amounts authorized to be received or expended, in column 4, and actual cash transactions, in column 5, are carried over to column 6. In the cash statement for the following year, these amounts will appear in the first column as final cash balances from the prior year.

Transactions recorded in the trust funds and advances book, or books, fall outside of budget accounting and are therefore presented in a separate section II of the cash statement. The term "trust funds" is similar to the concept of agency funds in U.S. governmental accounting, that is, funds which are accepted on behalf of some other party and subsequently forwarded on. Any cash coverages between actual and theoretically correct amounts are also treated as trust funds. Any cash shortages, on the other hand, would be treated as an "advance," although salary advances usually constitute the main type of transaction involved. The trust funds and advances book must keep accounts for each individual item and, because of the "in-and-out" nature of activities, each account has both a receipt and an expenditure side: an unusual feature in cameral accounting.

The Budget Report

The budget report (Haushaltsrechnung), in its key role of accounting for the financial performance of the budget, constitutes the essential element of the annual report. It is composed of several parts: detailed statements of receipts and outlays of the operating and capital budgets separately, drawn from data in the ledger, and a calculation of the results of budget financial management which is based on these statements.

Articulation between the cash and budget statements is provided for by the requirement that they contain the following information in common: the authorized (Soll) receipts and outlays, the actual (Ist) receipts and outlays, and the cash receipts and outlays balances. In the operating and capital budget statements, illustrated in Exhibits 6 and 7, these amounts are detailed for each of the individual line-items in the budget, following the order of the budget plan. Also, cash receipts and outlays balances are shown gross, together with amounts which should be deducted because they are in abeyance. The cash statement, on the other hand, only shows the resulting net figures. This same treatment is also accorded the budget receipts and outlays balances: gross in one statement and net in the other.

EXHIBITS 6 AND 7 GO ABOUT HERE

The structure of the budget report focuses on receipts and outlays authorized by the budget managers, highlighting an essential difference between U.S. and German concepts of budget variance accounting. In the U.S., budget variances would be calculated as the differences between budget estimates and actuals. The "actual" amounts would be based on cash accounting or accrued amounts where accruals are appropriate under generally accepted accounting principles (GAAP). This leads to problems where cash budgeting and/or accounting is required by law. Also, amounts accruable under GAAP may be difficult to determine or not comparable with cash-based budgets. In West Germany, clear distinctions are drawn between cash transactions and legal accruals by disclosing two sets of variances: (1) cash-flow differences between authorizations and actual cash movements, detailed in both the cash statement and the budget report; and (2) differences between amounts budgeted (Ansaetze) and amounts authorized (Soll), detailed in the budget report and forming the basis for calculating the budget results. To contrast these two approaches, assume that a governmental entity is inaugurated with a December 31 fiscal year-end. In Year 1, it makes a property tax levy of 100 monetary units, of which 70 percent is legally due by year-end, 10 percent by February 28 of Year 2, and 20 percent subsequent in Year 2.

Capital Budget: Receipts

| Budget Line-Item | Cash Receipts Balances from Prior Year | | Budget Receipts Balances from Prior Year | | | Actual Receipts | Cash Receipts Balances to be Carried Over to Following Year | Receipts Authorized against Budget Estimate | Budget Estimate | Surplus/ Deficit Authorized Receipts | New Budget Receipts Balances |
|------------------|--|-------------|--|----------------|--------------------------|-----------------|---|---|-----------------|--------------------------------------|------------------------------|
| | Total | In Abeyance | Total | Authorizations | In Abeyance (Col. 4 - 5) | | | | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |

Capital Budget: Outlays

| Budget Line-Item | Cash Outlays Balances from Prior Year | | Budget Balances from Prior Year | | | | Actual Outlays | Cash Outlays Balances to be Carried Over to Following Year | Outlays Authorized against Budget Estimate | Budget Estimate | Excess/ Smaller Authorized Outlays | Over- or Extra-Budgetary Allowed Outlays or Covered under #17, Kommitiv | To be Carried Over from Smaller Amount as New Budget Outlays Balances |
|------------------|---------------------------------------|-------------|---------------------------------|----------------|-------------|--|----------------|--|--|-----------------|------------------------------------|---|---|
| | Total | In Abeyance | Total | Authorizations | In Abeyance | To be Carried Over to Next Budget Year | | | | | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 |

SOURCE: Enclosure 17, 079 Kommitiv

Exhibit 6 . The Budget Report: Format of the Capital Budget Statement

In the U.S., estimated receipts from property taxes for Year 1 would be budgeted for as 70 on a cash basis, 80 on an "available" accrual basis in accordance with NCGA Interpretation no. 3, or 100 if fully accrued. As of December 31, Year 1, the following would be recorded, in accordance with NCGA Interpretation no. 3, assuming that 65 had been collected and no bad debt problems were anticipated.

| | | |
|------------|---|----|
| Asset: | Actual cash receipts..... | 65 |
| Assets: | Accrued property taxes receivable: | |
| | Current..... | 15 |
| | Deferred..... | 20 |
| Revenue: | Revenue from property taxes..... | 80 |
| Liability: | Deferred revenue from property taxes (greater than 60 days from end of current period)..... | 20 |

Only if the revenues were budgeted for on an "available" accrual basis would there be no reporting problems with respect to budget variances. However, it would not be clear, in the absence of a cash analysis, that only 70 of the revenue had been realized in cash. Cash receipts could be determined, however, by deducting the amount of current property taxes receivable (15) shown on the balance sheet, from the property tax revenue amount (80).

In West Germany, the operating budget estimate would be recorded as 70: the amount legally due, and the transactions would be reported in the cash statement and the budget report as follows:

| | |
|--|----|
| Actual cash receipts..... | 65 |
| Cash receipts balances to be carried over to following year..... | 5 |
| Authorized receipts..... | 70 |

The remaining 30 would be budgeted for in Year 2 because budget receipts balances cannot be accumulated in the operating budget. This is why there is no such line-item in the format of the operating budget receipts shown in Exhibit 6 as well as the fact that this item was left blank in the cash statement illustrated in Exhibit 5. The building of budget receipts balances is only permitted in the capital budget and is further restricted to investment activities which are to be financed, in part at least, through allocations, grants, and similar contributions (#1, section 1, number 4 KommHV), as long as receipts are assured in the following year. However, under certain conditions, budget receipt balances can also be accumulated for investment outlays to be financed by credits: up to the extent of the expected credit receipts (#79, VV3, KommHV).

Different ground rules apply to the accumulation of budget outlays balances. To determine what amounts of unused budget estimates may be carried forward to the next year it is necessary only to determine what outlay amounts may still be needed and to make a factual identification of available under-budget outlays from information in the ledger. These favorable budget variances would appear in columns 11 of the operating budget outlays statement and 12 of the capital budget outlays statement. The only deductions to be made from the amounts in these columns, for carry-forward purposes, would either adjust for over- or extra-budget outlays already allowed, or involve the relatively rare occasions when certain outlays are linked with, or earmarked for, certain receipts in accordance with #17 KommHV. Such amounts would be deducted in the penultimate columns 12 or 13 of the operating or capital budget outlays statements respectively. The final columns of each statement disclose what amounts, if any, are to be carried forward.

With respect to the capital budget, ability to carry forward unused budget outlay estimates carried the force of law (#19, section 2 KommHV). Usually, capital budget estimates remain available for their intended purpose until the maturity date of the last payment. For building activities and procurement, however, estimates are available for no longer than two years after the close of the budget year in which the essential components of the object or building have been put into service.

The situation is much more stringent with respect to the operating budget (#19, section 1 KommHV). A declaration that outlays will be carried forward is assumed to occur rarely and only when a strong case can be made for thereby promoting economical management of resources. Further, the availability of the estimates is limited to the end of the following year. The declaration is made by making a special notation (Vermerk), such as: "the resources can be carried forward," in the budget plan.

Calculation of Results

Determination of the results of budget management is made in the summary format illustrated in Exhibit 8. Separate analyses are provided for

EXHIBIT 8 GOES ABOUT HERE

the operating and capital budgets, and the addition of a total column emphasizes the essential unity of the budget package. The objective is to show the extent to which an equilibrium exists between authorized receipts and authorized outlays. Any surplus of authorized receipts over authorized outlays must be cleared by making a cash transfer to general reserves which represents an allowable closing-entry after the

| | Operating Budget DM | Capital Budget DM | Total Budget DM |
|---|---------------------------|-------------------------|-----------------------|
| Authorized Receipts | Column 4 | Column 9 | |
| Add New Budget Receipts Balances | | Column 12 | |
| Deduct Old Budget Receipts Balances in Abeyance | | Column 6 | |
| Deduct Old Cash Receipts Balances in Abeyance | Column 3 | Column 3 | |
| Total Adjusted Authorized Receipts | | | |
| | 1) | 2) | 2) |
| Authorized Outlays | Column 9 | Column 10 | |
| Add New Budget Outlays Balances | Column 13 | Column 14 | |
| Deduct Old Budget Outlays Balances in Abeyance | Column 6 | Column 6 | |
| Deduct Old Cash Outlays Balances | Column 3 | Column 3 | |
| Total Adjusted Authorized Outlays | | | |
| Possible Difference: Adjusted Authorized Receipts less Adjusted Authorized Outlays (Deficit Amount) | | | |

- 1) To be included here: Transfer to Capital Budget _____ DM
- 2) To be included here: Surplus in accordance with #79 Para. 3 Cl. 2, KommHV _____ DM

SOURCE: Enclosure 17, #79 KommHV

Note: The column numbers refer to Exhibits 6 and 7 respectively.

Exhibit 8 . The Budget Report: Format of the Calculation of Results

annual closing date (#79, VV6, KommHV). A deficit, on the other hand, has to be covered by a future budget estimate without delay. The longest time interval permitted (#23 KommHV) is the second following year, which would appear to be the earliest practicable time, or the third following year if two-year budgets are prepared. Unlike some other Laender, Bavaria only applies this requirement if the total budget is in a deficit position, as opposed to considering the two parts of the budget separately. There are, however, some differences in measuring performance between the two budget components.

Determining Operating Budget Results

For the operating budget, the total of the adjusted authorized receipts is determined by taking the final authorized receipts of the current budget year, reduced by any interim cancellations. From this amount are deducted any prior year cash receipts balances now in abeyance or prior year cash receipts deficits.

Four steps are needed to calculate the total adjusted authorized outlays:

- (a) Start with the final authorized outlays of the current budget year;
- (b) Add: new budget outlays balances, that is, original budget estimates against which no authorizations have been made in the current year and which can be carried forward to the next year;
- (c) Deduct: budget outlays balances carried forward from prior years which have fallen into abeyance;
- (d) Deduct: cash outlays balances carried forward from prior years and fallen into abeyance.

Determining Capital Budget Results

To determine the total adjusted authorized receipts for the capital budget, the same method is used as for the operating budget but two additional steps are required. Estimated receipts which had no authorizations issued against them, and which are to be carried forward to the next budget year, are added back to the amounts authorized for the current year. Then are deducted any prior year budget receipts balances now in abeyance. Both of these items involve budget receipts balances which, it will be recalled, the operating budget is not permitted to accumulate. Total adjusted authorized outlays are calculated in the same way as for the operating budget.

The Enclosures to the Annual Report

The regulations (Sec. 12, Subsect. 1, §81) provide for the following enclosures to the annual report:

- a summary of property;
- a summary of liabilities and reserves;
- a profile of the accounts and a summary of the groupings;
- an identification of the open advances and trust funds at year end; and
- a report on the accounts.

Summary of Property

The summary statement of property has to show the beginning and ending balances, plus additions and decreases during the year, of certain assets detailed in §76 KommHV. These mainly consist of invested funds (Geldanlagen) and fixed assets (Anlagevermoegen).

Invested funds include receivables from investments and loans, as well as securities and shares. Investments and loans are to be valued at current status, while historical cost is used for securities and shares.

Land, land-equivalent interests, and movable items which serve various cost-accounting functions must be identified for each of the different functions, in a separate section of the statement. Similar types of items, or those which serve the same purpose, can be grouped together rather than identified separately. Supporting documentation must be maintained to show the acquisition price, or production cost if applicable, as well as depreciation. If there is no material change in either the quantity of items or their value over a long period of time, a fixed value can be assigned to them but this must be reviewed at appropriate time intervals.

The same type of accounting and reporting can be applied to fixed assets not involved in cost-determination functions but this is not mandatory and no depreciation or amortization is calculated.

Summary of Liabilities and Reserves

The summary of reserves details the beginning and ending balances of the general reserves and all special reserves, as well as increases and decreases during the period. For information purposes, the average outlays of the operating budget is calculated for the prior three years in order to evaluate the minimum amount of operating resources needed by the cash desk.

The summary statement of liabilities also shows beginning and ending balances and intra-period transactions, the latter not being required for cash credits, however. The credits have to be mainly identified by functional area and, within area, by creditor. Liabilities have to be broken down by the types of transactions similar to borrowings. Information is also provided about internal loans, as well as the debts of those owned enterprises and hospitals if they use double-entry accounting.

The enclosures are completed by a new requirement: a profile of the accounts and a groupings summary which serve to interpret the accounting information in the same way as the report accompanying the budget.

Financial Review and Audit

Internal and external surveillance of financial activities forms the last stage of the financial control cycle. Some formal internal control organs exist in West German government, particularly in such large enterprises as the Federal Railways and the Federal Post Office. Otherwise, however, internal review consists mainly of localized activities, such as those related to spending control for example, which are focused on the information needs of the external auditor rather than on those of management. In similar vein, another type of institutional arrangement provides for preliminary audit offices (Vorpruefungsstellen) in the federal government and some of the Laender. Their main function is to prepare for the external audit in order to ease the auditor's workload, and they are, in fact, subject to the external auditor's instructions.

External Audit

External audits fall into two main categories: annual audits at all three levels of government, for the benefit of the immediate authorities (oertlich), and oversight audits carried out every several years, at the local level of government, for the benefit of the supervisory authorities (ueberoertlich). The annual audits are generally performed by the government auditors, although some local authorities may engage certified public accountants (Wirtschaftspruefer). The oversight audits are generally performed by auditors from the offices of the Land Council. In Bavaria, the periodic audits may also be performed by the Bavarian Local Government Audit Federation (Bayerischer Kommunalpruefungsverband).

Annual Audits

Annual audits are of three types: an audit of the accounts (Rechnungspruefung), an audit of the operations of owned enterprises (Abschlusspruefung), and a cash audit.

The main objective of the audit of accounts is to provide the authorities with information which will allow them to decide whether or not to discharge the chief administrative officials from responsibility. In congruent fashion, the auditors focus on the completeness (Vollstaendigkeit) and orderliness (Ordnungsmaessigkeit) of the records in all formal, legal, and factual respects (§2 KommPrV, VVI) from the standpoint of adherence to business management principles.

Given the purpose of the audit, there is an understandable emphasis in the regulations on speeding the audit review. The accounts are to be submitted for audit within three months after the close of the fiscal year (§19 section 2 GG), and the discharge decision is to be handed down no later than by the end of that year (§19 section 3, subsection 1 GG). This is a very restricted time frame for all concerned and leads to compliance problems. For example, the State of Bavaria's 1978 audited accounts were not discharged by the State Parliament and Senate until March 26, 1981: almost 15 months behind schedule. Longer delay was experienced in the next fiscal period as the audit report on the 1979 accounts, theoretically due by the end of March 1980, and was not issued until November 1981.

At the federal level, annual audits are performed by the Federal Audit Office (Bundesrechnungshof) (BRH). This is a federal agency, independent of both the legislative and executive branches, which is empowered by the Constitution to audit not only the federal government's financial operations but also the efficiency, economy, and orderliness of budget performance and management. Its jurisdiction also includes the Federal Railways and Post Office, public enterprises, and federal entities with separate legal identity under public law. The BRH may also audit non-federal entities if they carry out part of the planned budget, are entitled to accept revenues or make payments on behalf of the federal government, or administer federal resources or property. The agency's president, and other top-level executives, enjoy judicial independence. This precludes their removal from office and exempts them from certain civil service regulations and disciplinary measures. The agency also benefits from administrative independence which leaves it free to choose its own strategies and methods for conducting audits, within the scope of its mission (Albrand, 1977, pp. 12-13).

The Laender are served by Land Audit Offices (Landesrechnungshoefe) (LRH) whose organization and functions are basically similar to those of the BRH. In the event that both federal and Land authorities are responsible for the same audit engagement, the work can be carried out jointly in order to prevent duplication of effort.

In individual Laender, local authorities may be audited by the LRHs, but in some cases the local authorities have their own audit offices or may engage certified public accountants. In the interests of having a timely audit, the regulations (§4 KommPrV, VV1) recommend that the audit contract be awarded six months before the end of the fiscal year so that the auditor can carry out preliminary audit work in advance of the annual

closing. For those local authorities without audit offices, the annual audit is considered adequate if, in addition to verifying bookkeeping entries, the compliance with the budget statute and plan; timeliness of receipts; the orderly nature of budget-related activities which involve delays, cancellations, or exemptions; correct carrying out of orders from the authorities; the necessity and appropriateness of expenditures, considering local circumstances and the physical control of all recorded fixed assets (§2 KommPr VV5).

If a local authority owns enterprises (Eigenbetrieben), such as utilities or transportation services, without separate legal existence, their net operating results will be included in the authority's annual report. As a rule, the enterprise audit constitutes a separate engagement, possibly carried out by a different auditing body. Once again, speeding the overall audit is the motivating factor because determinations have to be made concerning the application of any operating profits, or coverage of any operating losses, before the main audit can be completed. If unqualified opinion is used for the enterprise audit:

"The bookkeeping, the year-end closing, and the annual report are, according to my dutifully-performed audit, in compliance with legal regulations and operating laws."

(§7 KommPrV, VV4(2)). This wording is very similar to the auditor's certificate for private enterprises.

A third type of audit engagement is a cash audit. These are conducted at least annually, on an unannounced basis, at each cashier's office (Kasse) and its paying offices, and cover both cash and the custody of other valuables. A cash audit is also performed whenever there is a change of chief cashier. A report on a cash audit has to include explanations of any irregularities, offered by the personnel. It also encloses a record of the cash balance, signed by the chief cashier or director of the paying office.

Audit Reports

An audit report has to be issued for each type of audit and must contain at least the following information: the auditor's name; the length of the audit; designation of the audit areas covered; bases for the audit; the nature and extent of audit activities; important audit findings; disposition of the audit findings contained in earlier audit reports; and a summary of the results of the audit (§7 KommPrV (1)).

Identification of the areas included in the audit, as well as the type and extent of audit activities, is intended to help avoid duplication of effort: particularly with respect to later oversight audits, or for enterprise audits whose findings are incorporated into accounts audits. With respect to audits of accounts, the auditor is required to

comment on the financial condition, as well as the orderliness of administrative activities, in the summary of the results of the audit. No set format, however, is provided for the auditor's opinion. In the case of enterprise audits, on the other hand, the auditor has not only to give a formal opinion, as mentioned earlier, but must also comment on the economic conditions and orderliness of the business operations.

Much the same procedure is followed at the federal, Land, and local level with respect to the audit of the annual accounts and submission to the appropriate legislative body. Federal and Land audit reports are submitted to the respective Parliaments, and local authority reports to the Council (Rat). The federal Constitution also provides that the audit reports be available publicly for a period of seven days (§5, Section 1, subsection 1 GG).

The federal procedures can serve to illustrate the process. The Federal Audit Office (BRH) informs the client agency of the audit results, as well as the federal minister of finance if audit exceptions are financially significant. The audit results are formally submitted, by the BRH, directly to the Lower House, the Federal Council, and the administration in a report entitled "Commentaries by the Federal Audit Office on the Federal Budget Report." The Lower House may then ask for clarification, or undertake its own inquiries through investigative committees. By the time the Lower House eventually gives its approval, that is: it discharges the administration, some considerable time may have elapsed. Thus the parliamentary action has neither constitutional consequence nor much political significance, given the changes which may have occurred in the government in the interim. The real control aspect of the audit function lies in its ability to influence ongoing activity through its concurrent auditing procedures and advisory services (Streit et al, 1980, p. 282).

Oversight Audits

Periodic audits, for the benefit of the supervisory authorities, are usually carried out every four years. This term is shortened to three years, however, for those local authorities without audit offices. As mentioned earlier, in Bavaria these audits may be performed either by the Bavarian Local Government Audit Federation (BKP) or by state auditors from the Land Council offices.

The BKP was formed in 1919, as a public law corporation, under the name: Bavarian Federation of Public Treasuries (Bayerische Verband oeffentlicher Kassen), and operates under the supervision of the State Ministry of the Interior. Over the years, the corporation's name has been amended several times, consonant with the changing nature of its activities. Previously, its main function was to check on the management of its constituent bodies through its annual audits of their cash, annual accounts, and possibly owned enterprises. Now, however, the BKP's main task has been restricted to the same type of audits but on a periodic oversight basis.

Members of the BKP include: (1) local central organizations (Spitzenverbaende); (2) municipalities (Kreisfreie Staedte) and the large county seats (Kreisstaedte); (3) local authorities and community administrations, usually those with more than 5,000 inhabitants, as determined by the State Ministry of the Interior; (4) counties (Landkreise); (5) districts (Bezirke); (6) joint authorities (Zweckverbaende) and similar local alliances with legal personality under public law, as determined by the State Ministry of the Interior; and (7) local charitable institutions administered by those BKP members in categories (2) through (5) above. (Art. 3 PrVbG). The BKP has several sources of financing. It receives an annual allocation from the State budget, fees from its members, and charges for its services. Under unusual circumstances, it can also levy allocations of certain costs. In common with their federal colleagues, the BKP's chief executive officer and his deputy have life-time tenure.

The Land Council state audit offices also enjoy independent status. However, their top and middle level management personnel are state (Land) officials and the terms of their employment follow usual civil service procedures. Apart from possessing the requisite legal and economic training, these officials have to have a good command of cameral accounting and be familiar with the fundamentals of double-entry book-keeping. Consonant with the federal independency requirements, executive auditors may not serve as honorary mayors (Buergermeister), nor as presidents of organs representing auditable entities under their jurisdiction.

Effectiveness of the Budget Reforms

The attempt here has been to bear on meaningful inter-system comparisons rather than attempt an overall evaluation of the effectiveness of the West German system vis-a-vis certain proposals which have been put forward in the United States. This is mainly due, not only to scope restrictions, but also to the problems associated with identifying the important causes of cultural differences.

Clearly, the budget reforms have led to significant gains in terms of comparability of accounting and reporting data throughout West Germany. However, one can question whether the federal government went far enough to achieve the controls over public financial management which it sought to impose or strengthen. Of particular relevance here are the two control problems already discussed: the financial elbow-room permitted by the total-coverage budgeting principle, and the inadequacies of cameral accounting for integrated cost control. A more important control problem relates to the difficulty of achieving timely audits: a problem which may be mitigated as the accounting and reporting systems become more fully automated.

West Germany's experience with retooling its accounting-information systems for government should be helpful in stimulating ideas and setting priorities for those concerned with similar problems in other countries. With respect to research needs in the United States, there are, of course, important differences between the political, economic, and social structures of these two nations. However, their local governments face the common problems of achieving operating efficiency under adverse financial conditions, while attempting at the same time to demonstrate sound fiscal management and retain a measure of local financial autonomy.

ABBREVIATIONS

| | | |
|---------|--|---|
| BHO | Bundeshaushaltsordnung | Federal Budget Law |
| GG | Grundgesetz | Basic Law (Constitution) |
| HGrG | Haushaltsgrundsatzgesetz | Law on Budget Principles |
| KommHV | Kommunal Haushaltsverordnung | Local Government Budget Ordinance |
| KommPrV | Kommunalwirtschaftliche Pruefungsverordnung | Local Government Audit Ordinance |
| PrVbG | Gesetz ueber den Bayer. Kommunalen Pruefungsverband | Bavarian Local Government Audit Federation Law |
| StWG | Gesetz zur Förderung der Stabilität und des Wachstums der Wirtschaft | Law for the Promotion of Economic Stability and Growth |

FOOTNOTES

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2. For example, the 1980 Holder study.
3. As, for example, contained in: National Committee on Governmental Accounting, Governmental Accounting, Auditing, and Financial Reporting (Chicago, Illinois: Municipal Finance Officers Association of the United States and Canada, 1968).
4. This paragraph is based on: International Institute for Legal and Administrative Terminology, European Glossary of Legal and Administrative Terminology, vol. 14, Local Government (London: Sweet & Maxwell, 1973), p. 23.
5. This paragraph is based on Goetz, 1978, pp. 39-41.
6. Schoenfeld 1974, p. 33 provides a concise description of the integration of management and financial accounting in West Germany.

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Appendix

BUDGET GROUPINGS SUMMARY

(#10 HGrG; #13 BHO)

| <u>Grouping Number</u> | <u>Receipts</u> |
|----------------------------|--|
| 0 | <u>Taxes, General Grants</u> |
| 000 | Land Tax A |
| 001 | Land Tax B |
| 002 | Land Tax Support |
| 003 | Local Business Tax on Capital and Profits |
| 004 | Payroll Tax |
| 01 | Local Government Share of Income Tax |
| 02,03 | Other Taxes and Tax-Like Receipts |
| 04 | Property Tax Support Grants from: |
| 041 | the State |
| 042 | Local Governments |
| 05 | Grants for Contingencies from: |
| 051 | the State |
| 052 | Local Governments |
| 06 | Other General Grants from: |
| 060 | the Federal Government |
| 061 | the State |
| 062 | Local Governments |
| 1 | <u>Receipts from Administration and Services</u> |
| 10,11,12 | Fees and Similar Charges, Restricted Taxes |
| 13,14,15 | Receipts from Sales, Rents, Leases, Other Administrative and Service Receipts |
| 16 | Reimbursements of Administrative and Service Outlays from: |
| 160 | the Federal Government |
| 161 | the State |
| 162 | Local Governments |
| 163 | Joint Authorities |
| 164 | Other Public Sectors |
| 165 | Public Enterprises |
| 166 | Private Enterprises |
| 167 | Remaining Sectors |
| 169 | Internal Transactions |

| | |
|-------------|--|
| 17 | Grants and Advances for Current Purposes from: |
| 170 | the Federal Government |
| 171 | the State |
| 172 | Local Governments |
| 173 | Joint Authorities |
| 174 | Other Public Sectors |
| 175 | Public Enterprises |
| 176 | Private Enterprises |
| 177 | Remaining Sectors |
| 2 | <u>Other Financial Receipts</u> |
| 20 | Interest Receipts from: |
| 200 | the Federal Government |
| 201 | the State |
| 202 | Local Governments |
| 203 | Joint Authorities |
| 204 | Other Public Sectors |
| 205,206,207 | Other Sectors |
| 209 | Internal Loans |
| 21,22 | Shares of Profits from Enterprises and Concessions |
| 23 | Debt Service Assistance from: |
| 230 | the Federal Government |
| 231 | the State |
| 232 | Local Governments |
| 233 | Joint Authorities |
| 234 | Other Public Sectors |
| 235,236,237 | Other Sectors |
| 24,25 | Compensation for Institutional and External Social Services |
| 26 | Other Receipts |
| 27 | Imputed Receipts |
| 28 | Transfer from Capital Budget |
| 3 | <u>Receipts of the Capital Budget</u> |
| 30 | Transfer from Operating Budget |
| 31 | Reserve Withdrawals |
| 32 | Loan Repayments from: |
| 320 | the Federal Government |
| 321 | the State |
| 322 | Local Governments |
| 323 | Joint Authorities |
| 324 | Other Public Sectors |
| 325,326,327 | Other Sectors |

33 Receipts from Disposal of Shares and Returns
on Capital Contributions
34 Receipts from the Disposal of Fixed Assets
35 Contributions and Similar Payments
36 Grants and Advances for Investments and Promotion
of Investment Activities from:

360 the Federal Government
361 The State
362 Local Governments
363 Joint Authorities
364 Other Public Sectors
365,366,367 Other Sectors

37 Receipts from Credit and Internal Loans from:

370 the Federal Government
371 the State
372 Local Governments
373 Joint Authorities
374 Other Public Sectors
378 Credit Market
379 Internal Loans

4 Outlays

40 Expenditures for Honorary Activity
41 Service Salaries
42,43 Pension
44 Premiums for Statutory Social-Insurance
45 Assistance and Support
46 Personnel Related Outlays
47 Reserved to Cover Personnel Outlays

5,6 Non-Personnel Administration and Services

50,51 Maintenance of Real Estate and Structures and
Other Unmoveable Assets
52 Equipment, Fixtures, and Similar Functional Objects
53 Rents and Leases
54 Management of Real Estate, Structures, etc.
55 Vehicle Maintenance
56,57/63 Special Expenditures for Public Employees,
Additional Outlays for Administration and Services
64,65,66 Taxes, Business Outlays
67 Reimbursements of Administrative Service Outlays to:

670 the Federal Government
671 the State
672 Local Governments

| | |
|-------------|--|
| 673 | Joint Authorities |
| 674 | Other Public Sectors |
| 675,676,677 | Remaining Sectors |
| 679 | Internal Transactions |
| 68 | Imputed Costs |
| 7 | <u>Grants and Advances (not for Investments)</u> |
| 70 | Advances for Current Purposes to Social or Similar Institutions |
| 71 | Grants and Other Advances for Current Purposes to: |
| 710 | the Federal Government |
| 711 | the State |
| 712 | Local Governments |
| 713 | Joint Authorities |
| 714 | Other Public Sectors |
| 715,716 | Private and Public Enterprises |
| 717 | Remaining Sectors |
| 72 | Debt Service Assistance to: |
| 722 | Local Governments |
| 723 | Joint Authorities |
| 725,726 | Public and Private Enterprises |
| 727 | Remaining Sectors |
| 73,74,75 | Social Welfare |
| 76,77,78 | |
| 8 | <u>Other Financial Outlays</u> |
| 80 | Interest Outlays to: |
| 800 | the Federal Government |
| 801 | the State |
| 802 | Local Governments |
| 803 | Joint Authorities |
| 804 | Other Public Sectors |
| 808 | Credit Market |
| 809 | Internal Loans |
| 81 | Tax Sharing |
| 810 | Local Business Tax Sharing |
| 815 | Property Tax Equalization |

82 General Grants to:

 822 Local Governments

 823 Joint Authorities

83 General Contributions to:

 831 the State

 832 Local Governments

 833 Joint Authorities

84 Additional Financial Outlays

85 Coverage Reserve

86 Transfer to Capital Budget

9 Outlays of the Capital Budget

90 Transfer to the Operating Budget

91 Transfers to Reserves

92 Granting of Loans to:

 920 the Federal Government

 921 the State

 922 Local Governments

 923 Joint Authorities

 924 Other Public Sectors

 925 Public Enterprises

 926 Private Enterprises

 927 Remaining Sectors

93 Acquisition of Assets

 930 Acquisition of Shares, Capital Contributions

 932 Acquisition of Real Estate

 935 Acquisition of Moveable Capital Assets

94,95,96 Buildings

97 Repayments of Credit and Other Loans to:

 970 the Federal Government

 971 the State

 972 Local Governments

 973 Joint Authorities

 974 Other Public Sectors

 978 Credit Market

 979 Internal Loans

98 Grants and Advances for Investments to:

 980 the Federal Government

 981 the State

| | |
|-----|---------------------------------------|
| 982 | Local Governments |
| 983 | Joint Authorities |
| 984 | Other Public Sectors |
| 985 | Public Enterprises |
| 986 | Private Enterprises |
| 987 | Remaining Sectors |
| 99 | Other Outlays of the Financial Budget |
| 990 | Costs of Raising Credit |
| 991 | Settlement of Long-Term Charges |
| 992 | Coverage of Deficits |

SOURCE: Stefan Depiereux. Grundriss des Gemeindehaushaltsrechts
(Recklinghausen: Kommunal-Verlag GmbH, 1973), pp. 284-291.

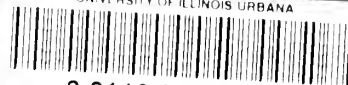
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