



Latvijas Republikas  
Valsts kontrole

*Successful cooperation with  
experts and the use of  
experts' work in audits:  
conditions, risks, solutions*

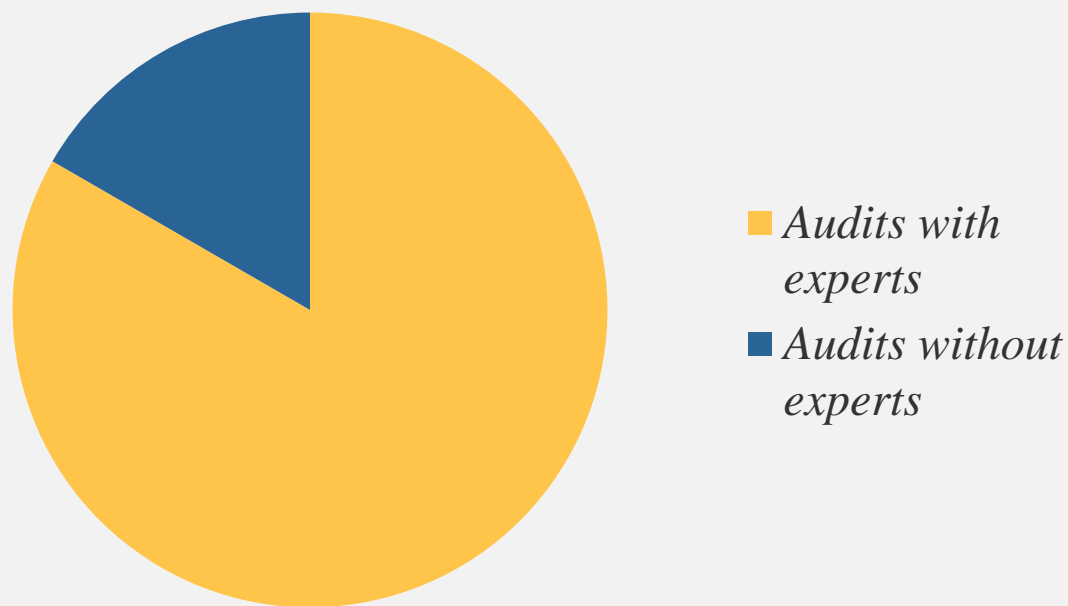
Skanstes ielā 50, Rīgā, LV-1013  
Tālrunis: +371 67017500  
Fakss: +37167017673  
E-pasts: [lrvk@lrvk.gov.lv](mailto:lrvk@lrvk.gov.lv)  
Mājas lapa: [www.lrvk.gov.lv](http://www.lrvk.gov.lv)  
FB, Twitter: @VKontrole

Oskars Erdmanis, Sector Head  
Baiba Bebre, State Auditor-Lawyer  
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# INTRODUCTION

- *In 2015-2018, the State Audit Office of Latvia used the work of external experts in 5 local government audits*





# CHOOSING EXPERTS – CONDITIONS AND PROCEDURE

- *External experts are involved in audits if the planned tasks require specific knowledge or skills and it is impossible to use an internal consultant from the State Audit Office*
- *Two types of consultations – fee-based and free of charge (for example, NGOs, industry associations)*
- *Communication with experts at least once in every two weeks to discuss progress, identify risks and specify tasks and timetable*
- *Experts' opinions are published along with the audit report*

- *Procedure for selecting experts – public procurement*
- *Challenge – public procurement procedure does not always guaranty that the most appropriate expert will be selected, especially if only one candidate applies*
- *Our solution –*
  - *Expert's work assignment must be defined very precisely and thoroughly discussed with the expert*
  - *Qualified experts must be scouted and informed about the possibility to participate in the procurement procedure*



# USING EXPERTS' WORK IN AUDITS – OUR EXPERIENCE

# *Audit 'Has the implemented state and municipality policy enhanced road and street development?' (2015)*

## **About the audit**

- *Audited entities – 5 local governments*
- *Audit question – Do local governments use their limited financial resources to ensure the best possible technical condition of roads and streets?*
- *Expert – a specialist from a construction and project management company*

## **Questions to the expert**

- *Do actual pothole repairs on streets and roads correspond to what the municipality has paid for (amount of repairs and technology used)?*
- *Has the municipality used the most appropriate maintenance methods to ensure economical and sustainable upkeep of streets and roads?*





# *Audit ‘Has the implemented state and municipality policy enhanced road and street development?’ (2015)*

## **Outcome**

- *Expert monitored 71 streets and roads covered with asphalt and gravel*
- *Expert’s conclusion:*
  - 40% of the monitored roads and streets are no longer suitable for “pothole patching” and should be rebuilt instead
  - Many roads are not suitable for grader works since the road surface no longer has a clean, unpolluted and non-freezing layer and the upper layer of gravel surface has not been restored
  - Consequently municipalities have often used their financial means inefficiently by carrying out short-term works that do not ensure sustainability of roads and streets
- *However, expert unable to compare actual pothole repairs with the relevant documentation – cites lack of samples for laboratory tests as the reason*

# *Audit in the Riga Freeport Authority (2016)*

## **About the audit**

- *Audit of a major construction project in the territory of the Freeport – construction of a berth*
- *Audit question – is the project managed lawfully, effectively and efficiently?*
- *Two experts – successful cooperation with the expert specialising in project management; however, cooperation with the construction expert did not provide the expected results*



# *Risks encountered in cooperation with construction experts*

- *Experts are characterized by the principle of independence*
- *However, when an expert is contracted by the SAI, in a sense he/she is working «within the mandate» of the SAI with power to request information and give an opinion*
- *In such situation the expert's independence may be at risk – the audited entity might be interested in influencing the expert*
  - *Example: If the expert's fee is 16 000 euro but the expert's opinion concerns a 60 million euro construction project , there is a high risk that the expert might be influenced and the expert's opinion will not reveal significant irregularities in implementation of the construction project*

# *Audit ‘Do local governments provide services to residents for reasonable cost?’ (2017)*

## **About the audit**

- *Audited entities –20 local governments*
- *Audit questions:*
  - Does the local government know how effective and productive is its work, how effective and economic is each process in the provision of services?
  - Do residents overpay for the provided paid services or vice versa — these services create additional unexpected expenses to the budget of local government, thus taking the financing away from other important tasks?
- *Two experts – a scholar from the academia specialising in local governments and a consultant from a company specialising in quality management systems*

# *Audit 'Do local governments provide services to residents for reasonable cost?' (2017)*

## **Questions to experts – process analysis**

- *Is centralized accounting more economical than decentralized accounting? How much money certain municipalities would save/lose by centralizing their accounting?*
- *Is real estate tax collection economical and efficient if the council and the Finance committee are involved in the process? How much these extra process steps cost in certain municipalities?*

# *Audit ‘Do local governments provide services to residents for reasonable cost?’ (2017)*

## **Questions to experts – academia**

- *What is the scope of the term ‘administrative resource’?*
- *How the pricing of municipal services should be determined (process & calculations)?*
- *What criteria and conditions should be used to assess whether it is effective for a municipality to provide certain services or other means should be used(e.g., outsourcing, cooperation among municipalities)?*
- *How the legal framework could be improved?*

# *Audit 'Do local governments provide services to residents for reasonable cost?' (2017)*

## **Outcome – experts' conclusions**

- *Process analysis*
  - *By using lean methodology and benchmarking the expert identified redundant steps in the real estate tax collection process and calculated their costs;*
  - *The expert also analysed decentralized accounting processes and justified benefits of centralized accounting*



## DEBT RECOVERY PROCESS FOR PROPERTY TAX (PT) AT LOCAL GOVERNMENT OF RĒZEKNE MUNICIPALITY

### Person responsible for PT administration

Prepares draft project and necessary annexes



### Person responsible for PT administration

Sends prepared documents to the person responsible for organising meetings



### Person responsible for organising meetings

Processes documents for consideration at the Financial Committee meeting and prepares the agenda of the meeting



Financial Committee meeting is convened



### Person responsible for organising meetings

Processes documents for consideration at the Council meeting and prepares the agenda of the meeting



### Person responsible for organising meetings

Processes documents after the Financial Committee meeting



### Members of the Council

Consider the decision at the meeting and decide whether to send it to the Council meeting



Council meeting is convened



### Members of the Council

Take the decision on debt recovery



### Person responsible for organising meetings

Processes documents after the Council meeting. Sends the documents to the responsible persons.



### Secretary



Sends the documents to the debtor



## DEBT RECOVERY PROCESS FOR PROPERTY TAX (PT) AT LOCAL GOVERNMENTS OF MADONA AND GULBENE MUNICIPALITIES

### Person responsible for PT administration

Prepares draft project and necessary annexes



### Administration Manager

Reviews and signs the documents



### Secretary



Sends the documents to the debtor

# *Audit ‘Do local governments provide services to residents for reasonable cost?’ (2017)*

## **Outcome – experts’ conclusions**

- *Municipal services*
  - *The expert gave an opinion on the use of terminology relevant to the report*
  - *Likewise, the expert proposed methodology for evaluating and calculating costs of municipal services*
  - *The expert also analysed provision of services in local governments and possibilities for their optimization*

## Service management

Service definition and description

Strategy setting for service provision channels

Identification and measuring of service indicators

Improving, planning and implementing service provision

Collaboration with other institutions

Monitoring and analysis of service quality

## Service provision

Provision of information on services

Specialist consultations

Receipt and execution of service requests

Delivery of service results to client

Review of client's feedback

Recording of service provision and control of service implementation

*Image no. 3. Process of service management and provision*

# *Audit ‘Do local governments provide services to residents for reasonable cost?’ (2017)*

## **Outcome – SAI’s recommendations**

- *Main recommendations concern:*
  - Provision of quality and convenient services with justified costs;
  - Optimization and systematisation of work organisation by using modern technologies and planning the use of resources according to the needs of residents
- *5 Municipalities have already calculated that by implementing SAI’s recommendations they will save more than 740 000 per year*

# *Audit ‘Do municipalities organize school transportation legally and effectively?’ (2018)*

## **About the audit**

- *12 local governments*
- *Audit questions:*
  - *Do municipalities organize school transportation economically?*
  - *Do municipalities organize school transportation in a way that is safe and does not affect pupils’ health and learning capabilities?*
- *Expert – an economic geographer with experience in school network research*

## **Expert’s tasks**

- *Mapping of the routes of school and public transportation*
- *Have the municipalities chosen the most economical solutions for delivering pupils to schools?*
- *What would be the most optimal routes and solutions for school transportation?*

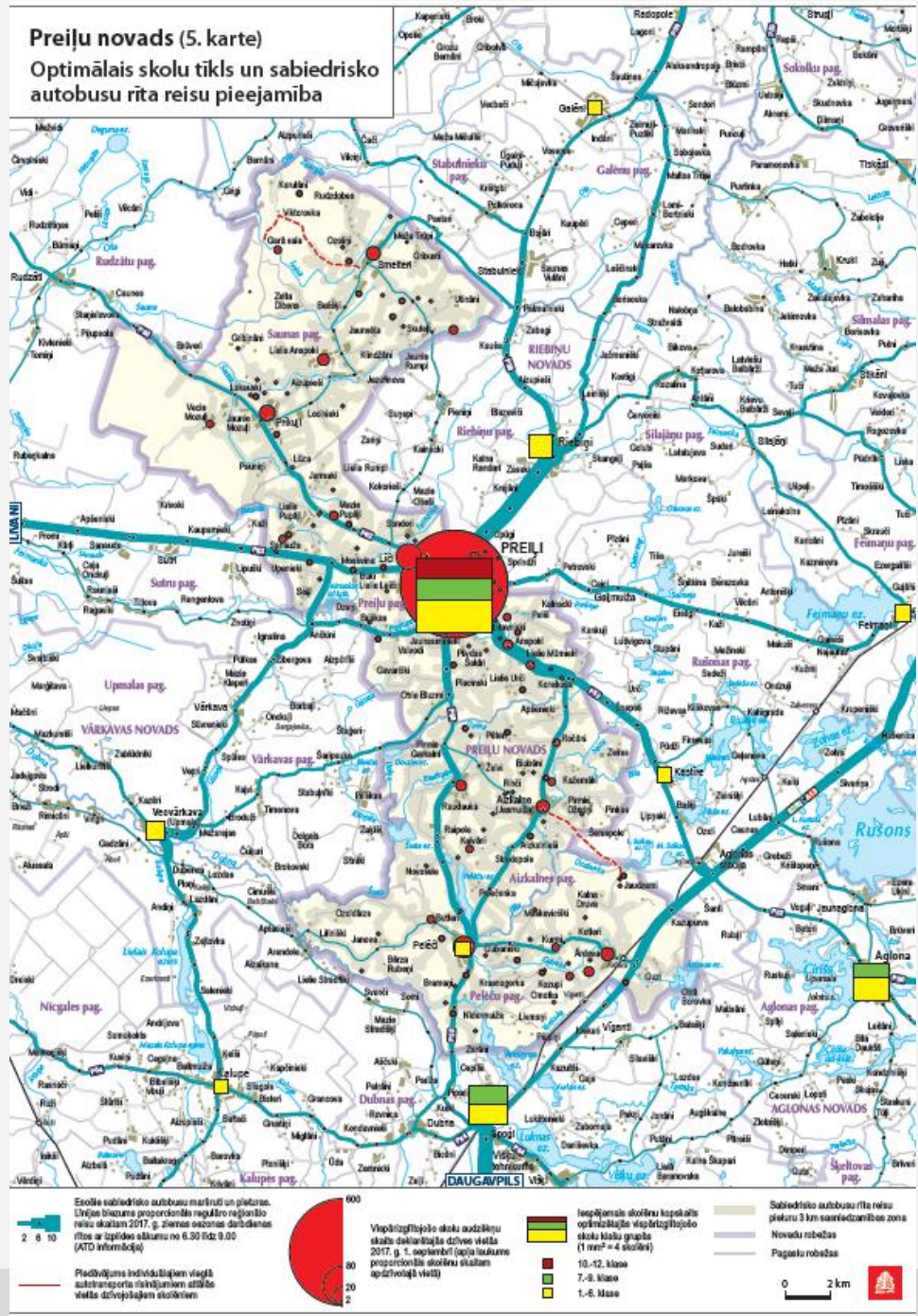
# *Audit 'Do municipalities organize school transportation legally and effectively?' (2018)*

## **Outcome**

- *By mapping and analysing school transportation routes in 4 municipalities, the expert found that municipalities do not correctly record and analyse costs of school transportation*
- *By reorganizing school transportation routes and making more use of public transportation, these 4 municipalities could save at least 152 177 euro per year*
- *The expert also indicated that school transportation routes are not oriented towards the needs of pupils*

# Preiļu novads (5. karte)

## Optimālais skolu tīkls un sabiedrisko autobusu rīta reisu pieejamība





# CONCLUSION – SUCSESSES, CHALLENGES AND RISK PREVENTION

# Main conclusions

- *Experts can significantly contribute to the audit work and make the audit report more credible for the intended audience. SAIs must facilitate cooperation with experts by utilizing both commissioned expert opinions and free of charge consultations with NGOs and other institutions;*
- *It is necessary to be actively involved in the expert selection process. Before the public procurement procedure is initiated, possible experts should be carefully researched and informed about the possibility to participate*
- *Quality of the contract – strict deadlines for submission of draft opinion, its evaluation by the SAI, revision and final submission. The contract should clearly state when the expert’s assignment is considered to be fully completed and what steps must be taken if the SAI is not satisfied with the expert’s work;*

# Main conclusions

- *Procurement documents must clearly and precisely state the amount of expert's work and expected quality. It is advisable to have several meetings with the expert to discuss and explain the work assignment (moreover, each time meeting protocols should be prepared)*
- *It might be necessary to control the expert's communication with the audited entity – if the expert is given power to make inquiries on behalf of the SAI, the audited entity might be interested in influencing the expert's opinion ( if it is reasonable, the contract can state that the expert may communicate with the audited entity only in the presence of a representative of the SAI)*



THANK YOU!