

TFMA NEWS

ALL YOU NEED TO KNOW ABOUT TFMA

APRIL 2018 – JUNE 2019, No2

MESSAGE FROM THE CHAIR

Three years ago, the EUROSAI TFMA took the first steps from local to global. The journey began with little steps and led us along the successful path paved by people headed in the same direction who shared dreams and aspirations and worked together to make our cooperation exciting. The TFMA keeps on creating the added value for municipal audit and the entire auditing system. Results of our activities enable the right decisions to be made in external municipal audits. We help to create the background for the improvement of external audit methodologies and to make the audit process easier.

The interactive map of the TFMA Members gives us a profound overview of the possibilities and the effective use of the budget and accounting data.

I am particularly happy that Members of the TFMA – Supreme Audit Institutions of 28 European countries - have remained faithful to the guiding principles and objectives of TFMA. This gives us hope that with dedicated hearts and the pioneering spirit that has driven us from the beginning, the Vision of TFMA – to become an active EUROSAI Task Force covering relevant questions in the sphere of municipality audit – as well as our Mission - to create an open platform for sharing the best practice and experience to reach audit results that have a substantial impact on improving public financial management - are being successfully implemented. Each Member of the TFMA contributed to our activities in different ways:



organising seminars and meetings, delivering presentations, taking part in discussions, conducting surveys, analysing approaches and methodology applied in municipality audits as well as sharing experience in this annual newsletter. Moreover, all Members are vital to the future achievements of the TFMA. Your support has been and remains invaluable for us.

The newsletter invites us to make a little pause, to take a step back and see things through with fresh eyes, from different perspective, more creatively, and broadly.

Sincerely,

Arūnas Dulkys, PhD

Auditor General of the Republic of Lithuania
Chairman of the EUROSAI TFMA

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THE 2nd SEMINAR OF EUROSAI TFMA “LOCAL GOVERNMENT FINANCE: FUTURE CHALLENGES”

On 5 November 2018, the Seminar on Municipality Audit “Local Government Finance: Future Challenges” took place in Belgrade, Serbia. The Seminar was chaired by the EUROSAI TFMA Secretariat and hosted by the State Audit Institution of the Republic of Serbia with the attendance of the members, observers and guests. The event was dedicated to deepening the understanding of the level of the government’s closeness to the citizens, identifying universal as well more regional and country-specific challenges facing local government finance.

The seminar was focused on two topics:

- Issues related to local government finance
- Cooperation with experts and internal auditors in municipality audits and SAIs follow-up activities



- 64 participants from 26 countries
- 1 expert speaker from OECD
- 9 presentations
- 1 workshop session



The Seminar created the space for discussions on the financial well-being, effective financial management and accountability of local governments, the steering of local government finances, borrowing and debt as well as the role of the central government in these processes. Besides local government finance, topics on the use of the results of experts and internal auditors in municipality audits and the follow-up procedure were presented and discussed.

THE 2nd ANNUAL MEETING OF THE EUROSAI TFMA MEMBERS

On 6 November 2018, the 2nd annual meeting of the EUROSAI TFMA members also took place in Belgrade, Serbia. During the meeting, the following main issues were discussed:

- The implementation of the EUROSAI TFMA Strategic Goals
- Reviewing the progress and results of the activities



UPCOMING EVENTS

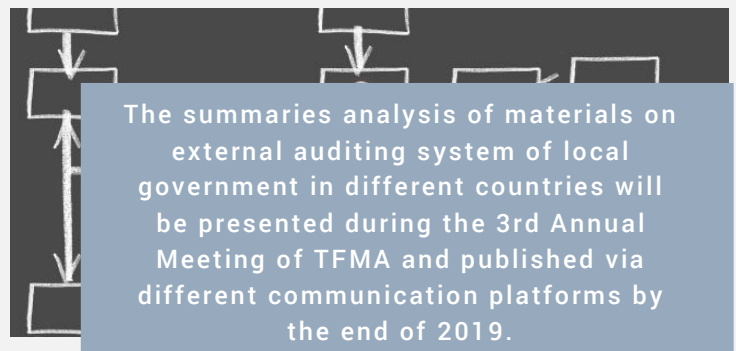
The Court of Auditors of Portugal suggested to host **the next Seminar on Municipality Audit in Lisbon, Portugal**. The agreed date for the Seminar is **10-11 October 2019**. The annual meeting of the EUROSAI TFMA members will also be organized together with the Seminar on Municipality Audit to discuss the progress of implementation of the EUROSAI TFMA Working Programme for 2017-2020, possibilities to start new activities as well as other TFMA affairs.

ANALYSIS OF EXTERNAL AUDIT SYSTEMS

The SAI of Lithuania has initiated activity on gathering and systemizing the information about the models of external audit systems of municipalities in TFMA countries. The Coordination Group includes representatives of SAIs of Lithuania (team leader), Estonia and Greece. During 2018, an overview of external municipal audit models in the EUROSAI TFMA member countries was prepared and published on the TFMA website. This is the first publication providing detailed information about the external audit of local government in different countries: the entities that carry out external audit in municipalities, their competencies, the scope of audits and the practice of cooperation between audit institutions as well as more regional and country-specific challenges facing local government finance.

Further analysis of materials on external auditing systems of local government in different countries will allow to identify strengths of various models, reveal and

share good practice examples and initiate positive changes for the entire municipality audit system. It is expected that the measures taken will contribute to more effective external audit systems of the countries, promote cooperation between auditing entities and help legislators make decisions on systems improvement. The summaries of research will be presented during the 3rd Annual Meeting of TFMA and published via different communication platforms by the end of 2019.



USE OF MUNICIPALITY DATA IN MUNICIPAL AUDITS

To ensure the municipality data are as accurate as possible and to encourage the secondary use of the data, representatives of SAI of Austria analysed the information collected from the EUROSAI TFMA members in the field of quality assurance and data collection.

The results of the survey allow a profound overview of the possibilities and effective use of budget and accountancy data. The differences in the structure and aggregation level of data are shown. Furthermore, quality assurance and data collection are also discussed.

METHODOLOGIES USED IN MUNICIPALITY AUDITS

The Coordination Group consisting of SAIs of Croatia, Latvia, and Romania have gathered information on the models of external audit systems of municipalities in each country via conducted survey. The survey was prepared after reviewing existing materials related to the survey topic. The gathered information was analysed by comparing, grouping different models, identifying strengths, weaknesses as well as opportunities to improve them.

The Overview of methodologies used in local government auditing has already been prepared: common practice existing in the SAIs of the EUROSAI TFMA, a list of areas where the recommendations and guidelines on municipality audit could be useful.

DATABASE ON THE MAIN MUNICIPAL DATA/EXPENSES

The SAI of Slovakia developed a database on the main municipal data and will update it annually to facilitate the comparison and use of data. In the last period, data of 2015-2017 were collected from all the EUROSAI TFMA members.

ANALYSIS OF MUNICIPALITIES OWN REVENUES

The SAI of North Macedonia gathered information about municipalities own revenues in each EUROSAI TFMA member country via conducting a survey. The results of the survey were also presented in Belgrade in November 2018. The summary of results of the survey will be available to all the EUROSAI TFMA members.

EUROSAI TFMA ACTIVITY REPORT WAS PRESENTED IN THE 50th EUROSAI GOVERNING BOARD MEETING

The Auditor General Arūnas Dulkys will participate in the 50th Meeting of the Governing Board of the European Organisation of Supreme Audit Institutions (EUROSAI) organised by the Supreme Audit Institution (SAI) of Latvia from 11 to 13 June, in Jūrmala (Latvia).

During the event, Arūnas Dulkys will present the Activity Report for 2018 of the EUROSAI Task Force on Municipality Audit (TFMA) chaired by the SAI of Lithuania. The activities of the TFMA established at the initiative of the SAI of Lithuania are targeted at improving the external municipality audit system and audit process, and to share best practices with the



SAs of the other countries. EUROSAI TFMA activity report can be found on TFMA website: <https://www.vkontrole.lt/tf/page.aspx?id=68>.

EUROSAI TFMA AUDIT COMPENDIUM

The EUROSAI TFMA Secretariat initiated a new activity – to publish the EUROSAI TFMA Audit Compendium. This audit compendium, as a new type of product, should complement the audit results by raising awareness of recent audit work by the EUROSAI TFMA countries and would make the results of SAIs work more widely available. The topic for the current period “Municipality-owned companies” is approved by all members in the 2nd Annual Meeting. The purpose of the EUROSAI TFMA Audit Compendium is to gather and systemize the audit results or practices of members in the field of municipality-owned companies in the period between 2015 and 2019.



**EUROSAI TFMA
AUDIT COMPENDIUM
IS A NEW TYPE OF PRODUCT**

**THIS AUDIT COMPENDIUM
SHOULD COMPLEMENT THE AUDIT
RESULTS BY RAISING AWARENESS
OF RECENT AUDIT WORK BY THE
EUROSAI TFMA COUNTRIES AND
WOULD MAKE THE RESULTS OF SAIs
WORK MORE WIDELY AVAILABLE.**

Accordingly, during the 2nd quarter of 2019 the Coordination group consisting of SAIs of Italy, Serbia, Turkey and Ukraine will collect information about conducted audits or other useful information related to the Compendium topic from the EUROSAI TFMA members. Thereafter, Coordination group will analyse and systemize the gathered information and in the final quarter of 2019 will finalise the Audit Compendium and will circulate it among EUROSAI TFMA members.

AUDIT OF THE SYSTEM ON FINANCING THE LOCAL GOVERNMENT IN SLOVENIA

Court of Audit of the Republic of Slovenia

This article presents how The Court of Audit of the Republic of Slovenia (SAI Slovenia) conducted an audit concerning the system of financing the local government.

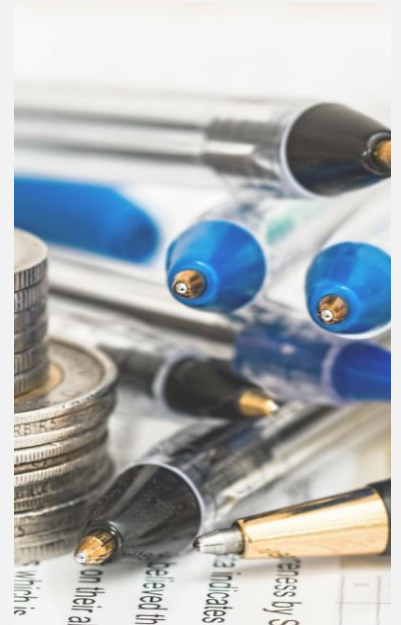
"The number of municipalities is too high", "municipalities are too small to perform their functions", "they are inefficient at performing their functions", "The municipalities must perform more and more functions, yet they do not receive any additional funds"... These are just some of the statements that are repeated at the end of every year when the government and the municipalities start negotiating the amount of the most important source of revenue – the "primerna poraba" (PP). A study that would confirm or deny any of such statements has yet to be conducted.

One thing is certain. The 212 municipalities in Slovenia are very diverse in the number of citizens (from just 362 to as many as 300.000), surface area (from 7 km² to 555 km²) and their budgets (from 0.5 million euros to 272 million euros). Nevertheless, all the municipalities must provide the same functions that are imposed by the laws. The legislator is therefore faced with the difficult task of establishing a just system of financing these functions. The sources [1] of financing the tasks of municipalities are determined by the Act on financing the municipalities [2].

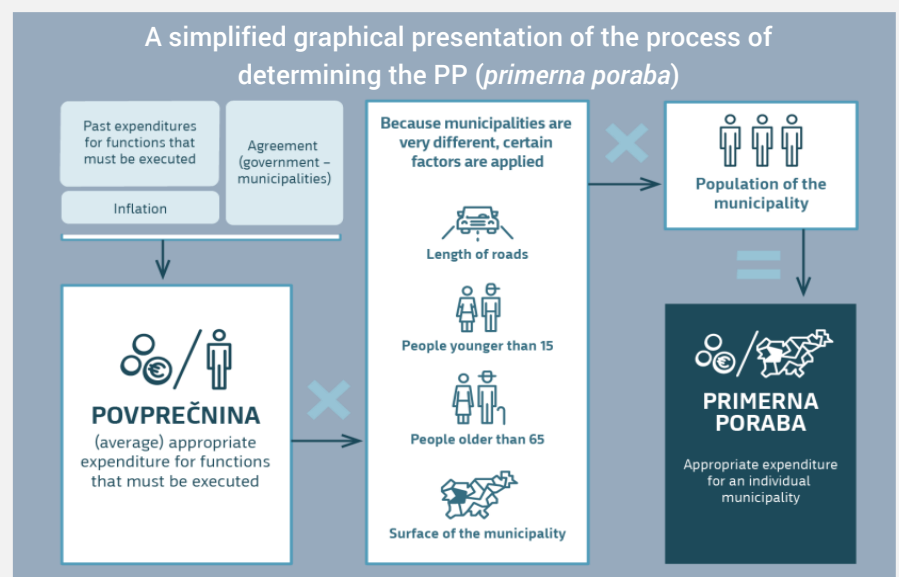
Most of the sources of revenue are defined as own sources [3]. But in practice there are few sources of revenue that can be influenced by municipalities in terms of amount received. For example, national legislation defines the most important source of revenue (it constitutes approximately a half of all municipal revenues – 1 billion euros), the abovementioned PP, as a municipality's own source, although they have no freedom in imposing this source.

The process of determining the PP is based on the amounts of past expenditures for

functions that municipalities must execute. First, the Ministry of Finance calculates how much money the municipalities have spent on current functions (for example education, social security, transport) per capita in the last 4 years. This "proposal" is then the subject of negotiations with the municipalities. The agreed upon amount is called "povprečnina" (this year it amounts to 573.50 euros per capita) [4]. This number could simply be multiplied with the number of citizens of each individual municipality and we would have a rough estimate of how much each municipality needs for executing its current functions.



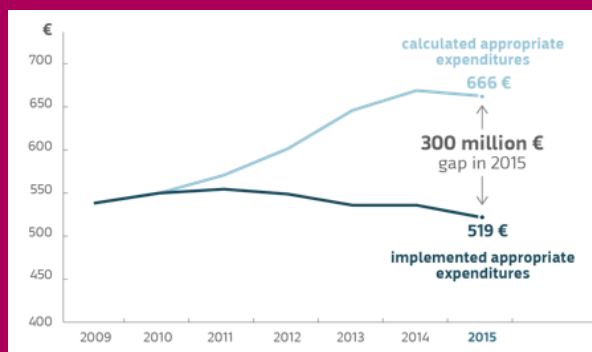
But this would only be just if the municipalities were more or less similar to one another. As we have shown before, this is not the case. Because the municipalities are so different certain weighted factors that individualize the amount each municipality receives must be applied. Only after these factors are taken into account is the PP of each individual municipality calculated.



As mentioned, an agreement between the government and the municipalities is a part of the process of determining PP. As a rule, the municipalities claim that their revenues do not suffice for executing their functions and therefore demand a higher "povprečnina" (which would result in a higher individual PP). On the other hand, the government tries to advocate a lower "povprečnina" with the arguments that the municipalities should be more efficient and must carry a part of the burden of the country's fiscal situation.

In 2015, the gap between the expectations of the municipalities and the government exceeded 300 million euros. This means that the municipalities demanded a 30 percent higher amount than they received. An agreement was not reached and the government implemented „povprečnina“ at 519 euros.

The gap between the expectations of the municipalities and the government in 2015



This induced SAI Slovenia to perform a preliminary analysis through which several risks indicating the inefficiency of the system of determining the PP were found. SAI Slovenia decided to conduct an audit with the goal of finding out whether the system of determining PP is efficient. The auditees were the government (because of its role in the process of determining PP), The Ministry of finance (because it is responsible for the system of financing the municipalities) and the Ministry of public administration (because it prepares the legislation regarding the functions of municipalities and the financing of municipalities). In order to provide a good overview and an objective audit report we decided to audit the functioning of the system in the last 4 years.

The key findings of the audit [6] were:

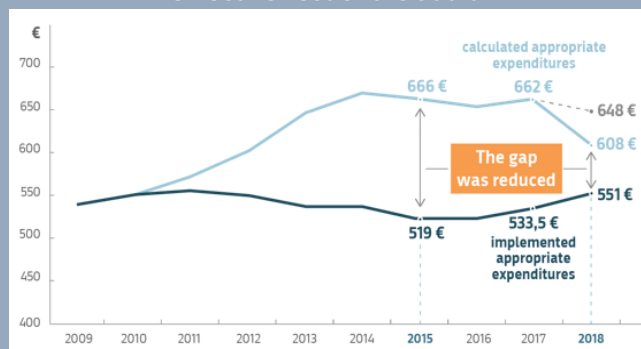
- The prescribed procedure for determining the PP in the Act on financing the municipalities was unclear and consequently misinterpreted;
- The functions of municipalities for which the past expenditures were calculated were not clearly defined and the procedure of calculating PP included expenditures for municipality functions that were not obligatory;
- The fiscal situation of the country (reduced revenues) as a consequence of the financial crisis was not a prescribed factor in the process of determining the PP;
- The factors which should guarantee that the characteristics of each municipality are taken into account were never amended even though we found out that minor changes of some factors would result in a fairer allocation of available funds.

Based on these findings we demanded several corrective

measures that resulted in:

- The amendment of the Act on financing the municipalities so the provisions about the procedure for determining the PP are now clearer and misinterpretation is not possible;
- The amendment of a sub-act for a more precise determination of expenditures that are taken into account in the process of determining the PP;
- A compilation of functions that the municipalities must execute (this kind of a document did not exist before the audit);
- A commitment from the ministries to survey the working of system and to take action (make improvements) if problems are detected;
- The reduction of the gap between the expectations of the municipalities and the implemented amount of „povprečnina“.

The fiscal effect of the audit



Unfortunately, one of the remedial actions of the auditees was not adequate. Despite the amendment of acts, the functions that must be executed by municipalities are still not clearly defined in the legislature. Because of this, the expenditures that form the basis for the determination of PP are also unclear. The expenditures are now determined by a sub-act of the Ministry of finance. So, the two main remaining issue are:

- The Ministry of Finance is not bound by a definition in a law when amending the functions that are taken into account when determining PP but only by a sub act, which it can amend by itself;
- The Ministry of Finance is responsible for public finances and not for functions of municipalities, therefore this kind of act should be adopted by the Ministry of Public Administration which is responsible for the legislation regarding the functions of municipalities and the financing of municipalities.

Therefore, despite improvements, the system of financing the municipalities remains an important topic for our future audits. An audit that focuses on the regulation, oversight and efficiency of the performance of municipal functions is already underway.

[1] Property tax, vessel tax, tax on real estate transactions, 54% of personal income tax, self-imposed contributions, dues, fines, concession fees, payments for local public services, tangible and financial assets, grants and transferred revenues received from the national budget and EU funds etc.

[2] English translations of Slovenian laws and regulations can be obtained on the site: http://www.svz.gov.si/fileadmin/svz.gov.si/pageuploads/prevodi/List_of_Slovene_laws_and_regulations_in_English.pdf.

[3] This is in accordance with the Constitution of The Republic of Slovenia that states: "A municipality is financed from its own sources. Municipalities that are unable to completely provide for the performance of their duties due to insufficient economic development are ensured additional funding by the state in accordance with principles and criteria provided by law" (Article 142).

[4] If an agreement is not reached, the government can determine the amount of "povprečnina" by itself.

[5] These factors are: the length of roads, the number of "young" citizens, and the number of "old" citizens and the surface area of each municipality.

[6] In the audit report we tried to present the findings as objectively, completely and clearly as we could. Even though the subject of the audit was complex, we tried to make the report user friendly. Pictures, graphs and tables were used where possible and an infographic was issued alongside the report. The report and the infographic are available at: <http://www.rs-rs.si/revizije-in-revidiranje/arhiv-revizij/revizija/primerna-poraba-obcin-v-leth-2014-2015-101/>.

DOES THE SYSTEM OF MUNICIPAL FUNCTIONS AND THEIR FUNDING PROVIDE CONDITIONS FOR EFFICIENT OPERATION?

National Audit Office of Lithuania

Municipalities are authorities that are closest to the people, which deliver public services to local people while implementing functions designated to them by the state as well as independent functions in their day-to-day operations. The central government also deliver public services in the same areas, therefore, their quality and accessibility depend both on the state and municipal decisions. The audit performed by the National Audit Office "Does the System of Municipal Functions and their Funding Provide Conditions for Efficient Operation?" revealed that the system is not oriented towards the needs of the population.

Audit results reveal that there is no evaluation performed at what level of governance (state or municipal) and with the implementation of which functions (independent or delegated by the state) needs and wishes of the population will be satisfied best of all and public funds will be used in the most efficient way.

For instance, shortcomings in the area of health care service delivery are being detected both at the level of central government and the local government. More than a half of the questioned population consider accessibility of general practitioners' services organised by municipalities satisfactory or poor. Centralization of tertiary health care was aimed at more efficient use of expensive medical equipment, however the problems remained unsolved – more than a half of the said equipment is used little, a part of it is not used at all, this being the reason for patient queues. Thus, delegation of functions to one of the governance levels does not, of itself, ensure better accessibility of services and use of funding.

The audit detected that it is not known what is the actual cost of the implementation of state functions as the methodologies for calculation of the state budget needs do not help to objectively and reasonably estimate which amount is necessary. For instance, each municipality, irrespective of the number of young people residing in the municipality, is allocated funds for a single position of a youth coordinator. Therefore, the amount per young person allocated for the implementation of youth policy might differ 50-fold in individual municipalities.

Having delegated the state functions to municipalities, funding should be envisaged for their implementation, however the audit findings indicate that one third of the delegated state functions (12 out of 36) are not covered by



the allocated funding, therefore municipalities finance the implementation of these functions from their own budgets. During the last three years, municipalities have used 1.7 million euros for the implementation of such functions as registration of civil status acts or provision of the state guaranteed legal aid. The state is not aware how much funding from municipal budgets has been used for the implementation of the state functions, because the responsible authorities do not accumulate such information.

On the other hand, implementation of the independent functions should be covered from municipal budgets, however, 162.9 million euros of state budget funding have been allocated for the implementation of the independent municipal functions without carrying out the costs benefits analysis and setting out the tangible and measurable objectives to be achieved by municipalities. Therefore, it is not known if the allocated budget funds have contributed to better quality of the services rendered to the population.

Implementation of audit recommendations will result in a review of organisation of secondary health care and emergency medical aid, planning and delivery of social services, and fire protection functions aimed at evaluating the expediency of division of these functions into state and municipal, and defining criteria for this division. Later, it is envisaged to review other functions too. Also, procedure will be established defining the setting of objectives, indicators and expected outcomes for municipalities and regions when allocating state budget funds.

FINANCIAL OBLIGATIONS AND FINANCIAL INSTABILITY IN LOCAL SELF-GOVERNMENT UNITS

State Audit Office of the Republic of North Macedonia

In line with SAO Annual Work Program for 2017, we conducted compliance audit on the subject "Financial obligations and financial instability in local self-government units".

Through questionnaires, the audit included all municipalities, the Ministry of Local Self-Government and the Ministry of Finance - Budget Department and Treasury Department within their legal competencies. We received answered questionnaires from 95% of the municipalities, i.e. from 77 municipalities. Then we selected 12 municipalities where we conducted audit by checking documentation and collecting evidence. The audit covered the period from 2012 to 2016 and for certain issues the period until May 2017.

With the audit, we identified the following shortcomings:

- Unrealistic budget planning with significant deviation between planned and realized revenues, as follows: in 2012, 64% of budget revenues were realized, in 2013 - 61%, in 2014 - 63%, in 2015 - 65% and in 2016 - 60%;
- Even after implementing budget rebalance, planned and realized revenues were not in compliance. Some municipalities, despite the minimal implementation of the budget, no budget rebalance is prepared and adopted. Unrealistic budget planning is characteristic for the adopted Programs for certain activities that are under the competence of the municipalities; regardless of the non-implementation of the budgets, the scope of planned activities / works is not reduced, which on the other hand enables the mayors to conduct public procurement procedures and to take on financial obligations, although there is no real possibility for obtaining funds;
- The share of outstanding liabilities to suppliers on 31 December 2016, for the period 2012 - 2016, in relation to realized revenue by years at municipality level ranges from 25% to 44%, while the share of outstanding liabilities for long-term borrowings and loans on December 31 2016, for the period 2012 – 2016, in relation to realized revenue by years at municipality level ranges from 11% to 18%;
- There is difference between data on short-term liabilities towards suppliers and long-term liabilities on various grounds presented in the questionnaires, and data presented in the balance sheets and data in the quarterly reports submitted by the municipalities to the Ministry of Finance, as well as in the accounting records of the municipalities;
- The inventory of liabilities towards suppliers is usually a specification of balances as of 31 December of the current year, without determined legal basis, i.e. documentation for the origin of liabilities and date / year of occurrence;

- Regarding application of provisions of the Law on Financial Discipline in relation to deadlines for payment of obligations towards suppliers, we found that some municipalities do not apply the provisions of the Law, as well as that municipalities with blocked accounts do not have real possibility for application of the Law;
- The municipalities that meet the requirements for financial instability did not act in accordance with the Law on Financing of Local Self-Government Units, because they did not declare financial instability and did not undertake necessary activities;
- Out of 14 municipalities with blocked bank accounts, 11 municipalities have the status of blockade and have determined limit with a court decision;
- In 3 municipalities we found that the percentage of the limit is higher than the total realized revenue of the municipality - in one municipality the determined annual limit is 34% higher than the total realized revenue on annual level, in another municipality is 28% higher and in the third municipality is 4% higher;
- Municipalities that have met conditions for financial instability, regardless of this situation, started new capital projects, had new employments and promotions of the employees, and also paid obligations towards suppliers with calculations (cessions, compensations, etc.), which is contrary to the legislation;
- Total indebtedness of the municipalities with blocked accounts in May 2017 amounted to 33.101.000.00 EUR based on total amount of enforcement orders, and the interest amounts to 6.668.000.00 EUR. The interest is calculated by the National Bank until the date of preparation of the specification. The final amount of the interest will be determined with the complete realization of enforcement orders;
- For the period 2012-2016, the total borrowing at municipality level, consistent with enforcement orders, amounts to 20.386.000,00 EUR in 2012 and 30.905.000,00 EUR in 2016; we noted increase of indebtedness of municipalities by 51.6% from 2012 until 2016;
- There are municipalities that have blocked accounts since 2005 or 2008, and still entered the second phase of fiscal decentralization although they did not fulfill the legal requirements;
- Some municipalities that used borrowings from the State Budget have repaid the funds, but larger number of municipalities did not repay the borrowed funds, although the deadline has expired.

For overcoming identified shortcomings, we gave recommendations to the competent authorities at local level and to the competent ministry, because the situation is alarming and no measures have been taken thereof.

This report has generated great publicity and attention among the competent authorities and the public.

The fact that measures were taken upon audit recommendations to overcome identified shortcomings is commendable. In November 2018, the Law on financing local self-government units was amended to limit own resources budgeting and to adopt real budgets.

New legal solution was also adopted, which provides for financing matured unpaid liabilities from the State Budget under certain conditions, as of September 2018. Namely, 51% of the liabilities of municipalities and their spending units were covered by State Budget funds in the amount of 49 161 000.00 EUR.

	Ums. St. (1000)	Ums. Mio. €	Schluss Parkett
12	20,5	186	22,2
21,6	3350	320,6	118,65
2	346	14,5	95,17
2952	152,5	41,54	100,11
118,4	5,09	100,11	100,11

AUDITING THE EFFECTIVENESS AND EFFICIENCY OF SEPARATED MUNICIPAL WASTE COLLECTION

Supreme Audit Office of the Slovak Republic

One of the main goals of EU Member States in municipal waste management is to ensure their recycling on 50% level by 2020. To achieve this goal, the Slovak Republic adopted in its strategic document the objective of achieving a level of municipal waste separation up to 60% by 2020, as not all separated waste is further recyclable due to its contamination.

The reason for the audit of efficiency and effectiveness of separated municipal waste collection was the low level of municipal waste separation in the Slovak Republic (further SR) in 2017 relating to the fulfilment of the EU main objective. The audit aim was to verify the efficiency and effectiveness of the separated waste collection system in municipalities and the implementation of measures taken by the State to support the increase in the share of separated waste in total municipal waste for the period 2015-2018.

Audited entities were the Ministry of the Environment of the Slovak Republic (further ME SR) and 58 municipalities in Slovakia, focusing mainly on large cities, which are the municipal waste largest producers. Despite the fact that the cities with more than 10 000 inhabitants represent less than 10% in the total universe of cities and municipalities, they produce about two-thirds of the total waste. Municipalities under 1 000 inhabitants were not included in the audit as their overall waste did not represent 10% of total municipal waste. The audit examined the handling of about one third of the municipal waste generated in SR.

The municipal waste disposal is regulated by the Waste Act. One of the most fundamental changes to the new Waste Act (effective since 2016), was the introduction of an extended producer responsibility institute. Its principle is to transfer financial responsibility for the packaging waste separation in the municipalities to packaging producers. This obligation was in audited municipalities provided by producers through producer responsibility organisations. In addition, these organizations have also been responsible for informing and educating the citizens.

According to the Waste Act, municipal waste management should be fully covered by the imposed local fee – that means the municipality should not pay for anything from its own budget. The revenue from the local fee can be used exclusively for the waste management and the municipality should respond by lowering the local fee if the costs are reduced.

Ministry of the Environment of the Slovak Republic

The audit pointed to low effectiveness of the measures taken by the ME SR in the two country strategy papers related to waste management, which should be the key for achieving the EU target. The audit identified areas that were fulfilled only formally and did not have the expected effect to increase the level of waste separation. In addition, there was no control activity by the State that stem from ME SR directly from the Waste Act. There was no control mechanism that would identify in the statements sent by the municipalities at least

the basic deficiencies, such as the failure to report the waste mandatory components. There was no uniform methodology for municipalities to calculate the share of separated waste.

The problems were also identified in the implementation of legislative instruments into practice. For the period 2015-2017, the local waste tax was not reduced despite the fact that separated waste since mid-2016 is not paid by municipalities but producers of waste. The collection standard, which was intended to express the minimum capacity of containers for separated waste per citizen, was also incorrectly defined. To date, almost no planned information campaigns have been organised by the State, which should have targeted the whole spectrum of its customers ranging from companies and municipalities to citizens. Their implementation from EU funds has shifted to the post-2018 period, which the Supreme Audit Office of the Slovak Republic (further SAO SR) perceives negatively in terms of meeting the targets set for 2020.

Municipalities

The audit in municipalities revealed significant errors in the reported waste data in a third of the auditees, which negatively influenced the results even on national level. In more than half of the cases, a collection of separated waste was identified that have not been recorded by the municipality. Up to a third of municipalities did not separate four of the eight mandatory components of waste. The collection of one of them, kitchen biodegradable waste, practically did not work due to exceptions introduced by the ME SR.

The missing methodology for the estimation of the separated green biodegradable household waste was also classified as a shortcoming in achieving the greater share in separated waste. The collection standard has not been observed by almost in half of municipalities. Most municipalities had separated waste collection secured by outsourced company. In such a case, when the municipality transferred the entire affiliated agenda and hence the responsibility for fulfilling its own goals to external entity, was again assessed as negative.

Almost half of municipalities have experienced a major problem with paying for waste management from their own budget despite the fact that it is the citizens who have to pay for this activity. The result is that the main idea of the new Act "The more you separate, the less you pay" cannot be met.

The audit found that almost half of municipalities are likely to reach their 2020 targets. Most of these municipalities are large cities, and they are the largest municipal waste producers. It also pointed to the areas where the share of separated waste in the Slovak Republic could be demonstrably increased.



Based on the audit results, the SAO SR formulated 13 recommendations for ME SR and 201 recommendations for individual municipalities, for example:

- To provide a control mechanism that will be able to identify elementary deficiencies already when processing municipal waste reports;
- To establish a system of annual monitoring of the fulfilment of the municipal waste management objectives in the area of waste separation (at least in municipalities above the certain limit of population);
- To carry out an analysis of the current situation in the field of responsibility by producer organisations and to ensure the control of their management and the fulfilment of their legal obligations;
- To review the calculation of the collection standard and remove any discrepancies that make it impossible for this established norm to be of a referential value;
- To continue seeking restriction for disposable crockery and cutlery; to find the possibility of depositing as many packaging products as possible.

For municipalities, to communicate actively with producer responsibility organisations and apply all rights under the Waste Act and from contracts with these organisations.

AUDIT “DO MUNICIPALITIES ORGANIZE SCHOOL TRANSPORT ECONOMICALLY AND EFFECTIVELY?”

State Audit Office of the Republic of Latvia

In 2018, the State Audit Office of the Republic of Latvia (SAO) carried out a compliance and performance audit “Do municipalities organize school transport economically and effectively?”

The purpose of the audit was to obtain assurance that municipalities organize transportation of pupils effectively and economically. The audit was carried out in 12 of Latvia’s 119 municipalities.

The SAO’s opinion is that priority should be given to the pupils’ interests when planning school transportation. Although municipalities are aware that pupils have the right to education, they do not always take into account the pupils’ right to education in the nearest school if the nearest school is located in the administrative area of another municipality. Often, transportation is organized without taking into account economic aspects, as well as disregarding the pupils’ right to get to the school safely and within a reasonable period of time to avoid adverse impact on their health and learning process.

Municipalities compete with each other for attracting pupils to their schools and thus compete for state funding. Several municipalities acknowledged that if they will not provide school transportation for a pupil who lives in a remote location, another municipality will provide transportation to one of its schools and will receive the funding instead. Thus, the criteria of pupils’ interests, economy and efficiency are not priority at this time process.



One of the prerequisites for effective planning of school transportation routes is to identify the exact place of residence of the pupils and to choose the most appropriate means of transporting the pupil to school.

However, currently transportation routes are planned to pick up all pupils who wish to use the school transportation, regardless of whether public transportation is readily available to the pupil or whether the school is the most appropriate educational institution for the pupil, etc.

As a result, school transportation routes overlap with public transportation routes, school transportation routes of other municipalities. Likewise, school transportation routes are planned very long and pick up pupils directly from their places of residence. This situation does not meet the pupils’ interests and needs because:

- The pupils’ physical activity decreases, as it is no longer necessary to walk to the school or the transportation vehicle or cycle to the school, etc., although various studies indicate that sports lessons are not enough to compensate for the sedentary lifestyle;
- The first passengers have to get on the vehicle early before the beginning of the lessons, starting at 6.20. Therefore, pupils often have to spend more than an hour and up to one hour and 40 minutes on the way, which in turn affects the pupils’ health and the ability to learn.

Municipalities do not carry out an in-depth analysis of the length and duration of school transportation routes or the cost of transporting pupils. As a result, municipalities cannot make economically viable decisions on the provision of school transportation. Additionally, municipalities do not always have sufficient information to analyse - municipalities have not accurately identified the pupils’ place of residence, transportation routes are not cartographically depicted, transportation costs are not accurately calculated, etc.

To demonstrate the problems in the school transportation system as clearly as possible, detailed mapping and analysis of transportation routes was necessary.

Since the planned tasks required special knowledge and the need to use information systems that are not available for the SAO, it was decided to carry out the audit work in cooperation with an expert - an economic geographer with experience in school network research. In accordance with the auditing

standards (ISSAI 400: 45), 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.

The expert carried out the following tasks in 4 of 12 municipalities:

- Analysis and mapping of school transportation routes, indicating distances from pupils' place of residence to public and school transportation;
- Mapping of public transportation routes, identifying overlapping of school transportation and public transportation routes;
- Analysis of economy of school transportation and calculation of potential financial impact by improving the provision of school transportation;
- Mapping of optimal school transportation routes after improvement of the school transportation system in each municipality.



In the SAO's opinion, the safety of children on the road is an essential aspect of planning school transportation, and this should be taken into account when assessing each situation very carefully and individually. However, although several municipalities mention safety as a priority, security-enhancing measures are not sufficiently implemented:

- Municipalities do not organize systematic and coordinated road safety instructions at schools and other venues;
- Improvements in road infrastructure are only planned as general improvements in traffic infrastructure that are not directly related to improving pupil safety in road traffic.

Expert's work paid off during the audit and cooperation reinforced the added value and reliability of the audit report and its conclusions. Expert's findings were similar to the findings of the SAO - alternatives to getting pupils to school are underestimated at the route planning stage, current transportation routes do not consider pupils' interests and municipalities underestimate possibilities to:

- Use public transportation for transporting pupils;
- Promote the movement of pupils on foot or by bicycle (where safety conditions and the state of the infrastructure allow this, also taking into account the age of children);
- Promote the education of pupils in the nearest school of appropriate quality, even if the nearest school is located in the administrative territory of another municipality;
- Develop various alternative forms of pupil mobility (support for parents and school staff accompanying pupils, partial reimbursement of fuel costs for parents of pupils if regular public transport or student transport services are not provided, cooperation with merchants who organize their staff transportation, etc.).

Moreover, 25% of the seats used for transporting pupils are not equipped with seat belts, vehicle attendants are not provided, and in some cases more pupils are transported than allowed by the technical specification of vehicles.

After the audit, all municipalities, including those not included in the scope of the audit, have the opportunity to evaluate and improve their school transportation systems by using the support tools prepared by the State Audit Office. For instance:

- Self-assessment questionnaire, which allows municipalities to fill-in data about the school transportation system and obtain information about the improvements needed;
- Methodology for calculating school transportation costs;
- Expert's opinion, which provides an opportunity for all municipalities to use the expert's recommendations for system improvement.



THE ISSUES OF THE USE OF SUBVENTION FOR PROCURING THE HOUSING FOR ORPHAN CHILDREN: FROM NEGLIGENCE IN THE MINISTRY TO ABUSES AT THE MUNICIPAL LEVEL

Accounting Chamber of Ukraine

Since 2017, the State has intensified the support of orphans and children deprived of parental care in the realization of their constitutional rights to housing. On the basis of the principle of subsidiarity and according to the articles 82, 83 and 97 of the Budget Code of Ukraine, the expenditures for the specified targets, which are the functions of the State, have been transferred to local governance. However, the State, delegating these functions, only from the second half of 2017 has ensured the transferring of the necessary financial resources in the form of transfer from the State Budget of Ukraine to the local governments, according to article 85 of this Code.

Although it is guaranteed by the State on the legislative level the right to housing for a socially vulnerable category of people, that caused the purpose, subject, objects and audit tasks – the audit of these issues was conducted for the first time. The Accounting Chamber analysed the correctness of the definition and distribution, timeliness and completeness of transferring and utilizing funds of the subvention in 2017 – 2018 to the total amount of UAH 795.4 million (approx. EUR 25.95 million), and also verified legality and efficiency of the use of subvention funds in 8 regions and the capital city of Kyiv.

The auditors of the Accounting Chamber revealed the key problems and risks of using the state budget for the relevant purposes. The audit identified that one of the main problems was the improper activity of the Ministry of Social Policy – the chief budget manager of the subvention. Managerial decisions at the central level were adopted with considerable delays and were ineffective, which created the

prerequisites for the non-use of much of the subvention.

As a result, the state authorities and local governments acted in their own discretion, not in accordance with the law, as defined by article 19 of the Constitution of Ukraine, which led to inefficient use of the funds of subvention and a failure to provide the constitutional rights of citizens.

The regional commissions, which agreed on the procurement of housing, did not contain the specialists who checked residential premises for compliance with the requirements of state norms. The decision was made collegiately, which caused the absence of personal responsibility. The citizens – sellers of dwellings were the customers of the evaluation, who were directly interested in its overestimation. There were signs of overestimating the cost of the dwellings, as the facts of issuing reports of evaluation improperly. The report review procedure was not applied. There were recorded the facts of uneconomical, inefficient, unproductive, ineffective use of funds, the procurement of dwellings which were unsuitable for residence.

First of all, this applies to Procedures and conditions of providing the subvention. The Procedures, approved by the Cabinet of Ministers:

- Did not contain direct norms for the necessity of independent evaluation of property;
- Included requirements that couldn't be used in the purchase of flats and houses on the secondary market;
- Did not define unified approaches for free residential premises' searching;
- Did not include norms on the enforcement of the provisions of laws of Ukraine "On public procurement" and "On appraisal of property, property rights and professional appraisal activity in Ukraine" by executive authorities and local authorities while procuring the dwellings in the citizens;
- Did not include precise criteria for determining the suitability of premises, procured on the secondary market (their necessary conditions).



In general, it was determined that with the violation of the budget legislation almost UAH 12.2 million (approx. EUR 0.4 million)* of the subvention were used (of which UAH 9.3 million (approx. EUR 0.3 million)* were misused); UAH 51.5 million (approx. EUR 1.68 million)* were used inefficiently, unproductively and ineffectively. Taking into account the amount of the subvention (UAH 76.2 million (approx. EUR 2.49 million)*, which were audited for the legality and effectiveness of their use (21% of general cash expenditures of the state), 16% of funds were used with the violations of the budget legislation, almost 68% – inefficiently, which testified the low level of management of subvention funds and improper financial discipline while using funds at municipal level. The audit identified that in spite of the fact that budgetary allocations were given in time, at the 1st of October 2018 of UAH 517.7 million (approx. EUR 16.89 million)* of subvention from the state budget to the local budgets almost 80% of funds were not used in the regions in Ukraine. At the same time in Zhytomyr region and the city of Cherkasy there was no penny used of budget funds, provided and allocated for orphans and children deprived of parental care. Zakarpattia region didn't use 80% of the subvention funds at this date, taking into account that in 2017 in mentioned region 66% of the relevant budget resources weren't used.

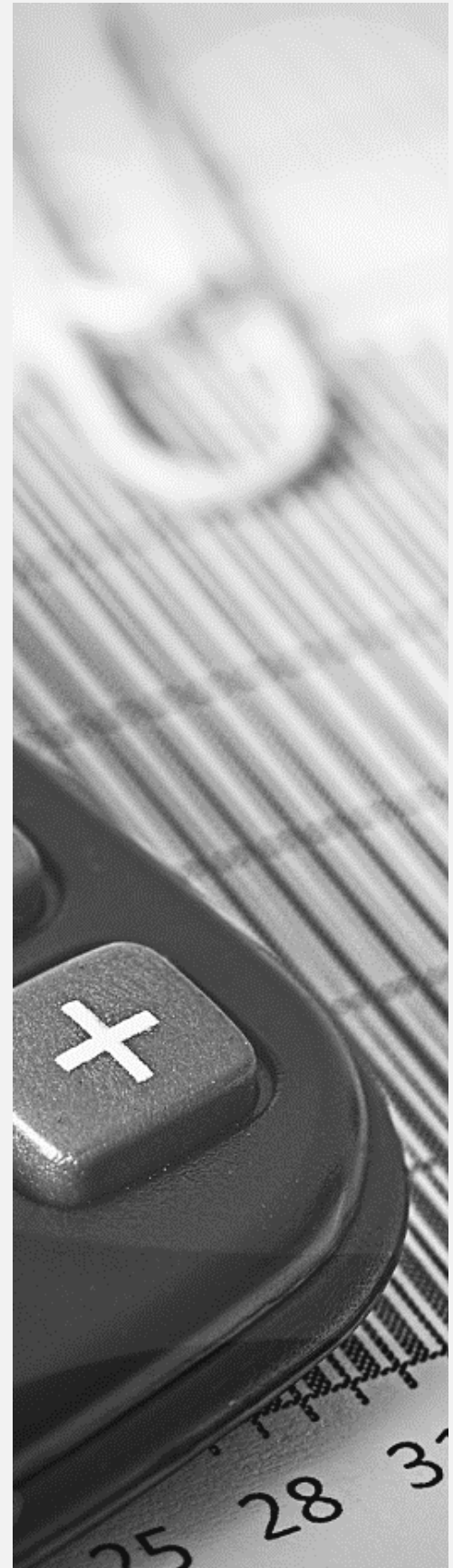
The Accounting Chamber directed the information about the facts of officials' actions and omissions, having the signs of criminal offences to the Prosecutor General's Office of Ukraine. Eight criminal proceedings were registered, on which the prosecution authorities initiated the pre-trial investigations on the facts of official document counterfeiting, abuse of official position and unlawful possession of budget funds in particularly large sizes.

According to the audit results, there were formed a number of recommendations to the Cabinet of Ministers of Ukraine, the Ministry of Social Policy of Ukraine, the regional state administrations, local governments, that have been partially fulfilled. The subvention has been envisaged in the Law of Ukraine "On the State Budget of Ukraine for 2019" in the amount of UAH 717.7 million (approx. EUR 23.42 million)*. According to the audit recommendation, this Law has already provided the possibility to procure the housing for children deprived of parental care. Till that time the subvention hasn't been extended to the children of the specified category. The Ministry of Social Policy developed the amendments in a number of laws to ensure monetary compensation for their proper housing, as well as amendments to the Procedures, stipulated the execution of almost all recommendations and proposals of the Accounting Chamber.

The experts from state institutions, independent professional and public organizations were involved in the audit under the procedure of expert counselling.

The results of this external state audit were widely covered in the leading mass media of Ukraine, which became the result of the implementation of the publicity and transparency principles in the activity of the Accounting Chamber as the SAI. This is also explained by the great social weight of the selected audit theme.

* According to the official exchange rate of National Bank of Ukraine as at 27.02.2019.



AUDITING LOCAL GOVERNMENTS BY BULGARIAN NATIONAL AUDIT OFFICE OVER THE PERIOD 2015-2017: PURSUING LAWFUL MANAGEMENT OF MUNICIPAL BUDGETS

Bulgarian National Audit Office

The National Audit Office of the Republic of Bulgaria (BNAO) is an independent institution, which exercises control over the reliability and truthfulness of the financial statements of budget-funded organizations, as well as the legality, efficiency, effectiveness and economy of the management of public funds and activities. BNAO was established in 1880, was operating until 1947 and resumed its activity in 1995. Under the National Audit Office Act, adopted on 22 January 2015, the BNAO consists of a President, two Vice-Presidents and two Members – one from the Institute of Certified Public Accountants and one from the Institute of Internal Auditors. They are elected by the National Assembly for a period of 7 years. BNAO reports directly to the National Assembly, at the same time providing the national legislator with reliable information, necessary for the exercise of its parliamentary control.

Bulgaria is divided into 265 municipalities, which are the main administrative-territorial units where local self-governance is exercised. The municipal councils and the mayors take the management decisions in the municipalities. They have wide authority, but the main criteria for their legality is defined in the Local Self-Governance and Local Administration Act, the Public Finance Act, the Local Taxes and Fees Act, the Municipal Property Act, the Public Procurement Act, the Public Sector Internal Audit Act and the Financial Management and Control in the Public Sector Act.

BNAO audits municipal budgets, the origination and management of the municipal debt, the acquisition, management and disposition of municipal property, the pursued economic activity by means of local enterprises and trade companies with 50% and above 50% municipal

participation in the capital, and legal persons, which have obligations guaranteed by municipal property.

Audit teams from the BNAO territorial outstations carry out the financial and compliance audits of the municipal financial management. In the period 2015 – 2017, BNAO has 25 audit structures based in towns – regional centres, where 120 auditors carried out audits of municipalities in accordance with the adopted programmes for the audit activity for the respective years. The territorial outstations are part of four audit directorates, which assist audit teams and control the quality of the audit procedures and audit reports. The performance audits, including of EU funds, are carried out by 36 auditors based in a separate directorate. When the audits concern municipal activities, they are assisted by auditors from the territorial structures. With the exception of trainee auditors, all auditors are certified internal auditors by the Bulgarian Ministry of Finance. Audits are performed in accordance with the ISSAIs. Their implementation with respect to each individual audit is regulated in manual drafted by the Audit Activity Development Directorate.

BNAO carries out financial audits of the annual financial reports of budget organizations, which cover the previous year. The reasoning behind the audit opinion for the financial audits is based on the internationally accepted auditing standards. BNAO carries out financial audits of the annual financial statements of municipalities, in which the total amount of reported budget expenditure, accounts for European Union funds, and accounts for non-treasury funds for the previous year exceeds BGN 10 million (EUR 5.1 million). The results of the performed financial audits of municipalities for the period 2016 – 2017 are as follows:

- In 2015, 147 audits were performed, of which 104 with an unmodified opinion, 31 with an unmodified opinion with an emphasis of matter paragraph, 8 with a qualified opinion, 4 with a disclaimer of opinion;
- In 2016, 194 financial reports of municipalities for the year 2015 were certified, of which 131 with an unmodified opinion, 47 with an unmodified opinion with an emphasis of matter paragraph, 15 with a qualified opinion, 1 with a disclaimer of opinion;
- In 2017, the financial reports for 2016 of 202 municipalities were certified, of which 139 with an unmodified opinion, 45 with an unmodified opinion with an emphasis of matter paragraph, 15 qualified opinions, 3 with a disclaimer of opinion.



In the period 2015 – 2017, 70 compliance audits of the financial management of 88 municipalities were performed. The systems for financial management and control, the budget implementation, the award and performance of public procurements and the management of municipal property were examined. Specific compliance audits, focused on the process of revenue administration from local taxes and fees, the origination and management of the municipal debt, and the spending of targeted subsidies for capital costs were also carried out. The results of the performed audits reveal substantial omissions on the part of municipal authorities in updating the municipal regulations and internal acts in accordance with the latest amendments in the legislative framework, in the risk evaluation of individual processes, ineffective internal and financial control, lack of control measures, inefficient collection of local taxes and fees. National Assembly, at the same time providing the national legislator with reliable information, necessary for the exercise of its parliamentary control.

BNAO carries out performance audits on designated topics, some of which are related to activities delegated to individual municipalities:

- In 2015, audits on the “Effectiveness and efficiency of social services for the period from 01.01.2013 until 31.12.2014” in two municipalities were carried out (“Health and Social Services” policy area);
- In 2016, audits of municipal activities on the implementation of the targets set under the National Reform Programme “Europe 2020” and National Development Programme “Bulgaria 2020” were performed. Audits on the “Effectiveness in the prevention and measures to overcome the consequences of flooding” (“Agriculture and Environment” policy area), “Implementation of a project financed by the World Bank, administered by the Ministry of Regional Development and Public Works with a government backed loan “Development of Municipal Infrastructure””, and “Determination and administration of revenues from local taxes and fees in three municipalities” (“Sustainable and Balanced Regional Development” policy area) were carried out;
- In 2017, audits on the “Efficiency of municipal measures to reduce air pollution with fine particulate matter” and “Energy efficiency of buildings owned and used by the authorities of the central and local government” (“Agriculture and Environment” policy area) and “Optimization of transport connectivity in the North-West region” (“Sustainable and Balanced Regional Development” policy area) were carried out.

BNAO issues recommendations to address the causes of the problems identified. Their implementation in good faith by the respective authorities could contribute to overcoming the weaknesses identified and to increasing the efficiency of public sector management. All BNAO reports are publicly available on the Internet page of the institution, and the data contained in them is often subject to media debate.

In the period 2015 – 2017, BNAO sent 79 audit reports (of all types of audits) to municipal councils, based on evidence for damages and violations.

STATE AUDIT INSTITUTION PRESENTED ITS 1000th AUDIT REPORT

State Audit Institution of the Republic of Serbia

State Audit Institution presented its 1000th audit report on 19th October 2018. This jubilee report pertains to consolidated financial statement and compliance audit report of the City of Užice for 2017.

At the press conference on the occasion of publication of the 1000th audit report, SAI President and Auditor General, Dr. Duško Pejović, emphasized that during 11 years since the reestablishment, SAI issued total of 10,209 recommendations.

“When we take a look at the structure of the opinions we issued in the past 1000 reports, the majority of opinions are qualified opinions - around 82% in financial statement audits, and/or around 80% in compliance audits. Taking into account percentage of the issued opinions, the positive opinions in

SAI had filed 229 criminal charges, 571 economic offense charges, 1,868 misdemeanour charges, 70 misdemeanour charges to the Republic Commission for Protection of Rights in Public Procurement Procedures, as well as 134 pieces of information to the Prosecution offices.

“Regarding benefits and effects in the past SAI work, over the course of work on the past 1000 reports, the Institution highlighted the importance of managerial accountability in the public sector. We pointed to the need and significance of establishing internal audit in all public sector auditees. We highlighted the issue of regular management of public assets and public property. We also pointed to all irregularities in public procurements, calculation and payment of salaries, along with assuming obligations above appropriations, payments without legal basis and without valid documentation”, said SAI President and Auditor General, Dr. Duško Pejović

financial statements amount to 14%, while negative opinions in compliance audits amount to 10%", Dr. Pejović highlighted.

He added that SAI had filed 229 criminal charges, 571 economic offense charges, 1,868 misdemeanour charges, 70 misdemeanour charges to the Republic Commission for Protection of Rights in Public Procurement Procedures, as well as 134 pieces of information to the Prosecution offices.

"Regarding benefits and effects in the past SAI work, over the course of work on the past 1000 reports, the Institution highlighted the importance of managerial accountability in the public sector. We pointed to the need and significance of establishing internal audit in all public sector auditees. We highlighted the issue of regular management of public assets and public property. We also pointed to all irregularities in public procurements, calculation and payment of salaries, along with assuming obligations above appropriations, payments without legal basis and without valid documentation", Dr. Pejović said.

He added that, over the course of audits conducted in 2017, SAI contributed to decrease of expenses and expenditures, and increase of income at least in the amount of 684.46 million dinars.

According to him, based on audits conducted in 2017, SAI submitted to competent authorities recommendations for amendments or changes to regulations, namely 15 laws, four Government decrees, six rulebooks and one decision.

"As of next year, SAI will plan combined audits, based on risk assessment, and will also conduct stand-alone financial statement audits, compliance audits and performance audits. "The goal is to achieve, according to the budget calendar, that the financial statement audit becomes part of the final statement of account of each budget beneficiary which was audited, which has not been the case so far. Regarding compliance audits, we will conduct such audits according to risk assessment for the "riskiest topics", while performance audits will be conducted for systemic problems at the state and local levels", Dr. Pejović highlighted.

"I encourage all stakeholders to contact us regarding proposal of topics, for professional control of public finances is our job, while the right to know how public money is spent is the right of all citizens". Auditor-General said.

He announced that SAI plans to have 12 performance audit teams as of next year, and/or to conduct 12 performance audits, which is a six fold increase compared to two performance audits from the previous audit programs.

"By increasing the number of performance audits, capacities for reviewing systemic problems are increased. That is an adequate manner in order to contribute to beneficial changes, adoption of new laws, higher degree of responsibility, implementation of laws and bylaws, and to monitoring effectiveness of their implementation", Dr. Pejović concluded.

AUDITING PUBLICITY ACTIVITIES OF LOCAL AUTHORITIES IN MUNICIPAL PUBLICATIONS OF ESTONIA

National Audit Office of Estonia

The National Audit Office of Estonia (NAOE) analysed the media coverage of candidates participating in the 2017 local elections across municipal newspapers published from January to October 2017. The goal was to make sure that newspapers financed by local governments (LGs) have not been used towards personal political interests, covert election campaigns or other party-political image campaigns.

In addition to publicity activities that support the performance of local tasks, there are sometimes political interests involved, covertion election campaigns or other party-political image campaigns, particularly in the context of the elections. Use of public funds (incl. municipal media channels) to advance personal political interests is unacceptable for number of reasons. For taxpayers, it likely amounts to wasted resources that could have been spent

on something useful. For political opponents, it amounts to an undue advantage that distorts fair competition. For the general public, it undermines local authority, contributes to disappointment with authorities, apathy towards democratic processes, etc. Such misconduct has been categorised as a form of political corruption.



The key-questions of the audit were:

- 1) How did the costs for different types of publicity changed before the local elections in 2017? In order to get the answers publicity activity costs of 15 largest local authorities were analysed;
- 2) How did people participated in 2017 election were reflected in municipal publications before the election? A total of 202 municipally funded newspapers were published during the audited period whereof 191 were scrutinised. The analysis was based on media monitoring outsourced to private sector partner;
- 3) Has the reflection of politicians and political forces in municipal publications before 2017 elections been in the public interest? To find the answer all the coverages that pointed out the names of the heads of LG-s were reviewed, approximately 6000 articles were reviewed.

In the course of the audit NAOE assessed the legality of the funding of the recognition, analysing separately both the content and the implementation of the coverage. The information field that is created must be motivated only by the public interest. The audit was guided by the Local Government Organization Act and the principle enshrined in the General Part of the Civil Code Act that any financial costs incurred by local governments may be motivated by public interest only. The costs incurred in other motifs, whether partially or not, are not lawful.

As a result of the audit NAOE finds that the use of public funding to advance personal political interests continues to be a problem in Estonia. Even though prior to the latest local elections politicians were not promoted using costly television and outdoor media campaigns by local authorities, it would be a mistake to believe that the problem has disappeared. Municipal newspapers featured locally funded obvious election campaigns and other political content that could be construed as personal image campaigns of individuals in power. Such content appeared in various forms and sufficient amounts to warrant claiming that it is a repetitive and multi-faceted problem. Until now, any facts presented have led the public to believe that this problem concerns the capital only but this is an obvious misconception. Similar problems were identified in many other municipalities too.



The NAOE argues that spending municipal funds on publicity which features the following elements is in direct conflict with public interests:

- **Unbalanced criticism towards political competitors of individuals in power, or establishment of negative images of such competitors (9 LGs, 14 publications and 118 articles-caricatures);**
- **Calls made in an official capacity (for example, as Chairman of Local Council) to elect specific individuals (6 LGs, 6 publications, 6 articles);**
- **The main or only topic focuses on praising the head of local government or his political association (2 LGs, 3 publications, 9 articles);**
- **Spending money on such publicity is not justified in terms of local government functions. 75% of the aforesaid cases occurred in newspapers of Tallinn, and 12% in the newspaper of Loksa.**

Auditors identified publicity activities that balanced on the edge in terms of what is allowed. Some examples:

- unusual spikes in media coverage of the head of local government during the pre-election period like first articles authored or photos added by them (13 LGs, 15 heads of LG);
- repeated thanking of specific heads of local government (2 LGs, 2 newspapers, 2 heads of LG);
- reports that highlight only positive aspects related to the period of governance (39 LGs, 40 newspapers, 59 articles).

These displayed characteristics of politically motivated publicity as well as content associated with LG functions.

However, for most municipal newspapers or media coverage of most candidates, the NAOE did not identify said characteristics which means that publicity that is neutral in terms of party policy is more than possible in municipal newspapers. It all depends on political will and culture.

NAOE recommends that LG's should focus on more effective monitoring and scrutiny. Even the current legal framework allows identifying and preventing misconduct. Also, it is essential that multilateral pressure is applied to find solutions. Presently, monitoring and inspection is carried out

by the Committee for Monitoring Financing of Political Parties. LGs have no relevant internal controls in place. Only 11% of all LGs had formulated a policy for political commercials in municipal newspapers. Said policies were laconic and addressed the permissibility, amount or pricing of advertising without any of the policies setting out measures to combat surreptitious advertising. The auditors recommend improving the controls in LGs.

The NAOE advises the LGs funding municipal newspapers to put in place rules (for example, rules and procedures for publishing municipal newspapers) that would:

- Specify messages of political significance that should not be published in municipal newspapers (like unilateral criticism towards opponents);
- Prohibit persons acting in official capacity from publishing calls to elect specific individuals;
- Set out rules for official publicity involving the political leadership of LGs during the pre-election period (for example, 3-6 months);
- Address reports on progress achieved during the period of governance; and
- Address direct campaign advertising.

Also, the rules should outline arrangements for monitoring. Newspapers at some LGs already have bodies comprising multiple members to assess the appropriateness of content, among other things. The NAOE believes that such supervisory bodies which include opposition members as well as independent experts could be introduced in other LGs too.

Most of responding LG's undertook to implement the recommendation, four LGs said there is no need for local rules. Tallinn, having the highest number of problematic articles, mostly disagreed with the NAOE's views, however worked out specific local rules how to reflect political issues in their municipal publications.

PERFORMANCE AUDIT ON REAL ESTATE MANAGEMENT IN LOCAL AND SELF-GOVERNMENT UNITS IN THE REPUBLIC OF CROATIA

State Audit Office of the Republic of Croatia

Supreme Audit Institution of the Republic of Croatia (hereinafter: SAI) conducted horizontal performance audit on real estate management in local and regional self-government units. Audit procedures have covered period from 2012 to 2014. Real estate includes business premises, flats and building lands.

Real estate management have determined by the Act on Real Estate Management of the Republic of Croatia and the Real Estate Management Strategy of the Republic of Croatia for the period of time from 2013 to 2017.

The Republic of Croatia consists of 576 local and regional self-government units (hereinafter: local government units), out of whom 20 with the status of regional self-government unit (county), 127 with the status of a city and 428 with the status of a municipality. The capital city of Zagreb has the authority and legal status of both a county and a city. Each local government unit has been an auditee in this horizontal audit.

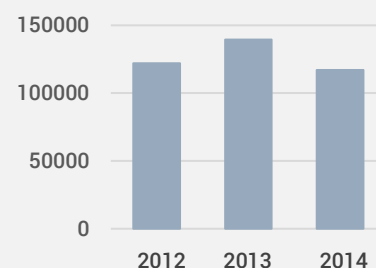
According to the Act on Local and Regional Self-Government Units, local government units is obliged to manage its real estate with the due care and diligence of a prudent master. Real estate should be both in function of doing operations of local government units as well as in the function of creating value-added and economic benefits.

According to the Act on Fiscal Responsibility, head of local government units are responsible for legal, purpose and effective use of funds and effective functioning of the internal control system. Local government units have had 22,425 business premises (total area of 3,613,966 m²), 18,371 flats (total area of 933,762 m²) and 338,174,458 m² of building lands. The table below presents data on business premises, flats and building lands as of 31 December 2014, at level of local government units.

Data on business premises, flats and building lands as of 31 December 2014 at level of local government units

Level of local government unit	Number of local government unit	Business premises		Flats		Area of building land in m ²
		Number	Area in m ²	Number	Area in m ²	
Counties	20	300	225,484	29	1,708	1,587,038
City of Zagreb	1	4,170	610,337	7,504	397,273	24,900,202
Cities	127	11,734	1,664,664	9,478	463,155	150,730,426
Municipalities	428	6,221	1,113,481	1,360	71,626	160,956,792
Total	576	22,425	3,613,966	18,371	933,762	338,174,458

Local government units have generated revenues from real estate management amount to 378,937,399 EUR in the period of time from 2012 to 2014. The chart below presents revenues from real estate management in the period of time from 2012 to 2014.



In the respective horizontal audit have involved 67 auditors, grouped into 21 audit teams. The subject matter of the audit were activities of local government units in regard to real estate management. Audit goals were:

- To assess the legal framework on real estate management;
- To assess the completeness of data on real estate;
- To assess if the local government unit manage its real estate in accordance with the legal framework;
- To assess the effectiveness on real estate management; and
- To assess the efficiency of the internal control system on real estate management.

Audit areas were set up in accordance with the audit goals. Respective areas include:

- Real estate evidence;
- Legal framework;
- Management on business premises, flats and building lands; and
- Internal controls on real estate management.

Audit criteria were based on legal framework and activities conducted by local government units in regard to real estate management. The audit objectives were formulated as audit question and broken down into sub-questions.

The main audit question was:

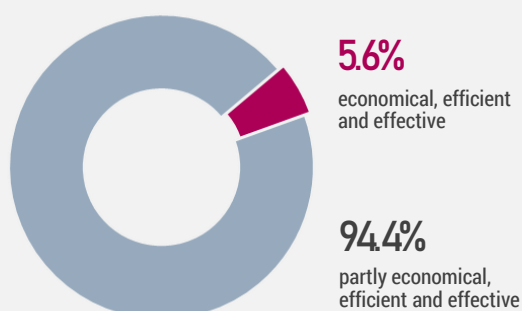
- **Whether the local government units' real estate management is economical, efficient and effective?**

The main question was broken down in 4 sub-questions:

- Does the local government unit have complete data on real estate?
- Whether the local government unit sets up internal acts on real estate management?
- Whether the local government unit manage its real estate with the due care and diligence of a prudent master?
- Is the internal control system established for the purpose of real estate management?

Depending on an audit procedures conducted and conclusion reached, real estate management of local government units was asses as economical, efficient and effective; or partly economical, efficient and effective; or uneconomical, inefficient and ineffective.

SAI assessed that real estate management is economical, efficient and effective at 32 local government units (7 counties, 19 cities, and 6 municipalities) while at 544 units it is partly economical, efficient and effective. Mentioned is presented in the chart below.



The effects of the conducted performance audit on real estate management are:

- The asset value increased, partly because of recording the whole property that has resolved property-legal relations in the analytical and synthetical database and in financial statements.
- Through financial audits of respective local government units, auditors confirmed that many of local government units have implemented recommendations given in performance audit on real estate management that means that irregularities and weaknesses determined in respective performance audit are mitigated.
- The Government of The Republic of Croatia adopted the Conclusion related to Annual report on internal control systems in public sector submitted by the Ministry of Finance. According to the abovementioned Conclusion, Questionnaire on Fiscal Responsibility should be amended by additional questions in the area of real estate management.
- Local government units (mostly counties and cities) adopted the strategy on real estate management.


SAI gave recommendations in regard to real estate management as follow:

- To launch activities to determine the actual state of a whole real estate managed by local government units;
- To launch activities with the aim to solve property-legal relations;
- To establish the register of property/real estate that will contain the same elements as register of the central government to ensure complete data on local government units' property and to set up prerequisites for real estate management;
- To determine the purpose of real estate managed by local government units;
- To adopt the strategy on real estate management. The purpose of those strategy is to determine the mid-term aims and guidelines related to real estate management;
- To adopt the annual plan on real estate management to determine short-term aims and guidelines related to real estate management and activities related to the implementation of the strategy on real estate management;
- To conduct an analysis of the way of acquiring real estate in accordance with due care and diligence of a prudent master;
- To launch activities to put business premises and flats in use;
- To determine the way of reporting on real estate management;
- To establish a strategic approach to planning and real estate management; and
- Other recommendations for improving real estate management in local government units.

EUROSAI TFMA COMMUNICATION CHANNELS

To improve the sharing of knowledge, information and experience among the EUROSAI TFMA members and externally, the EUROSAI TFMA website administrated by the EUROSAI TFMA Secretariat has been updated. Structural changes of the website make information and materials more accessible to EUROSAI TFMA members and other interested parties. EUROSAI TFMA website has the opportunity to subscribe to news.

Looking for the most agile way to connect EUROSAI TFMA members and others interested in municipality audit it is important to search for and apply various modern and convenient communication tools. Based on the results of the EUROSAI TFMA member survey which was initiated and conducted by the TFMA Secretariat, EUROSAI TFMA LinkedIn and Facebook profiles have been created. These communication platforms will allow closer communication and collaboration between EUROSAI TFMA members as well as sharing of information, experience and good practice on the basis of needs.



Created EUROSAI TFMA LinkedIn and Facebook profiles will allow closer communication and collaboration between EUROSAI TFMA members.



COOPERATION WITH NORPIA

In 2018, the EUROSAI TFMA responded to the initiative and took first steps in communication with Nordic Public Sector Internal Auditors Cooperation Group (NORPIA). NORPIA showed its interest in cooperation in the area of internal and external auditing of local governments and the sources of revenue of the local governments. EUROSAI TFMA supported the collaboration with a new partner, and first steps were made in sharing information of mutual interest.

COOPERATION WITH EURORAI

In 2018, the EUROSAI TFMA collaborated with the European Organization of Regional External Public Finance Audit Institutions (EURORAI) in the area related to external audit systems of municipalities. EURORAI contributed to the EUROSAI TFMA revision work of the comprehensive country reports as regards the involvement of regional public sector audit institutions in municipality audit in some member countries. This material will be used in preparing the analysis of external audit systems.

Furthermore, EUROSAI TFMA members and EUROSAI TFMA Secretariat attended the EURORAI seminar "Audit of companies owned by local governments" on 18-19 October 2018 in Hungary.



INTERNAL AUDIT IN LOCAL GOVERNMENT

The Nordic network for Public Sector Internal Auditors (NORPIA)

According to a EUROSAI TFMA study (which was carried in late 2017 and covers 26 countries) there are various models of external audit of local government. External audit of local government is conducted by SAIs, private auditors, other institutions; all of them have different mandate and audit practice.

So far, the European Confederation of Institutes of Internal Auditing (ECIIA) has not conducted a questionnaire or a study about the current arrangements for internal audit in the public sector in the EU-member states. The Nordic network for Public Sector Internal Auditors (NORPIA) completed in early 2018 a comparative study about internal audit in the public sector. On a municipal level, the study covers only capital cities as it would have been too difficult to collect information in the study's timeline from hundreds of municipalities and regional governments.

As the United Kingdom represents good practices on how well the International standards for Internal Audit are considered on a local government level, we would like to present the differences between the UK and the five Nordic countries. This article is seeking to compare the audit arrangements in Local Government (Local Authorities) in the UK with the arrangements in Nordic Municipalities. There is also regional government level in Nordic countries but governance arrangements are not comparable.

Standards

The international standards for internal audit (IIA) and professional guidance set the general requirements and principles for the position and the nature of work. Independency being the most important yet the most vulnerable principle in the public sector.

In the main, UK local and central government internal audit follow the same format as both



are based on the international standards and frameworks. HM Treasury is the Relevant Internal Audit Standard Setters (RIASS) for Central Government and the Chartered Institute of Public Finance Accountants (CIPFA) sets the specific standards and guidance in Local Government. Whilst both follow the UK Public Sector Internal Audit Standards (PSIAS), CIPFA also produced a Local Government Application Note (LGAN) which interprets the standards for Local Authorities in England and Wales (recently updated). It takes the form of a 400+ line self-assessment, which needs to be validated independently every 3 – 5 years (5 years max) and the mandatory requirement for local authorities is that they achieve compliance with both the PSIAS and the LGAN together. In Nordic countries there's no equivalent statutory national standard setting body for internal audit in local government. In Nordic countries internal auditors comply more or less with the international (IIA) standards, but it has been discussed within the EC IIA Public Sector Committee if the EU-member states could have one model for the Internal Audit Standards for the public sector.

In UK failure to demonstrate compliance with the PSIAS needs to be recorded in the Annual Governance Statement. There are no equivalent mandatory reporting requirements in the local government sector in Nordic countries regarding compliance with the IIA standards. In Nordic countries the IIA standards are well recognized but they are less used in Denmark, where the Good Public Audit Standard, issued by the Danish National Audit Office, is more widely used.

	Denmark/ Copenhagen	Finland/ Helsinki	Iceland/ Reykjavik	Norway/Oslo	Sweden/ Stockholm
Regulatory basis	No laws or regulations. It is a council decision.	No laws or regulations. It is a council decision.	No laws or regulations. It is a council decision.	No laws or regulations. It is a council decision.	No laws or regulations.
Structure / set-up	Central unit	Central unit	Central unit	Central unit	Not applicable
Use of IIA standarts	IIA standards are recognized but not much in use. But "Good Public Audit Standards" from DK NAO is in use.	IIA standards are recognized and in use.	IIA standards are recognized and in use.	IIA standards are recognized and in use.	Not applicable
Reporting line	Council and Audit committee	Major and executive council	The executive council and audit committee	Head of departments and the executive council	Not applicable
Public report	Not directly from internal auditors. but on the committees' agenda and available on website	Depends on the issue	Depends on the issue. but generally public	Only upon request. Generally do not publish reports.	Not applicable

According to Nordic comparative study there are no mandatory requirements in national legislation or binding guidance about internal audit in local government (see table). It is up to the Councils in municipalities/cities to decide if internal audit is arranged or not and how. Internal audit is not very generally arranged in municipalities in the Nordic countries.

According to Nordic study the position of Internal Audit in municipalities is arranged either under the Council, Mayor, Executive Council or Central Administration: none of these Internal Audit units are directly under the accountable and executive Board.

There are some observations in Nordic countries that the nature of work and the position of Internal Auditor in the public sector organisations (local and government) can be misunderstood when the IIA standards are not recognized or implemented. Also “internal audit” can be understood as “internal controls”.

Governance

In UK there is a requirement for an Annual Governance Statement (AGS) to be produced. In the UK the AGS includes Internal Audit’s Annual report and Annual Opinion. In Nordic countries there are no equivalent requirements to include Internal Audit’s report and Opinion to Annual reports.

In local government in the UK, the AGS is written by the Section 151 Officer (Treasurer) – Section 151 refers to the relevant section of the Local Government Act (LGA) which outlines the responsibilities of the Treasurer role. In local government, the format of the AGS is similar to Central Government, but must follow the CIPFA Delivering Good Governance in Local Government Framework Guidelines and demonstrate compliance with the 7 key principles contained therein.

In Nordic countries the requirements for AGS (or the like) are in legislation and the AGS is usually prepared by the Municipality Board that is responsible for the arrangement of proper internal controls and risk management system. The national Accounting Board (which in some countries operates under the auspices of some Ministry/the Government) have a statutory mandate to issue of general advice and instructions regarding AGS.

Guidance

In the UK Local Government, there are many sources of guidance for internal audit from the Chartered Institute of Public Finance Accountants (CIPFA) on how Internal Audit should function: the most significant being the CIPFA Statement on the Role of the Head of Internal Audit (which has just been updated and will be launched in April 2019) and CIPFA: Audit Committee Guidance for Local Authorities and Police (also recently updated).

In Finland and Sweden there are Associations of Local and Regional Authorities that publishes several recommended guidance regarding good governance, internal controls, risk management etc. In Finland this guidance also includes internal audit.

The definition of Audit Committee

From Internal Audit point of view the Audit Committee is accountable and executive management’s operational committee (appointed by the Council or Board) that has an oversight role for the work of Internal audit unit in cities/municipalities. In UK in local authorities, Audit Committees are made up of elected Members (local councilors) from across the borough or district, normally nominated and selected by the party, and there is normally political balance based on the political split of the borough. It’s very rare in Nordic countries that there is an Audit Committee.

It is important to notice that in Finland and Sweden every Municipality Council have a statutory Auditing Committee or Audit tasks. This statutory Committee/Task is different from the Audit Committee under the executive Board. *Auditing Committee* members or auditors in *Audit Task* are politicians or politically elected auditors. In Sweden political auditors’ hire professional auditors who they contract themselves.

Some of these political audit tasks overlap with the scope of work of internal auditors, especially in Sweden, which might be the reason why there generally are no internal auditors in municipal entities.

There are some regulations in national legislation about responsibilities of these Auditing Committees/Tasks. In Finland, Norway and Denmark there are no professional international or national standards or mandatory guidance for work of Auditing Committees or equivalent. In Sweden the Audit Task is to be carried out according to “Code of Audit in Local Government”. The Swedish Association of Local Authorities and Regions interprets and documents the code each 3-4th year.

Compared to these Auditing Committee/Audit Task auditors, Internal Auditors are not politically appointed but they are civil servants supporting the accountable and executive management responsibilities in management of internal controls and risk management. The most important condition for the work of internal auditor is independent position: the chief audit executive should have direct and unrestricted access to the accountable Board.

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EUROSAI

Task Force
Municipality Audit



FROM LOCAL TO GLOBAL