



# TFMA NEWS

ALL YOU NEED TO KNOW ABOUT TFMA

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Dear reader,

I would like to start by expressing my deepest gratitude to all EUROSAT TFMA members for their contribution to the fruitful cooperation, for their great ambitions and substantial efforts to make progress in the field of municipality audits.

We all know well how significant local governments have been through the pandemic. Being the closest to communities, municipalities play a crucial role in protecting people by delivering essential services to them. Although the pandemic has reset the ways we live, work and do business, accelerating some long-term shifts and setting new changes in our environments, municipalities still play a vital role in promoting economic and social recovery of countries. The ability to be agile and responsive to rapidly changing circumstances is of key importance today. Public auditors may contribute to relevant changes and improvements only by acting innovatively and thinking creatively. From this perspective, professional collaboration and exchange of new experiences are more valuable than ever.

It is my pleasure to present the Task Force's fifth newsletter. The period was full of events and activities the edition strives to reflect. The TFMA has focused on relevant issues such as municipal real estate management, debt management, social support to vulnerable groups, the implementation of Sustainable Development Goals, the provision of quality service to citizens in the pandemic and their digitalization. The members had several meetings where they could exchange the latest audits results, innovations in municipal audits or those boosted by audits. Our cooperation platform has been of interest to external stakeholders, too. Consequently, sharing good practices and discussions took place both at regional and international levels.



The newsletter also includes the latest reviews from the members and partners of the TFMA. You will find information on SAs' latest practices as well as various municipal audits and their results. The topics range from finance to emergency management, from waste management to the construction work and repairs of local roads. Such a wide scope of audit topics highlights the diversity of functions and services carried out by municipalities – an extensive area enabling us to make a difference to citizens' lives.

Looking forward to the future activities of the Task Force, I sincerely believe you will stay engaged and willing to provide original ideas for the next projects.

Enjoy the reading!

Mindaugas Macijauskas  
Auditor General of the Republic of Lithuania  
Chairman of the EUROSAT TFMA



## THE TASK FORCE DISCUSSED MUNICIPAL REAL ESTATE MANAGEMENT

In October 2021, the 2nd edition of the Audit Compendium was published. It was prepared by the National Audit Office of Lithuania and the State Audit Institution of Serbia. This compendium summarizes the results of audits carried out by ten members of the Task Force in the area of municipal real estate management in 2016-2021.



On 3 November 2021, TFMA members gathered in Budva, Montenegro, for its 4<sup>th</sup> Seminar on Municipal

Real Estate Management. The event was attended by 80 participants, both in person and remotely, from 27 countries. The expert speakers emphasized the importance of keeping records, strategic planning in accordance with development needs and evaluating real estate for the purpose of public interest as well as a need of systematic approach, joint work of all actors at the state and local level. Workshop sessions focused on key results of the audit compendium and municipal real estate management issues in the pandemic time. Of particular interest were the challenges posed by the COVID-19 pandemic, which has brought declining revenues from real estate, rising property costs, increased remote work, and distance services. In this difficult context, municipalities need to think creatively about how to refocus infrastructure priorities and use real estate in new ways to deliver public services.



## THE 5<sup>th</sup> ANNUAL MEETING OF THE TFMA MEMBERS

On 4 November 2021, the 5<sup>th</sup> annual meeting of the EUROSAI TFMA members also took place in Budva, Montenegro. During the meeting, the following main issues were discussed:

- Reviewing the progress and results of the activities
- Planned activities for the upcoming year

## QUARTERLY MEETINGS OF THE TFMA MEMBERS

To accelerate exchanging relevant municipal audit information, a new initiative was launched in 2022: one-hour online TFMA meetings each quarter are organized. In February and May 2022, such meetings were held online where TFMA members had

discussions and SAIs of Austria, Israel, Latvia and Lithuania exchanged the latest audits results, innovations in municipal audits or innovations boosted by audits

## EXTERNAL EVENTS



In 2022, the Task Force responded to the new initiatives and took first steps in communicating with partners from Europe and other regions who operate in local government field and are interested

in developing local government audit capacities as well as in improving public financial management at local level. The Task Force's activities, recent products have been presented and various topics have been discussed during the online events organized by the World Bank, the Council of European Municipalities and Regions and the SAI of the Kingdom of Thailand.

## EXTERNAL EVENTS

The 5<sup>th</sup> TFMA Seminar on the topic "Digitalization of public service delivery and administration in municipalities" and the 6<sup>th</sup> Annual meeting will take place in Vilnius, Lithuania on **19-20 October 2022** hosted by the National Audit Office of Lithuania. It will be also a possibility to join the Seminar remotely.



## EUROSAI TFMA ACTIVITY REPORT WAS SUBMITTED TO THE 57<sup>TH</sup> EUROSAI GOVERNING BOARD MEETING

Activity Report of the EUROSAI TFMA covers the period from April 2021 to September 2022 as well as future activities.

## AUDIT COMPENDIUM

In order to systematise and analyse the audit work performed by the TFMA members, to raise awareness of their recent audit work and make municipality audit results widely available, TFMA continues to issue audit compendiums. The National Audit Offices of Estonia and Lithuania are currently systematizing and analyzing information on audits

carried out by 15 TFMA members (SAIs of Albania, Austria, Bulgaria, Croatia, Estonia, Greece, Hungary, Israel, Latvia, Lithuania, North Macedonia, Poland, Serbia, Spain and Ukraine) for the audit compendium on the topic "Social support for vulnerable groups in municipalities to protect them from poverty and social exclusion".

## MONITORING IMPLEMENTATION OF AUDIT RECOMMENDATIONS

The analysis of monitoring the implementation of recommendations given in audit reports on local self-government unit was prepared by the Supreme Audit Office of North Macedonia and published in January 2022. The document includes data provided

by 23 TFMA members and presents information on how the SAIs follow the implementation of audit recommendations given in the audit reports on municipalities for different types of audit.

## IMPLEMENTATION OF THE SUTAINABLE DEVELOPMENT GOALS (SDGs) AT THE SUB-NATIONAL LEVEL

The Turkish Court of Accounts, the leader of the activity, together with the Coordination Team (SAIs of Latvia, Lithuania and Serbia) prepared the report on the implementation of the SDGs in the municipalities which was published in June 2022. The report is based on a survey of 25 TFMA members and presents the general information about experience of the SAIs on the SDG-related topics and results of audits, assessments performed by SAIs on the preparedness for the implementation of the SDGs as well as on the implementation of the SDGs.



## MUNICIPAL DEBT

The activity aims to gather and systemize information about SAs' audits on municipal debt management. SAs of Latvia, Lithuania and Turkey

joined the Coordination Team which has developed the questionnaire for the survey. Data are planned to be gathered by the end of 2022.

## COOPERATIVE AUDIT "MUNICIPALITIES' OWN REVENUES FOR PROVIDING QUALITY SERVICES TO THE CITIZENS DURING PANDEMIC"

The Supreme Audit Office of North Macedonia coordinates the audit implemented by the SAs of Albania, Montenegro, Poland, Romania, Slovakia and Turkey. During the period, the kick-off meeting and the meeting on the results of preliminary study were organized online. The audit process is in progress -

participating SAs are working in the Conducting phase. The National Audit Reports are planned to be prepared by the end of 2022. The preparation of the Joint Audit Report will begin after the submission of the summaries, and will be completed and published in May/June 2023.

## UPDATING DATABASE ON MUNICIPAL BUDGETARY DATA

The Supreme Audit Office of Slovakia is updating a database on the main municipal data of TFMA countries for 2020 and 2021. Data stored in the

database allows for facilitating comparison and use of data in summary reports from municipality audits.



## THE SUPREME AUDIT INSTITUTION ADDRESSES NEW CHALLENGES IN THE CONTEXT OF THE LEGAL CHANGES IN MUNICIPALITIES' FINANCIAL LAW

### Albania | State Supreme Audit

On 27 April 2017 the Parliament of the Republic of Albania approved the law no. 68/2017 "On local self-government finances". The purpose of this law is to guarantee new basis of financing in accordance with the principles of local autonomy and to ensure the stability of the financial resources.

These new changes encompass also the external audit, providing a more detailed approach on the procedures and timeline of such audits. In article 50 it is stated that "the financial activity and implementation of the annual budget of the local self-government units are subject to external audit, on annual basis. The external audit is performed by the Supreme Audit Institution or other legal auditors. The Minister of Finance

*and the Chairman of the ALSAI shall determine by joint instruction the cases when the audit is performed by other statutory auditors, as well as the procedures, deadlines and standards of external audit that should be applied by these auditors. The mayor of the local self-government unit submits the external audit report to the local council as part of the consolidated annual report on the implementation of the local budget. A copy of this report is sent to the Supreme Audit Institution and the Ministry of Finance. For all external audit reports, performed by the ALSAI or other legal auditors, the mayor of the local self-government unit prepares an action plan for the implementation of the audit recommendations and reports regularly to the local council, for the progress made in its implementation".*

Therefore, an entirely new mandatory responsibility rose for ALSAI, to compulsorily audit each year all 61 municipalities, which doesn't fully comply with the international audit standards as well as with the legal framework of the Albanian Supreme Audit Institution, creating a sort of "noncompliance" with:

- **Articles 163 and 164 of the Constitution**, which define the rights and competences of ALSAI in relation to economic-financial controls, do not impose any obligation for compulsorily annual audit of all entities;
- **Financial independence**, as the increase of legal competences of ALSAI automatically affects the budget of this institution and the management it makes in order to perform with the highest quality and in timely manner;
- **Functional independence**, because ALSAI is independent in drafting its annual audit plan. Hence, according to the provisions of law no. 154/2014 "On the functioning and organization of the Albanian Supreme Audit Institution", ALSAI is completely independent in the selection of entities that will be subject to audit, while the disputed provisions deprive it of this exclusive competence in terms of local self-government units.



In view of these “legal clashes”, between the legal framework of ALSAI and the financial local laws, in 2018 ALSAI submitted to the Constitutional Court a request to assess the compliance of these changes with the Constitution. In addition, it was requested the suspension of their implementation until the entry into force of the final verdict of this Court.

In 2021, the Constitutional Court ruled out that the disputed regulations of law no.68/2017 “On local self-government finances” do not interfere in the competencies of ALSAI, do not provide for new competencies of this institution and do not impose an obligation on the manner that ALSAI exercises its duties. According to the Constitutional Court, the purpose of these changes is to determine the rules and standards of control of financial activity and budget management by local government bodies. As long as these provisions do not represent a new regulatory discipline and do not interfere in matters regulated by the organic law of the ALSAI, the allegation of violation of Article 81 of the Constitution is clearly unfounded.

Confronted with this new decision, ALSAI has taken measures to increase its audit capacities, with the support of the Parliament, by requesting additional

funds, in order to increase its structure with 30+ auditors, a request which has been approved by the Parliament.

For the year 2022, ALSAI has planned to audit all the 61 municipalities, of which 44 are financial audits whereas 17 are combined audits, financial and compliance ones.

In this context, to address these new challenges in operating annually on a broader range of auditees, ALSAI is also taking measures to adopt a new audit approach on the municipality level, in implementing a more risk-analysis audit program, by grouping the municipalities by their common financial attributes, risks and specific budgets. For this purpose, ALSAI is also working in making the audit process more flexible, by improving the methodology in gathering audit evidence, through the use of big data and innovative tools.

Thus, auditing municipalities on annual basis represents not just a challenge, but ALSAI is trying to transform it in an opportunity to deliver added value recommendations, aiming to improve the effectiveness of local finance management and the services towards the Albanian citizens.



## PERFORMANCE AUDIT ON PLASTIC WASTE MANAGEMENT – GENERAL RESULTS

### *Bulgaria | National Audit Office*

In 2021, the BNAO carried out an audit on the topic “Plastic waste management” for the period from 01.01.2017 to 31.12.2019 (“Environment and Agriculture” district).

The audit was performed as part of a cooperative audit on “Management of plastic waste” of the EUROSAI Working Party on Environmental Audit, together with the Supreme Audit Institutions of Albania, Malta, Moldova, Poland, Portugal, Romania, Northern Macedonia, Slovakia, Serbia, Turkey and Hungary.

The audit scope includes analysis of: the compliance of the national legislation with the European legal framework; the responsibilities for the development and implementation of the plastic waste management policy; adopted legislative and other measures, as well as national and local policies; the issues concerning plastic waste treatment, indicated in the strategic documents; the calculation of the costs for plastic waste management; the implementation of measures that ensure proper treatment of plastic waste and comply with the accepted hierarchy of waste management; coordination between the participants in plastic waste management; educational and information campaigns performed; the established system for data collection, necessary for plastic waste management; crimes or events that pose a threat to the environment; the adopted methodology for calculating the share of recycled plastic waste; the results achieved in the treatment of plastic waste.

The issues included in the scope of the audit were

analyzed mostly at the national level, and the issue of planning waste management measures, incl. plastic waste was analyzed at local level.

The auditors found that the policy pursued by national and local authorities is in line with the European waste legislation to achieve the 2020 targets. The Ministry of Environment and Water needs to make further efforts to achieve the long-term goals for 2035 set by the EU, mainly related to plastic waste.<sup>1</sup>

Long-term programs are being developed by the mayors of the municipalities to implement the waste management policy at the local level. Methodological instructions for their development have been issued by the Minister of Environment and Water. Waste management programs are published on the websites of 257 municipalities or 97 percent of all the 265 municipalities. The programs contain objectives and measures in accordance with the National Waste Management Plan. The high relative share of the implementation of the regulatory requirements by the local authorities for the existence of waste management programs gives confidence for the implementation of an effective local management policy in the Waste Sector.<sup>2</sup>

The implemented measures and activities are designed for the generated waste in the phase of its decommissioning and less for the reduction and prevention of generation, which reduces the effectiveness of the implementation of the pursued policy.

<sup>[1]</sup> item 7 of Decision № 155 of 22.06.2021 of the President of the National Audit Office intended for uploading to the EUROSAI database

<sup>[2]</sup> item 2.2. Summary of the report

## PERFORMANCE AUDIT ON MANAGING UTILITY INFRASTRUCTURE IN LOCAL GOVERNMENT UNITS IN THE REPUBLIC OF CROATIA

### Croatia | State Audit Office

State Audit Office conducted performance audit on managing utility infrastructure in local government units (537 local government units, including the City of Zagreb) during 2020 and 2021. Audit procedures have covered period of 2019 and 2020. Local government units affected by the earthquake in December of 2020 were not the auditee. Audit lasted one year and was performed by twenty auditors from ten regional offices.

*Managing utility infrastructure* have determined by the Utility Management Act as well as the Public Procurement Act. Local government units and others involving in performing utility activities are guided by the utility management principles such as public interest protection, solidarity, proportionate benefits, non-profitability, subsidiarity, equality of access of utility services, continuity and quality of performing utility activities, price acceptability of utility services, protection of vulnerable categories of citizens and other principles.

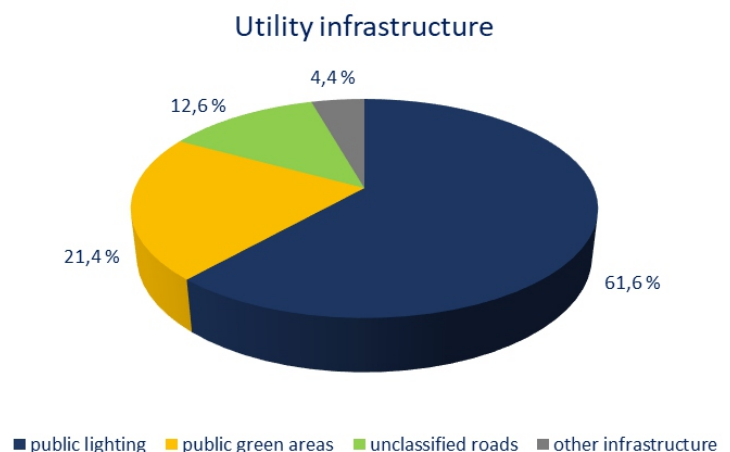
Annual expenditures of local government units for the construction and maintenance of utility infrastructure are somewhere around 20 % of the total expenditures of local government units. In 2019 it was about EUR 700 mil.

*Utility infrastructure* is, according to the Utility Management Act, public good in general use owned by a local government unit or a person who performs utility activities.

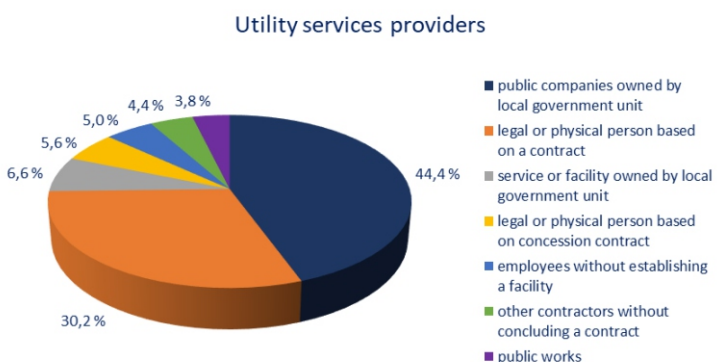
Local government units have been recorded 911,660 facilities and devices of the utility infrastructure in their evidences. According to the Utility Management Act, local government units are obliged to establish the utility infrastructure evidences that contain name and type of utility infrastructure, information about the cadastral and land registry

parcel and the cadastral municipality where the utility infrastructure is located, information on the ownership of the utility infrastructure and the person who manages it and other data in regard with the utility infrastructure (hereinafter: evidence).

Utility infrastructure in local government units consists of public lighting (61.6 %), public green areas (21.4 %), unclassified roads (12.6) and other infrastructure (4.4 %). The chart below presents the utility infrastructure in the Republic of Croatia according its' type.



Utility services are provided by different subjects prescribed by the Law. The chart below presents *utility services providers* according data collected during the audit course.





The *audit objective* was local government units' activities in regard with the evidence on utility infrastructure, normative regulation, managing and supervision over utility infrastructure in 2019 and 2020.

#### Audit goals were:

- to verify the completeness of local government units' data on utility infrastructure and its legal status
- to verify the normative regulation on managing utility infrastructure
- to verify whether the local government units manage the utility infrastructure in accordance with legal framework
- to evaluate the efficiency of the system of supervision over the managing utility infrastructure
- to evaluate the efficiency of local government units in meeting the needs of citizens in regard with the utility services.

#### Audit areas were:

- evidence on the utility infrastructure
- normative regulation on managing utility infrastructure
- managing utility infrastructure and
- supervision over managing utility infrastructure.

*Audit criteria* were based on legal framework, internal acts and local government units' undertaken activities in regard with the managing utility infrastructure.

The *audit objectives* were formulated as audit question and broken down into sub-questions.

#### The main audit question was:

- Whether the local government units' managing utility infrastructure efficiently?

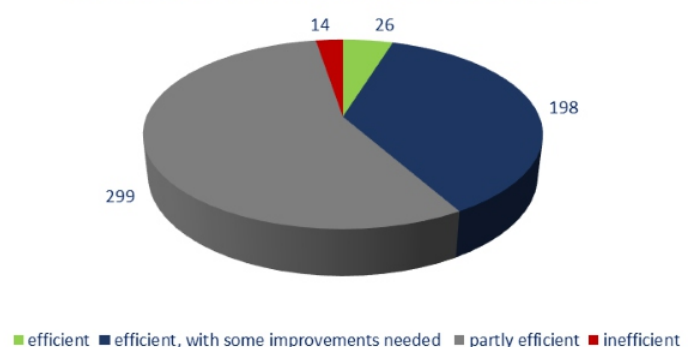
The main question was broken down into *four sub-questions*:

- Do local government units have complete data on utility infrastructure and its legal status?
- Have the local government units normatively regulated the managing utility infrastructure?
- Do local government units manage utility infrastructure in accordance with legal framework?
- Have local government units established an efficient system of supervision over managing utility infrastructure and have they ensured efficiency in meeting the needs of citizens in regard with the utility services?

Depending on an audit procedures performed and conclusion reached, *managing utility infrastructure was asses as efficient, efficient, with some improvements needed, partly efficient or inefficient*. Managing utility infrastructure is efficient if the local government units have complete data on the utility infrastructure, if they have normatively regulated the managing utility infrastructure, if the utility infrastructure is managed with the sound and prudent management, and if an efficient system of supervision over the managing utility infrastructure has been established and the efficiency achieved in meeting the needs of citizens in regard with the utility services.

State Audit Office asses that managing utility infrastructure is efficient at 26 local government units, efficient, with some improvements needed in 198 local government units, partly efficient at 299 local government units and inefficient at 14 local government units. The mentioned is presented in the chart below.

Assesment of managing utility infrastructure



*The main audit findings were as follow:*

- a small part of local government units did not establish the evidence on utility infrastructure
- evidences on utility infrastructure do not contain all requested data
- property-legal relation is not solved for 46.7 % of utility infrastructure
- some internal acts on utility services are not in accordance with the Law and some utility infrastructure maintenance program and construction program do not contain the necessary elements prescribed by the Law
- some utility services are not carried out in a way prescribed by the Law or the local government units' act on utility services
- general conditions of delivery for some utility services are not adopted and published
- the majority of local government units organize, finance and supervise construction and maintenance of utility infrastructure, but most of them do not perform the analysis and evaluation of effects of managing utility infrastructure and usage on general public.

A total of 6,981 recommendations were given, which is an average of 13 recommendations per local government unit in regard with managing utility infrastructure as follow:

- to establish and to update the evidence on utility infrastructure
- to launch activities with the aim to solve the property-legal relations in regard with the utility infrastructure

- to adopt the act on utility services that is going to determine the organization and process of managing utility infrastructure accordance with the Law
- to adopt utility infrastructure maintenance program and construction program that will contain all elements prescribed by the Law
- to submit the report on implementation of the utility infrastructure maintenance program and construction program in accordance with the Law
- to conduct the utility services in the way prescribed by the Act on utility services
- to launch activities with the aim to publish the general conditions and the price of delivery of utility services
- to analyze and evaluate effects of managing utility infrastructure with the aim to make it more efficient
- to adopt and apply the criteria and efficiency indicators of managing utility infrastructure and inform the general public on results i.e. achieved goals and effects of managing utility infrastructure.

State Audit Office gave an opinion that implementation of recommendations given would bring to more efficient managing utility infrastructure. Improvements could be achieved in regard with the evidence on utility infrastructure, normative regulation, managing and supervision over the utility infrastructure. It could bring to efficiency of local government units in managing utility infrastructure and meeting the needs of citizens in regard with the utility services.

## ENSURING THE QUALITY OF CONSTRUCTION WORK AND REPAIRS OF LOCAL ROADS

*The main question of the audit "Are the risks related to the construction work and repairs of local roads well managed in local authorities and has state supervision been well organised?"*

**Estonia | National Audit Office**

### For your information

The main risks in road construction are the following:

- incomplete input data in the preparation of works and drawing up building design documentation;
- errors in the building design documentation;
- construction not in accordance with the project and quality requirements;
- failure to detect construction defects during the warranty period.

The National Audit Office analysed how the risks were managed in road construction in 2019–2021 in ten local authorities. Audited local authorities were Tallinn, Tartu city, Lääne-Harju, Rakvere city, Kohtla-Järve, Märjamaa, Luunja, Rõuge, Tori, Viimsi.

There are local authorities in Estonia that have been passive in managing road construction risks. According to the National Audit Office, of the 18 construction works and repairs analysed, risks have been managed poorly in seven projects: requirements for the designer, builder or body carrying out owner supervision have been agreed upon in contracts in superficial way or compliance with thereof has not been checked. The audit showed that due to poor risk management, construction may end up being more expensive for the local authority and elimination of defects more time consuming.

**The supervision of the construction of local roads by the Transport Administration needs to be changed. The current supervision based on random selection where large objects are not included in the selection is not efficient in terms of resource use.**

The most important observations of the National Audit Office on local authorities:

- The level of risk management in local authorities is uneven. In construction works and repairs of major roads, the problems causing additional costs to local authorities, loss of time or concessions in quality are often due to the lack of preliminary studies and expert assessment in the stage of planning construction works.
- Risks are reasonably managed in the preparatory stage of construction works and the design stage if the local authority:
  - provides detailed guidelines for preliminary studies to the designer in the case of larger and more thorough construction works;
  - ensures that all topical information on the location of utilities in the design area and up-to-date geodetic base plan is available, covering also neighbouring immovables and intersecting streets to the required extent;
  - assesses the quality of the project prepared, in the event of larger projects considers ordering an expert assessment or the inspection of construction volumes by another independent construction company;
  - obligates the designer, pursuant to the contractual obligations imposed on them, to correct any defects in the project discovered during construction at their own expense.



### For your information

The works analysed in the audit included those where, due to insufficient preliminary studies, it had to be acknowledged during construction that the designed solution was not compatible with neighbouring immovables (e.g. large differences in elevation) or the volume of construction had to be increased because underground facilities were discovered that had not been determined properly in advance.

It also became evident that critical matters were not always set out in contracts for owner supervision or lacked specificity – for example, the presence of a supervisory engineer on site, the organisation of control sampling and analysis of materials.

### For your information

As a positive practice, larger local authorities have increasingly started to use electronic solutions for documenting construction, which allows for better real-time monitoring of construction as well as owner supervision activities.

- To mitigate quality risks related to the builder's activities, a good level of owner supervision is essential in the stage of carrying out construction works, which must provide the local authority with confidence that their interests are protected in the performance of the contract for works. Substantive owner supervision helps to prevent more serious issues.
- Poor documentation of construction works, including poor recording of construction working meetings continues to be a problem. Construction works must be documented so that it can be verified later whether the road has been built in accordance with the requirements and the design documentation. According to the general principles of public procurement, additional works can be ordered and changes can be made to the originally agreed works only in unforeseen circumstances. In this case, reasons for the changes should be clear from construction documentation, but for the majority of the audited construction works, minutes of working meetings had not been prepared, for example, or they did not include important information. It was unclear why a decision had been made to change the original solution or why additional work was required.
- In the stage of carrying out construction works, local authority has reasonably managed the risks if they:
  - o require the body carrying out owner supervision, pursuant to all the contractual obligations imposed on them, to be present at all higher-risk works and sampling;
  - o require the body carrying out owner supervision, pursuant to all the contractual obligations imposed on them, to continually document the process in a manner which can be verified;
  - o intervene as soon as they see that the body carrying out owner supervision does not comply with the requirements imposed on them (incl. with regard to documentation);
  - o in the event of major construction, require both the builder and the body carrying out owner supervision to document the process in an electronic environment that can be monitored continuously.
- Better risk management does not necessarily require additional costs, but rather guidelines given to the designer, builder and the body carrying out owner supervision in the technical specification and the contract and the verification of compliance with thereof.

### For your information

The works analysed in the audit iAlthough the majority of local roads are highways outside settlements (77%), the volume of traffic on those roads is mostly low – fewer than 500 vehicles per day in about 90% of the cases. On the other hand, on streets located in settlements, the volume of traffic is more than 2,000 vehicles per day in about 50% of the cases

The most important observations of the National Audit Office regarding the Transport Administration:

- The practice of national supervision of road construction is still relatively scarce. Supervision commenced in the second half of 2019 and 39 objects have been inspected since that time (10–15 inspections per year). All the complaints received have been inspected, but for the most part, objects subject to inspection have been chosen randomly in the public procurement register. 25 inspections were completed with identifying deficiencies, the most frequent of which has been insufficient thickness of pavement underlayers.
- The effectiveness of national supervision under the current arrangement is questionable. Random selection as a method of selecting inspection objects is not justified. The inspection has focused mainly on the construction of cycle and pedestrian tracks (68% of the objects), large construction objects in areas with heavier traffic have not been included in the inspection. The largest object under inspection in terms of volume only ranked 62nd among the road works of local authorities in 2019–2020 in terms of cost.

### What do we recommend?

The National Audit Office finds that local authorities need to increase the level of risk management in road construction. In several of the construction works analysed, reasonable solutions were used to establish technical specifications or contractual obligations for partners, the wider spread of which should be encouraged. The National Audit Office made a recommendation to this effect to the Association of Estonian Cities and Rural Municipalities.

The National Audit Office recommends changing the methodology for selecting inspection objects used in supervision by the Transport Administration. More active communication in local authorities is also necessary to introduce the outcome of supervision.

This would allow for better awareness of potential mistakes in advance and would support the objectives established for national supervision.

**The Association of Estonian Cities and Rural Municipalities agreed, in principle, to contribute to raising awareness of risk management in local authorities, incl. contribute to preparing uniform guidelines and organising information days to improve the competence of their members on roads. The Transport Administration also promised to comply with the recommendations of the National Audit Office and to make the corresponding changes in the organisation of work of the Administration in 2022.**

## A NEW INFORMATION MANAGEMENT AND AUDIT SELECTION SYSTEM AT SAI ISRAEL

By Adv Shai Mizrahi & Adv Eilat Reichmann Amit

### *Israel | State Comptroller's Office*

The Local Government Audit Division at SAI Israel has started employing a new Information Management and Audit Selection System (IMASS, or MANOR in Hebrew).

The IMASS is an innovative integrated computerised system, which combines a very large array of information sources, parameters and algorithms for the identification, analysis, filtering and selection of bodies as audit subjects.

The selection process takes into account, inter alia,

the current policy set by the State Comptroller with regard to the audited bodies' properties and characteristics - such as their type, size, financial state, location, influence, significance, risks assessment (indirectly) and many other elements. A special weight is given to the audit load and audit burden on the relevant bodies, namely the number of current and past audits carried out during a specified period. Thus, a fully rationalised and fact-based approach to the selection of bodies for audit is guaranteed.

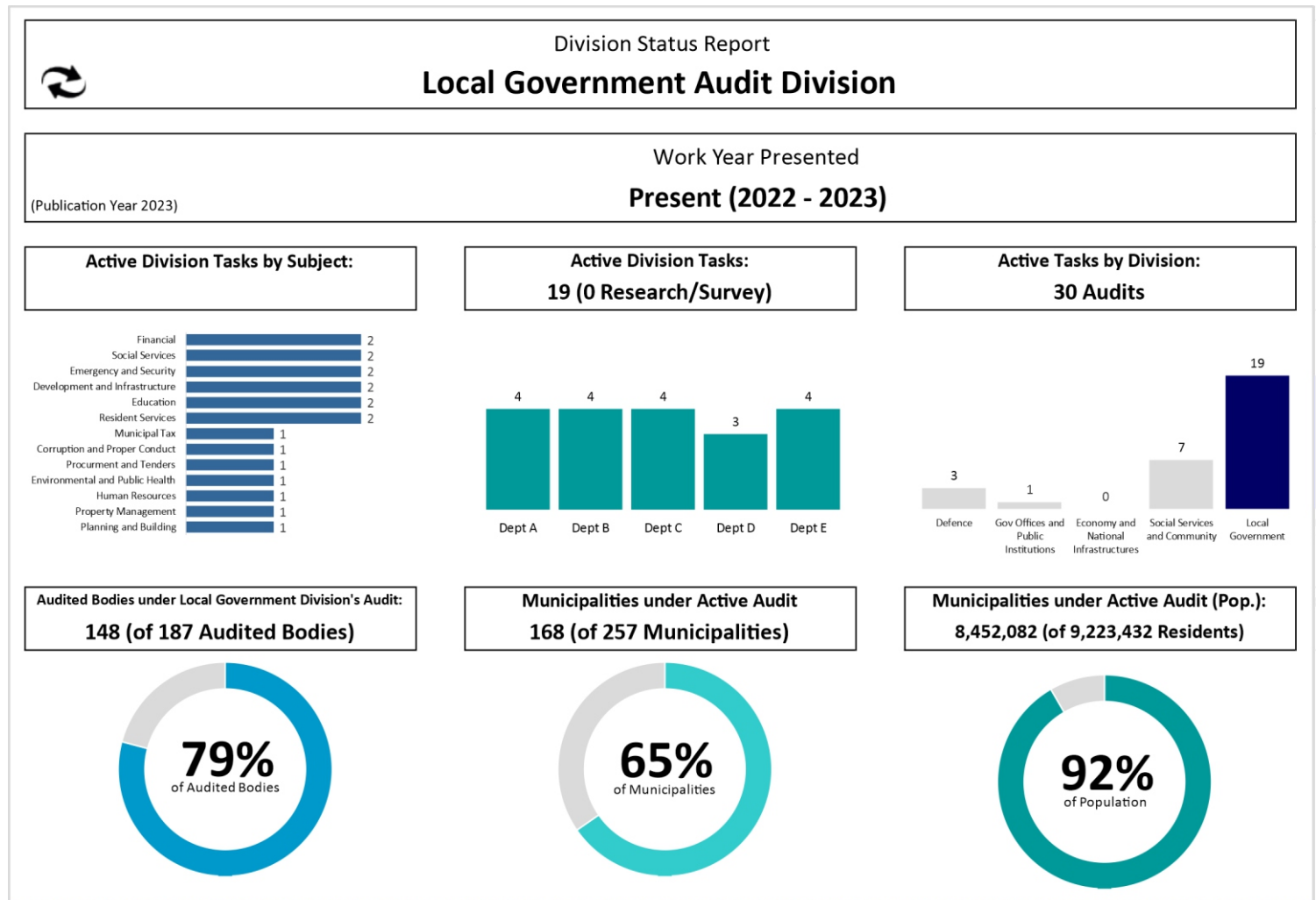
The significance of the IMASS is further underscored by the State Comptroller's policy of conducting horizontal rather than pointed audit tasks: The former involve not a specific municipality but a large number of audited bodies -- municipal and national -- in which the audit topics are reviewed in a top-down or bottom-up manner. The application of this policy requires a multi-level approach whereby a large number of municipalities are audited from a macro perspective, by using questionnaires for instance, whereas a drill down audit is conducted in a smaller number of selective municipalities and other bodies. The fully mechanised process, enabled by the IMASS, of identifying, sorting and choosing the appropriate bodies fit to each level, ensures a swift and precise outcome.

The IMASS' interphase is user-friendly and allows for immediate results at a click of a button. Consequently, the system ensures not only mathematical accuracy but also huge workload savings, compared with the former time-consuming manual pick-up process involving hundreds of audited bodies under the responsibility of the Local Government Audit Division.



Capitalising on the systems' gigantic data base and sophisticated sets of instructions, executed in a certain order to get the desired output, a corresponding business intelligence module was created. That component of the integrated system includes a dashboard of indicators providing an up to the minute detailed picture of audits, pre-audit surveys and reviews carried out at the audited

bodies -- individually, grouped or as a whole -- with respect to active and past audits per year, number and type of bodies involved, population affected, budgets covered and much more. Needless to say that such a detailed and updated dashboard is a very effective decision-making tool. Below is a snapshot of one of the many possible spreadsheets:



The IMASS was initially intended for the selection of municipalities but has evolved into a full-fledged cataloguing system, which may serve as a means to choose any type of audited body for review. Moreover, a very useful by-product of the system is the ability to generate very detailed reports on each and every audited body, thus creating a so-called Identity Card which combines a very large body of information about it.

The IMASS and the business intelligence module are the brainchild of Adv Eilat Reichmann Amit, an audit manager at the Local Government Audit Division, who has formulated and built the entire system all by herself.

For further details, please contact Ms Reichmann Amit at [eilat\\_re@mevaker.gov.il](mailto:eilat_re@mevaker.gov.il) or Mr Shai Mizrahi at [shai\\_mzr@mevaker.gov.il](mailto:shai_mzr@mevaker.gov.il)

## THE IMPORTANCE OF DATA IN INVESTMENT PLANNING: CONCLUSIONS ON BUILDING AN EFFECTIVE AND ECONOMIC BIO-WASTE MANAGEMENT SYSTEM

*Latvia | State Audit Office*

The State Audit Office of Latvia (SAO Latvia) has completed a performance audit “Is an efficient and economic bio-waste management system being developed in Latvia?”. The audit, which was carried out in 14 out of 43 municipalities and the Ministry of Environmental Protection and Regional Development (hereinafter - the Ministry), assessed how the Ministry plans and municipalities implement activities to provide the population with opportunities to sort bio-waste in order to reach the national and EU recycling targets by the end of 2023.

### Audit methods: the challenge of poor-quality data

The audit methods included analysis of national and EU regulatory enactments, their annotations, policy and development planning documents, planned and/or implemented projects co-financed by the EU and research papers. To evaluate the emerging bio-waste management system, the auditors got acquainted with the work of all the system's participants, including various state institutions, municipal waste landfill operators, waste management companies, property management companies, as well as biogas producers.

Moreover, auditors cooperated with an expert from the academia - the leading researcher of the University of Latvia in the field of environmental engineering and industrial biotechnology, who provided a substantiated assessment of the activities

carried out so far and produced forecasts regarding the operation of the bio-waste management system. Additionally, the auditors analysed the operation of Latvia's largest landfill and data on waste from the official statistical databases.

During the audit planning phase, problems with the quality of waste data in official databases were identified. Therefore, one of the major challenges of the audit was to develop a methodology for calculating the actual amounts of waste streams. In collaboration with the expert, auditors developed a method that uses economic-mathematical modeling and forecasting by incorporating various types of data, for example, data on GDP since the amount of waste correlates with population numbers and corresponding economic prosperity. This method made it possible to calculate both the necessary capacity of the bio-waste recycling facilities and the savings that could have been made by residents if the system of separate bio-waste collection was already introduced.

Lastly, to evaluate investments in bio-waste recycling infrastructure, auditors prepared a detailed timeline showcasing the EU requirements and actions (or lack thereof) of the Ministry, which allowed to identify shortcomings in investment planning and demonstrate their impact on the bio-waste management system.

## Findings on investments in bio-waste recycling infrastructure: risks in EU co-financed projects

In the period from 2018 to 2020, Latvia has approved six large-scale, EU co-financed projects for the construction of bio-waste recycling facilities in municipal landfills in the amount of 90,103,539 euros. Nonetheless, neither the national waste management plan nor the projects themselves have fully assessed the infrastructure which is currently available and the required bio-waste recycling capacity. **This poses a significant risk for an unjustified increase in the fee for bio-waste management because the capacity of the planned bio-waste processing facilities significantly exceed the needs of Latvia.**

According to the estimates of SAO Latvia, **in four of the five waste management regions the planned bio-waste processing capacity will be approximately 2 - 2.5 times higher than the forecasted amount of generated household bio-waste, which will significantly and unreasonably increase the waste management tariff for the residents.**

This situation is largely due to the fact that the available data on bio-waste management do not provide sufficient and sound information for decision-making. There are many inconsistencies in the data available in the national statistical database, but the responsible national authority does not have sufficient human resources to carry out extensive and in-depth data checks; moreover, data controls are not automated, making data verification time-consuming. Likewise, municipalities do not have precise data on waste management in their administrative territory, for example, they do not record data on the amount of bio-waste that is composted in households or collective composting sites. The problem of data quality is mentioned in

almost every Latvian-wide study that looks at waste management issues as well as in several EU studies, but no action has followed.



What the audit additionally established is that the investment amount required to develop and maintain the bio-waste management system in Latvia can still be reduced, and in several ways. Firstly, the practice of some of the EU countries shows that the system of separate collection of bio-waste is not always mandatory in the whole territory of the country, but only in individual municipalities, considering the specifics of the territory (e.g., population and its density). Secondly, it is possible to use already existing infrastructure for bio-waste recycling, for example, bio-gas plants and composting sites, which in turn significantly reduce the required processing capacity. Thirdly, it is possible to explore alternative uses for bio-waste instead of investing in expensive anaerobic digestion facilities where possible (e.g., by promoting household composting).

At the end of the audit, SAO Latvia put forward several recommendations to policy makers and its implementers calling to “restart” the current approach in building a bio-waste management system in Latvia and to make it more economical and more user-friendly for the population.

## THE READINESS OF THE COUNTRY'S INSTITUTIONS TO RESPOND TO EMERGENCIES

### *Lithuania | National Audit Office*

About 660 emergency incidents occur each year in Lithuania. Over the last three years, 4 state level and 64 municipal level emergency situations have been declared in the country.

The National Audit Office of Lithuania carried out an audit assessing the preparedness of the institutions responsible for emergency management to do so. The audit assessed the readiness of ministries and municipalities to manage these situations.

#### Key audit questions:

- whether the limits of responsibilities of the emergency management system actors are distributed;
- whether legal instruments have been created for the application of special measures (restrictions) that help to manage emergency situations;
- whether the existing risk assessment performance system ensures the identification of high and very high risk hazards that may cause emergencies;
- whether the existing emergency management system ensures that the management of all the possible high and very high risks that may cause emergencies is planned.

The audit revealed that effective planning and preparedness for the efficient management of emergency situations requires more clarity on the competences and responsibilities of the institutions coordinating preparedness. The inter-institutional coordination and cooperation is also insufficient. The lack of coordination is demonstrated by the fact that the National Emergency Plan approved by the Government does not include management actions and measures to manage potential high and very high

risk hazards identified in the National Risk Analysis. The National Emergency Plan does not include risks such as: cyber-attacks, mass unrest, terrorist attacks, threats to national security, major industrial accidents. Although municipalities should take part in the management of emergencies provided in the State Emergency Management Plan, none of the audited municipalities had planned the actions they should take to manage these situations.

#### The issues identified at the municipal level

Effective emergency management requires proper legal regulation to address shortcomings in its preparedness. The audit found that the **criteria for emergencies laid down in the legislation and their estimates do not allow all municipalities to declare an emergency**. For instance, an emergency due to the interruption of wastewater disposal or the interruption of electricity supply may be declared when the provision of these services is interrupted for more than 20 thousand people, although 18 municipalities have a smaller population. If the municipality does not declare an emergency, in order to eliminate the consequences, it will not be able to use the additional resources necessary for its management and to make important decisions on the organisation of the protection of the population. Municipalities declare an emergency after receiving confirmation from the investigating (hydrometeorological, radiological investigations) responsible authorities of an emergency that has reached or exceeded the estimates, however, these investigations take a long time, thus, municipalities may not declare an emergency in time.



Auditors identified **shortcomings in the performance of risk analysis by municipalities**. It is not ensured that management actions and measures for high and very high hazards are envisaged in the emergency management plans of the institutions. Most of selected municipalities do not manage information on potential hazards in the areas where public authorities or bodies of their management area have to develop emergency management plans and establish operation centres for these situations. None of audited municipalities assesses data on risk analyses conducted by the entities operating in their territories, although they can assess it as according to the law they collect data required for civil protection tasks from all the civil protection system entities and residents in the municipality. Institutions have not updated the risk assessment at the required intervals, although they must review and, if necessary, update it at least every 3 years. Some municipalities were late in reviewing and updating risk analyses from 4 to 6 years.

Institutions, after conducting the analysis of potential hazards and emergencies, plan actions and measures to guarantee an effective response to emergencies and the elimination of their consequences. Auditors found that **preparedness for the management of emergencies is insufficient**: municipalities did not in all cases envisage

management actions and measures for all high and very high risk hazards, the public warning and communication, exchanging information on the imminent or actual emergency with other institutions, organising the population evacuation and accommodation of the minimum population.

The audit concluded that effective emergency management requires proper legal regulation and inter-institutional coordination; the processes for conducting a qualitative analysis of potential hazards and emergencies as well as for emergency preparedness need to be improved.

The National Audit Office provided recommendations to the Government, the Ministry of the Interior and the Fire and Rescue Department. The implementation of recommendations would ensure better preparedness of institutions both at state and municipal level to respond to emergencies. In order to better prepare for these situations, the competences and responsibilities of the institutions coordinating their preparedness should be clarified. In order to ensure the systematic conduct of risk analysis of potential hazards and threats, an institution should be designated to coordinate the conduct of the National Risk Analysis. In order to plan appropriate actions to manage high and very high risk hazards identified during the analysis, processes for updating and reviewing the National Emergency Plan need to be envisaged.

## LOCAL GOVERNMENT – CONCEPTS, ROLES AND FAILURES

Malta | National Audit Office

### The Maltese Context

The Maltese Government system comprises a two-tier unitary approach system with Central Government constituting the first tier, whilst the 68 Local Councils and 6 Regional Councils forming the second level. Introduced in 1993 and eventually entrenched in the Constitution of Malta through an amendment in 2001, the Local Government sector was established to deliver certain prescribed services to local communities, as well as to set the direction for the development of the respective localities.

Article 33 of the Local Government Act (Cap 363 of the Laws of Malta), together with supplementary legislation, set out the major responsibilities entrusted within Local Councils, guaranteeing an autonomous system of Local Government.

The composition of the Local Government sector is outlined in **Figure 1** while **Figure 2** illustrates the principal local community services delivered by the Local Councils.

Figure 1:  
Local Government Sector Composition

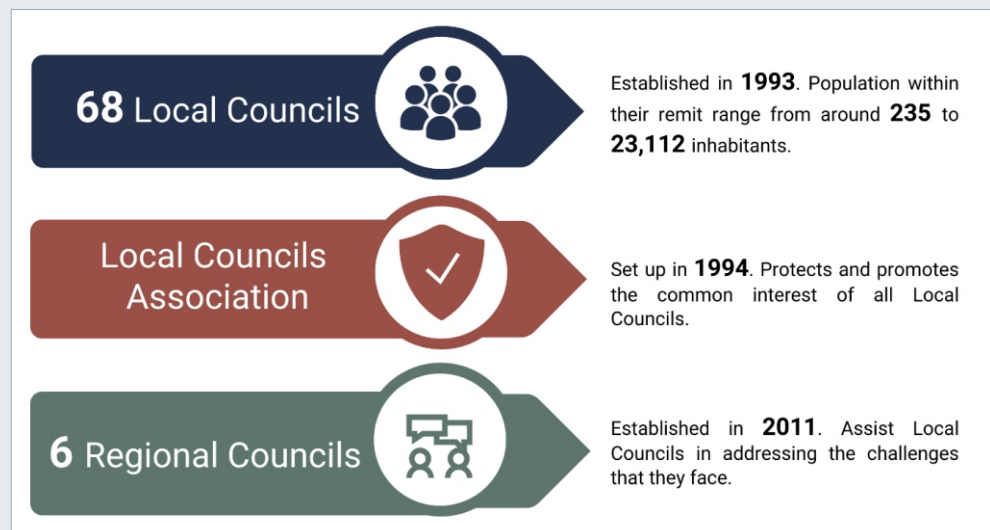


Figure 2:  
Local Councils' Principal Community Services



Autonomy is one of the main sine qua non pillars characterising the Maltese Local Government System. As regards financing of their operations, Local Councils are practically fully dependant on the funding allocated by Parliament in the yearly national budget.

### Dual System of Governance within the Sector

Proper governance arrangements are fundamental to ensure that Local Authorities act in the common interest of the community, while adhering to the requirements of pertinent legislation, thus enabling good stewardship of the public resources assigned to them. For this reason, Councils' governance is split in two distinct levels; while

each Authority is governed by a democratically elected Mayor and Councillors, representing the views of their electorates, daily operations are managed by the Office of the Executive Secretary. Essentially, the former provides policy direction whilst the latter assumes administrative responsibility.

### The Sector's Tiers of Oversight

As the primary tier of oversight, those charged with Governance, i.e., the Executive Secretaries are responsible for ensuring that appropriate operational mechanisms and controls are in place, to identify and manage risks and to ensure that the Council's activities are compliant with pertinent rules and regulations. Within this level of oversight, proper financial reporting is key since it assists them in the timely management of available resources, as well as to address, in an effective manner, any emerging issues.

The Monitoring Unit within the Local Government Division forms the second line of oversight and plays an important role in supervising the functions and operations of Councils, while guiding them in implementing appropriate control measures, ensuring their proper design and effectiveness. In an accountable and democratic system, high-quality independent audit is crucial for trust in the utilisation of public funds since this provides reassurance about the competence of Management and those charged with governance. The timely preparation of a set of financial statements, fairly presenting an entity's financial position and

performance, and prepared in accordance with the requirements of International Financial Reporting Standards, is a legal obligation required to be fulfilled by Local and Regional Councils, as well as the Local Councils Association, at the end of each financial reporting period. Thus, upon their approval by the Council's representatives and endorsement by the respective Mayor or President and Executive Secretary, a copy of the financial statements is submitted to the Auditor General to be audited in line with the Local Councils (Audit) Regulations, 1993 and applicable procedures.

As a third level of oversight, these financial statements are independently audited on behalf of the Auditor General by private audit firms, appointed following a public call for tender. The results of such audits are then extensively reviewed by the Local Government audit team within the National Audit Office, through an analysis of the audit opinions and scrutiny of the weaknesses and inefficiencies highlighted in the management letters prepared thereon. As part of the process, the response to the management letter as submitted by the Local Authorities is also examined.

## Significant Scope for Improvement in Financial Administration and Sustainability

The detailed audit work undertaken at each individual Local Council raises various concerns which are repeatedly flagged by the National Audit Office.

These concerns revolve around the fact that to-date some Local Authorities have still not acknowledged the importance of proportionate and timely action to address root causes and mitigate related risks, thereby enhancing internal controls. In fact, the significant number of audit adjustments, proposed by Local Government Auditors on a yearly basis demonstrates the heavy reliance of some Councils on the year-end audit to identify potential errors in the accounts. This situation portrays a poor accounting function and also depicts a lack of internal review prior to the submission of the financial statements for audit.

The issue that a number of Local Councils are financially stressed and heavily reliant on Government grants to continue their operations, poses a serious concern on the financial sustainability of these Councils.

This could be the result of mismanagement in the operational structure when funds are not utilised in an efficient and economic manner. Examples include expenditure budget overruns and undertaking of large-scale projects which the Council cannot handle through its financial resources.

Other common prevailing matters relate to inadequate management of fixed assets, inappropriate procurement procedures, with goods and services procured directly from the open market, and non-adherence to statutory reporting procedures.

## Conclusion

Their proximity to the local citizen, through the provision of a wide range of important services, render Local Councils' financial management and governance subject to high-level community interest. Hence, to maintain public confidence and safeguard local democracy, it is important that these bodies put into practice the principles of transparency, accountability and integrity which ultimately form the basis of good governance.

This can be achieved through:

- the strengthening of controls and procedures, by acting on unresolved issues of concern
- implementation of adequate control over assets falling within their remit;
- adherence to pertinent rules and regulations; and
- the provision of high-quality timely reports that are made publicly available on the Council's website.



## MAIN RESULTS OF REGULARITY AUDITS AT LOCAL LEVEL

### *North Macedonia | State Audit Office*

One of the news in the SAO of North Macedonia is that the Annual Work program for 2021 includes municipalities and public enterprises established by them. This way, gives a much clearer picture of a municipality and its public enterprises, their weaknesses and problems, which are interconnected. This principle was also applied in the Annual Work for 2022.

SAO of North Macedonia conducted regularity audits (audit of financial statements for 2020 together with compliance audit) on four municipalities and seven public enterprises established by them. From the conducted audits, the most common findings are in the part of: system of internal controls, compliance with laws and regulations, financial statements, use of funds in accordance with legal regulations and public procurements.

In the audited **municipalities**, there is no/ or exist inadequate organizational set-up of internal audit, i.e. it does not work. Small municipalities do not have a system of internal financial control. Weaknesses have been identified in the budgeting process, there is significant deviation between planned and realized revenues and expenditures, despite the adopted budget rebalance. This gap between planned and realized revenues and expenditures is a reason for creating liabilities without possibility to pay, which decrease the financial stability of the municipalities. The program activities are not harmonized with the provided budget funds.

Municipalities generate less revenue for public cleaning fees, for use of parking space because the public enterprises established by municipalities do not transfer these revenues to the municipal Budget. For the tax receivables that have not been collected within the legally deadline, interest is not calculated and collected and no measures are taken for collection.

Audited municipalities do not respect the legally deadlines in conducting procedures for determining the legal status of illegally constructed buildings. That prolongs procedures for timely registration the property in the Agency for Real Estate Cadaster. Concerning the requests for determining the legal status of illegally constructed buildings in the audited municipalities, 33% are still in procedure.

Irregularities have been identified in the municipalities programs. Financing of the program activities is without precisely defined criteria (social assistance, sports, culture). Most of the funds are planned to support sports clubs, and insignificant part is to support mass sports.

Key documents are missing during the construction works (construction/ reconstruction of streets and roads, water supply and sewerage network. There is a lack of technical inspection from supervising engineer and approval for use of the constructed buildings.

For years, there are problems concerning the inventory of property and liabilities. The property of municipalities is not fully recorded in the accounting books.

Weaknesses in the public procurement procedures have been identified; regarding estimated value of procurement, conditions for qualitative selection of economic operators and elements of the contract, non-compliance with legally established deadlines and not conducted public procurement procedures.

For audited **public enterprises at local level** (Pes), the legal obligation to conclude contracts with users of drinking water services and with the provider of the delivered water service is not fully complied with. Some public enterprises do not have contracts with commercial waste generators, legal entities for its collection and transportation.

The internal acts and calculation of salary are not harmonized with the regulations. The water loss in the water supply system is above 55%, due to old and dilapidated water supply network, tank permeability, illegal connections and consumption, inaccuracy of water meters, non-invoiced consumption, watering of public green areas without installed meters, etc.

Less revenue, (32.253.000 denars) were generated in the Central Budget due to untimely payment of fees for water use and discharge of water by public enterprises.

Less revenue (121.838.000 denars) were also generated in the Budget of the municipalities, because of untimely payment of fees for maintaining public cleanliness.

Inventory of assets and liabilities are not good. The audited PEs do not take timely measures to collect revenues.

There are weaknesses in the public procurement procedures in relation to the technical specification, required quantities for procurement, and procurement of assets without performing analysis

of real needs, implementation of contracts, legally prescribed deadlines and unimplemented public procurement procedures.

The PEs operation is accompanied by reduced liquidity and solvency, which have an impact on the overall processes, presenting obligations toward suppliers and inability to settle these obligations in a timely manner.

The manner of work and handling of existing locations for waste disposal is determined by Government Decision as well as the temporary locations for waste disposal during the construction period of the regional landfill for the East and Northeast region.

SAO of North Macedonia, emphasize that it is necessary to intensify activities related to setting up an integrated waste management system in the East and Northeast region, which includes construction of central and local waste management facilities, as well as a regional landfill. On this way will be improved environmental and to have organized waste management in line with national and EU standards.



## SYSTEM FOR RAPID IDENTIFICATION AND RETENTION OF THE EXISTING DOCUMENTS (SPID)

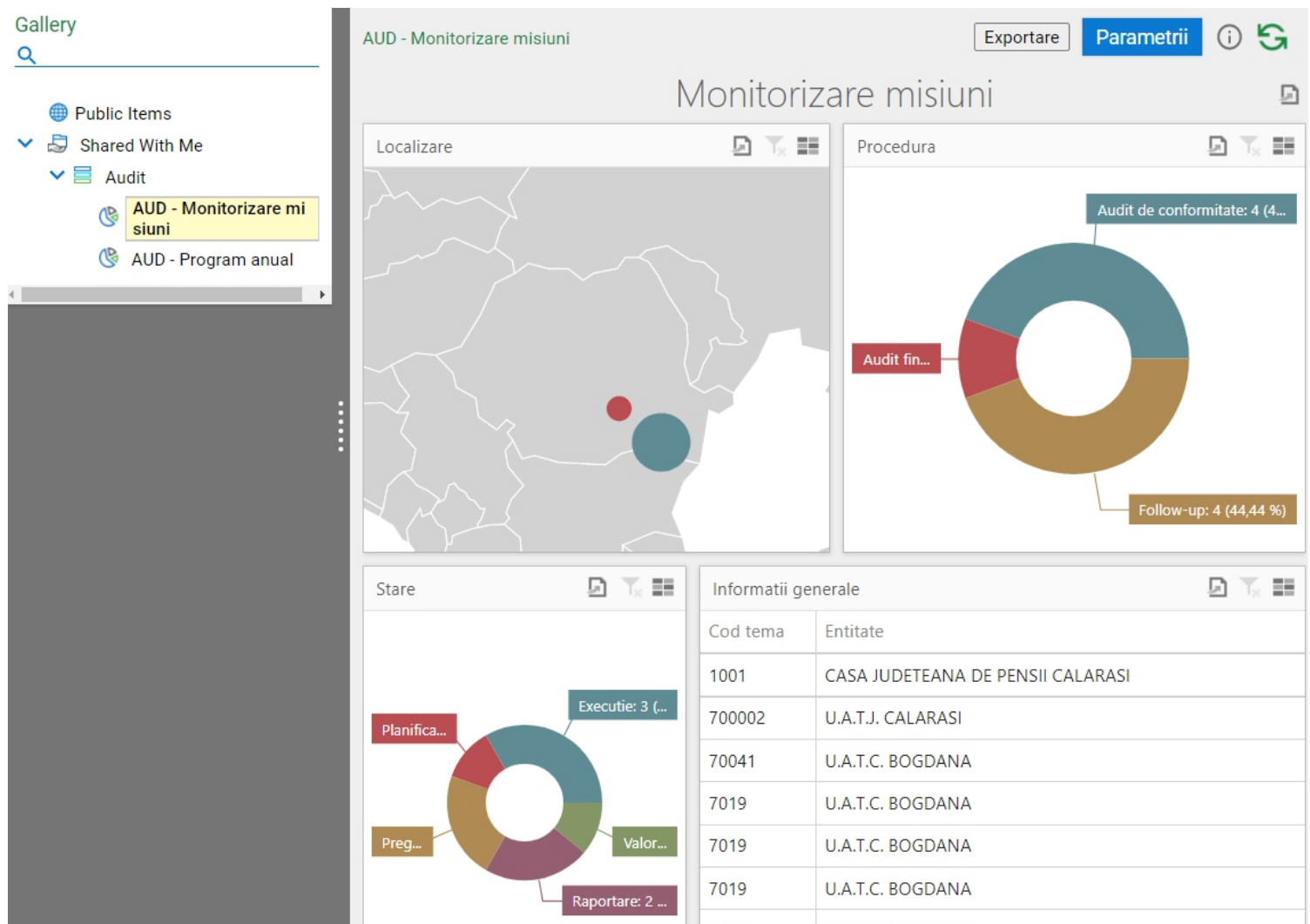
### Romania | Court of Accounts

One of the lessons of the pandemic we are all going through is the importance of digitization in our work and personal life. The crisis has led us to step out of our comfort zone, use technology more, learn from other SAs, and eventually evolve faster than we normally would.

The Romanian Court of Accounts started in 2019 a project to design a system for rapid identification and retention of the existing documents at the level of

the institution called SPID which was delivered by the end of 2020 and for 3 years the developer is providing technical support and is furthermore tailoring the system to the Court of Accounts needs.

SPID is a system that allows the streamline and standardization of the work flows, procedures and documents at the level of the headquarter and territorial structures of the Court of Accounts, especially for the audit process.



The transition to this new application took place in four stages during 2021 and now the use of the application is being widespread throughout the Court.

Actually, the entire SPID IT system is providing:

- a) document management, as e-archive and working documents, storage and fast access to those documents;
- b) automation and standardization of the working processes, focusing on the audit activity;
- c) hardware infrastructure.

The SPID application is comprised of 8 modules: Automation of flows and organizational processes - crosscutting module, Audit for planning and execution of audit missions, Ethics, Registry, Petitions, Legal, Certificates record monitoring and Document digitalization.

Each module offers the possibility to access and solve audit and non-audit tasks in a paperless way, saving time and resources. The Audit Module ensures the modernization of the audit process and the increase of the quality of the prepared reports and creates a better working environment for cross institutional audit teams.

As for the automation and standardization of the work processes, the following features are implemented:

- e-planning of audit missions, including the annual and multi-annual audit plan;
- use of template forms for the audit missions;
- fill out system of the working documents needed to prepare the Reports online;
- traceability of changes made to the documents and reports;
- validation of the completeness of the reports prepared;
- monitoring of the alignment with the planning and the resources used to carry out the audit missions (number of hours/ person);
- aggregations and reports;
- connectivity between the audit process and the support processes;
- petitions solving and requests to access data according to regulations.

At the same time SPID application is interconnected with external database systems: National Reporting System FOREXEBUG – managed by the Ministry of Finance; the cases management system of the High Court for Cassation and Justice - Just.ro and SIMEX - the Human resources module.

In the context of the digitization of institutional activity, the SPID application is just the first step and new modules and features will be added to it like: a broader risk analysis tool and a platform that will allow both the exchange of data in electronic format and the assistance of entities to more easily respond to the requests of our institution.



## PERFORMANCE AUDITS RELATED TO THE SCOPE OF WORK OF LOCAL SELF-GOVERNMENT UNITS

### Serbia | State Audit Institution

During 2020, the State Audit Institution of the Republic of Serbia (SAI of Serbia) conducted four performance audits related to the scope of work of local self-government units.

The performance audit report "**Functioning of urban and suburban passenger transport**" showed that one third of citizens in Serbia are not satisfied with the functioning of urban and suburban transport, while almost one million inhabitants does not have this communal activity of general interest organized. As stated in the report, 53 local self-government units, or approximately 40 percent of all cities and municipalities, do not organize this communal activity.

Uncollected receivables based on source revenues of local self-government units, on average, amount to one third of the annual budget, and in some local self-government units they reach over 50 percent of the total annual budget, determined the state auditors who conducted the performance audit "**Efficiency of collecting own-source revenues in local self-government units**". These receivables on December 31, 2019 amounted to at least 135 billion dinars, which is twice as much as the amount of revenues collected on the same basis in the same year.

The performance audit report "**Plastic Waste Management**" showed that 15 local self-government units did not adopt local waste management plans. Separate waste collection was established by 43 percent of local self-government units, while the share of separately collected waste in the total

municipal waste was five percent. The report states that 35 percent of local self-government units do not submit data on generated municipal waste, and 68 percent of local self-government units that submit data do not perform measurements, but submit data based on estimates.

Conducting the performance audit "**Incentives for rural development measures**", the SAI sent questionnaires to the addresses of 145 local self-government units in the audit planning phase and determined that only 26 percent of cities and municipalities had adopted strategic rural development plans in 2019. As stated in the report, the cities and municipalities that allocate the most funds for incentives for rural development measures do not have strategic plans.

Summaries of performance audit reports in English can be found on <https://www.dri.rs/audit/summary-reports/archive-2020---publ-in-jan-feb-2021.501.html>



## CURRENT CONTEXT OF THE AUDIT OF THE LOCAL PUBLIC SECTOR: TOWARDS DIGITAL MODERNIZATION

### Spain | Tribunal de Cuentas

The Strategic Plan of the Spanish Court of Auditors for the years 2018-2021 identified several goals in the area of audit activity, directing the institution's work in various directions related, fundamentally, to the first of its strategic objectives: contributing to good governance and the improvement of the economic-financial activity of the public sector.

Among the challenges faced by external control institutions is the widespread use of IT tools for receiving information and processing it in the audit. In this field, the Spanish Court of Auditors is developing various initiatives:

#### Interconnection of information platforms on public contracts

Regarding public contracts, there are two technological platforms in Spain: the Public Sector Contracting Platform, managed by the Central Administration and whose purpose is to provide transparency in procurement management, and the Account Submission Platform for Local Entities, managed by the Court of Auditors, and whose purpose is the submission to the Court of Auditors of the information relating to public contracts with a view to auditing. Until now, both platforms were independent of each other, so that the local manager had to fill in information on both, with the consequent duplication of workload and risk of information inconsistency.

The interconnection of these two platforms allows to solve both problems through the implementation of a

development for the interoperability of both. In this way, the information on the procurement procedure that is published in real time on the Public Sector Contracting Platform is automatically uploaded daily to the Account Submission Platform for Local Entities.

#### Electronic submission of information from the internal control of local entities

The internal control bodies of local entities are legally obliged to submit information on the results obtained to the Court of Auditors. The Court of Auditors has developed the necessary computer tools so that this is sent periodically through a telematic questionnaire, so that it can be used and treated in the development of the external audit carried out by the Court of Auditors.

A project is also being developed for the exchange of information between the Court of Auditors and the General Intervention of the State Administration, which is the supreme body of internal control of the central administration, and to which local entities are obliged to submit summary reports annual results of internal control.

#### Implementation of telematic notifications

In order to facilitate communication between the Court of Auditors and local entities, an electronic notification tool is being developed within the scope of the Account Submission Platform for Local Entities, which makes it possible to dispense with paper notifications.

## FINANCIAL MANAGEMENT AND CONTROL IN MUNICIPALITIES - EXPERIENCES OF THE SAI OF SRPSKA

*Republic of Srpska | Supreme Audit Office*

**TFMA Observer**

In the municipalities, but also in the entire public sector of the Republic of Srpska, in the last few years, reforms have been intensively implemented with the aim of developing public financial management. In this regard, systematic activities are underway to establish and implement a system of internal financial controls according to generally accepted standards of internal control based on the COSO framework, as one of the most authoritative models of internal control. The systemic approach is reflected primarily through the prism of legal and bylaw regulation of this issue, methodological framework, ie the way of introducing the system of internal controls and organization of trainings by a specially established body at the Ministry of Finance of Republic of Srpska which is responsible for coordinating these activities. This was also a necessary precondition for providing a solid basis for the consistent development of the internal control system, rejecting the current partial, unsynchronized and uncoordinated approach to this important and complex work.

According to the COSO model, internal control is defined as a process involving management and other employees, which is designed to provide reasonable assurance about the achievement of objectives in the following: effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. This speaks in favor of how important internal controls are for the functioning of the entire public administration and as such are the subject of special interest of supervisory bodies, because their poor functioning can be a breeding ground for various types of abuse.

The SAI of Srpska, as a form of external supervision over the system of internal controls, has a key role in

that process and during each engagement in financial audit, it draws a conclusion regarding the functioning of internal controls, which it reports on through audit reports. The conclusion on whether an internal control system is "effective" is an assessment based on whether there are five components of the COSO framework at the process or procedure level and whether they function effectively. In other words, when the system meets the standard of internal control according to the COSO model, it can be considered effective, which means assessing three categories: if it allows management to understand the extent to which the institution's goals are achieved, that financial statements are reliably prepared and that there is compliance with applicable laws and regulations.

In the context of the previous one, the SAI of Srpska has so far pointed out through its reports numerous weaknesses, limitations and non-functioning of the internal control system, and made recommendations for eliminating the identified shortcomings. In this regard, we consider it worthwhile to share the experience of the SAI of Srpska regarding some of the basic shortcomings and failures of the internal control system in relation to the generally accepted standards of internal controls pointed out by the SAI of Srpska through audit reports. In addition, give some observations in this regard, because the fact is that in the process of creating a system of internal controls and that there are issues that deserve attention and activities as those who are responsible for this work in municipalities, those who perform normative design and legal regulating this area and those whose mandate is to reach a conclusion on the functioning of the internal control system.

The system of internal controls in municipalities is organized mainly through the adoption of individual rules for certain business processes which in some way regulate the system of internal controls, and most processes take place without a previously established system of internal control. In summary, the identified irregularities related to the internal control system in relation to internal control standards and legislative framework in a sample of 45 audit reports of municipalities published in 2020 and 2021 by the SAI of Srpska could be generally presented as follows:

- No person has been appointed in charge of establishing the system of internal controls,
- No reports have been made on the internal control system,
- No internal controls have been established for key business processes
- Internal controls are not adequately designed, and there are noticeable problems in their functioning,
- No acts related to risk management have been adopted.

Regarding the above, it is logical to conclude that the established system of internal controls in municipalities did not function in a way that provided true and fair reporting and compliance with applicable laws and regulations, which was stated in the audit reports. It is noticeable that the established system of internal controls has not yet been fully used to improve the efficient and effective management of budget funds and that there are still "initial" problems in functioning. In order for the internal control system to really be used for the purpose for which it is intended, it needs to be fully integrated into existing management processes. Such an approach implies the identification of all risks that may arise in the process and adequate response to them, in terms of designing control activities, which allows municipalities to finally shift their action from reactive to proactive action, addressing causes rather than problems. In order to achieve the

full effects and benefits of internal controls, care should be taken not to reduce the implementation of the system to a "mere formality" in terms of drafting procedures without their practical implementation. Although it would be impossible to state this precisely, it seems that due to the non-functioning of the internal control system, which is due to the failure of managers and employees due to misunderstanding or more or less conscious violation of legal norms in order to circumvent certain norms of business conduct and it is reasonable to at least assume that the created conditions that promote the emergence of negative phenomena. However, it would be very difficult to give a general assessment of the extent to which individual deviations are the result of objective reasons or difficulties of a systemic nature, and the extent to which they can be attributed to the exclusive responsibility of managers and employees in municipalities.

It also seems that the control bodies have so far obviously failed to influence the development and more adequate establishment of the system of internal controls with various preventive or repressive measures. The reasons for this largely stem from the fact that we still have problems with not understanding how these systems should be introduced, but also the present irresponsibility and lack of interest of management and employees for internal controls. This at least imposes the need to adopt broader and binding legislation in this area and a different approach of supervisory authorities in this context.

Given that the system of internal controls is the basis of any audit, we believe that some of the next seminars of the TFMA working group should include this topic. In that case, we would be pleased to take part in that agenda and share wider experiences with other SAIs, but we also hear the experiences of other SAIs in this very important segment of each audit.

PhD Bojan Ćurić



# CITIES OF HYVINKÄÄ AND JÄRVENPÄÄ AS PIONEERS OF ONLINE BUILDING PERMITTING AND INSPECTION PROCESSES AMONG FINNISH MUNICIPALITIES

**NORPIA | Nordic Public Sector Internal Auditors Cooperation Group**

## Introduction of cities

<https://www.hyvinkaa.fi/in-english/>  
<https://www.jarvenpaa.fi/en>

## Development Process of Lupapiste e-service in Finland

Ministry of Finance Finland launched an Action Programme on eServices and eDemocracy (SADe programme), 2009 – 2015. The purpose of the Action Programme is to provide interoperable, high-quality public sector services via digital channels. These services are aimed to improve cost-efficiency, create savings, and generate benefits to citizens, businesses, organisations, and local and government authorities. Special attention was paid to the achievement of cost benefits to municipalities.

There were altogether seven different kind of digitalisation projects under that programme umbrella, one of them Lupapiste e-government service of construction supervision. Medium-size cities of Hyvinkää and Järvenpää were active partners of the project from the very beginning. Later many bigger cities and smaller municipalities joined the development project too. Today altogether 206 Finnish municipalities used Lupapiste (2021).

Development work of Lupapiste started in 2013 by developing construction supervision e-service pilot. After that rapid development work has continued in co-operation with Finnish municipalities. In 2021 development activities focused on requirements given by the municipalities, altogether 800 including

requirements concerning information security, data privacy, availability, quality and service supply.

Lupapiste has also introduced to international audience in BIM World Munich 2021 that is leading platform for all topics relating to the digitization in the AEC industry.

## Lupapiste today

The Construction Units of Hyvinkää and Järvenpää only accept digital building permit applications nowadays. E-government service enables that all permits related to construction project can easily be filled and processed online. Further development work has been done to develop Lupapiste eServices to land property (common areas) and environmental protection.

## Lupapiste briefly:

- supplier Cloudpermit Oy Finland (personnel 30 in Oulu, Tampere and Helsinki in Finland, offices in Canada and US too),  
<https://cloudpermit.com/fi/>,  
<https://ca.cloudpermit.com/login>
- 70 % of Finnish municipalities delivering Lupapiste e-service
- 70 % of Finnish citizens using Lupapiste e-service
- one service point in use
- enables co-operation of authorities over municipality borders
- agile continuous development in co-operation with municipalities
- 100 % cloud service – born in cloud
- 14 000 actions per month
- 150 000 registered users
- 6 000 authorities as users
- 600 enterprise customers

### Lupapiste services for construction supervision

- eServices
  - building permit applications, notifications
- Supervision during construction process
  - public notice
- Information management
  - archives
- Lupapiste shop
  - architecture drawings
- Decision making
- Invoicing
- Reports

### Chief Building Inspector of Hyvinkää and Järvenpää Mr Jouni Vastamäki summarises benefits of using Lupapiste

Lupapiste enables that personnel of construction supervision can work independently of place and time doing right things at the right time without responsibility of making documentation in different systems. Working is more reasonable and both work satisfaction and well-being of personnel increase.

Also important is that Lupapiste enables co-operation among municipalities. Hyvinkää and Järvenpää are showing that these tasks can be shared between municipalities. We have had an opportunity to use time more effectively. In spite of increase of construction volumes we have managed with the same number of personnel, no additional recruitments were needed. We have utilised opportunities for ongoing development work.

Our construction unit has operated without any discontinuity during the Covid-19 pandemia period. All the applications were handled online. This allowed also those in charge of construction projects to carry on without extra delays.

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beginning of the year 2023





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