



WGMA NEWS

ALL YOU NEED TO KNOW ABOUT WGMA

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Dear colleagues and readers,

It is with great pleasure that I welcome you to the annual edition of the EUROSAI Working Group on Municipal Audit (WGMA). This publication not only reflects our work but also stands as a testament to our collective efforts and achievements in the field of supreme audit institutions for the benefit of our municipalities and their communities.

The past year has been full of challenges, including the transition of WGMA leadership from our dear colleagues at SAI of Lithuania to the SAI of Latvia. This period of transition has also provided us with opportunities for growth and development! We have continued to work towards our primary goals – promoting good governance, transparency and accountability at the municipal level. Our working group members have put in significant effort to improve audit practices and share their knowledge and experience.

WGMA's activities are focused on fostering professional cooperation and the exchange of best practices in municipal auditing. Our strategic objectives include promoting dialogue with internal and external partners, enhancing professional collaboration, and sharing practical experiences on methods, innovative tools and technologies in municipal audits.

In this edition, you will find many valuable articles and studies that reflect our collective efforts and achievements. I am confident that these materials will be useful and inspiring to every reader.

Each member contributes to strengthening our common goal. The results of the working group are directly dependent on the proactive involvement of all members. Together, we shape the content and activities of the working group, making them more beneficial for ourselves.

I would like to express my gratitude to everyone who participated in the preparation of this edition, as well as to all our working group members for their tireless work and support. Together, we will continue to strive to improve municipal audit practices and enhance the impact of supreme audit institutions in Europe!

Sincerely,

Oskars Erdmanis

Director of Audit Department and Council Member of the State Audit Office of Latvia

Chairman of the EUROSAI WGMA



Oskars Erdmanis,
Director of Audit Department and Council
Member of SAI Latvia, Chairman of WGMA

Task Force on Municipality Audit Kick-off Meeting

11-12 April, 2017 Vilnius



NATIONAL
AUDIT OFFICE
OF LITHUANIA
BRINGING BENEFITS

EUROSAI
TASK FORCE
Municipality Audit

From Task Force to Working Group: the EUROSAI TFMA's journey

Established in 2017, the EUROSAI Task Force on Municipality Audit (TFMA) has evolved into a vibrant community, energized by the dedicated involvement of its diverse members. The consistent engagement and strong commitment of its membership have been key to advancing the Task Force's initiatives, leading to significant achievements and ongoing progress. We are delighted that the TFMA, uniting the supreme audit institutions of 27 EUROSAI countries, has become a strong and cohesive team, actively collaborating to consistently implement activities toward set goals, reflecting our vision and mission.

Our focus areas over the past three years have included the examination of essential municipal and audit matters. The TFMA operated as a dynamic platform, fostering comprehensive discussions and innovative solutions. Various operational forms and formats allowed for the exchange of experiences and ideas, responding to the evolving challenges of local governance. The activities primarily focused on addressing relevant topics, particularly those identified by Task Force members as the most crucial issues in municipalities, such as:

- Municipal Real Estate Management
- Digitalization of Public Service Delivery and Administration
- Distribution of Transfers and Grants
- Implementation of the Sustainable Development Goals
- Social Support for Vulnerable Groups
- Municipal Debt Management
- Public Local Transport

To address these topics, we tailored a variety of activity formats, including seminars, meetings, awareness-raising sessions, audit compendiums, and survey reports. These efforts reflected diverse perspectives and fostered collaboration and synergy.

We are excited that the first-ever TFMA cooperative audit “Municipalities’ Own Revenues for Providing Quality Services to Citizens during the Pandemic” was carried out by seven Task Force members under the leadership of the SAI of North Macedonia. It brought benefits not only to the participating members but to the entire auditor community.

The significance of methodology in municipal auditing lies in guiding auditors through the complexities of local governance and financial management. The TFMA placed considerable importance on methodological issues, viewing them as integral to its activities. We are particularly gratified that a Master class on methodological issues in municipal auditing was developed as a remote platform for exchanging and analysing real-life examples.

The communication tools we employed allowed us to effectively connect with others, making the TFMA visible and recognizable not only at the European level but also on a global scale. Our collaboration



Handover of chairmanship, 2023, Warsaw
From left to right: M.Macijauskas, A.Brukštutė, O.Erdmanis, B.Bebre, A.Purlienė

extended from consistent partners such as the European Organization of Regional Audit Institutions to other international organizations, including the World Bank, the United Nations, and the Council of European Municipalities and Regions. The Task Force has also been actively engaged in diverse information and knowledge exchange formats with SAIs from other regions, such as those of the Kingdom of Thailand and South Africa.

We are confident that the transition of the Task Force on Municipality Audit into the Working Group under the leadership of the SAI of Latvia will bring tangible benefits.

This transition marks a new chapter in our journey, building on the successes of the Task Force while continuing to pursue the vision of creating relevant improvements to municipal audit systems in EUROSAl countries. Our commitment to advancing municipal audit practices will persist as we work together to address emerging challenges and drive positive change.

Looking ahead to Working Group on Municipality Audit

On 27-28 May 2024, the XII Congress of the European Organization of Supreme Audit Institutions (EUROSAI) was hosted by the Supreme Audit Institution (SAI) of Israel and it marked a significant milestone



EUROSAI
Working Group on
Municipality Audit

by officially transitioning the Task Force on Municipality Audit (TFMA) into a Working Group on Municipality Audit (WGMA). This crucial shift underscores the growing significance of municipal auditing throughout Europe, highlighting the enhanced collaboration and the pooling of knowledge and expertise among SAIs.

Reflecting on [the resolution to XII EUROSAI Congress](#), in eight years, the EUROSAI TFMA has evolved into a dynamic community, driven by active member engagement. The TFMA has achieved significant progress, gaining recognition from global audit institutions. As a key hub for municipal auditing, the WGMA continues to deliver valuable results and address critical local government issues, underscoring its ongoing relevance and impact.

Strengthening European municipal auditing

This year we celebrate the growth of our community. The WGMA brings together the SAIs of 27 countries and several observers across Europe, all dedicated to improving accountability within local governments and boosting the effectiveness of municipality audit.

The WGMA has set out a [new Work Programme for 2024-2027](#), centred around three key strategic goals:

1. facilitate dialogue with internal and external stakeholders
2. promote professional cooperation on relevant topics in municipal audits
3. endorse the exchange of the practical experience of methods, innovative tools and technologies in municipal audits

Looking ahead

As the WGMA embarks on its new chapter, the group has a new secretariat representing SAI of Latvia. The team is Oskars Erdmanis, Council Member, Agnese Jaunzeme, Head of Audit Sector, Silvija Nora Kalniņš, Head of Strategy and International Relations, and Kristiāna Tauvēna, State Auditor.

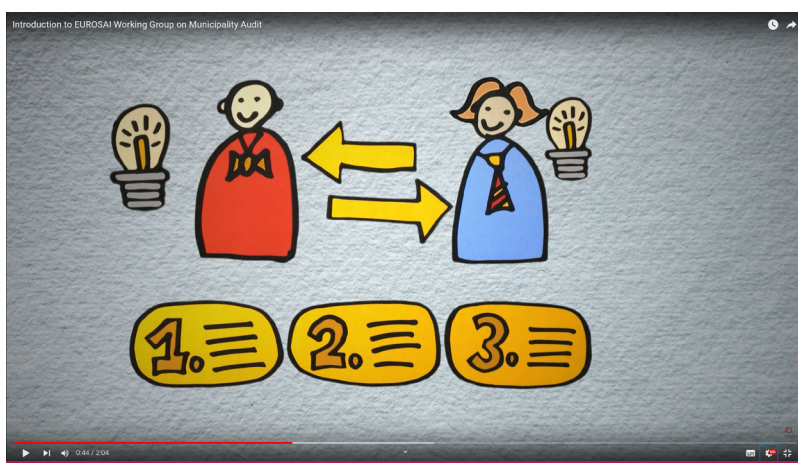


From left to right: A.Jaunzeme, K.Tauvēna, O.Erdmanis, S.N.Kalniņš

The Working Group's activities will continue to serve as essential tools for enhancing public trust and ensuring effective local governance across Europe.

We will focus on updating and researching external and internal audit systems, publishing our annual WGMA newsletter, and actively engaging with stakeholders through workshops, awareness sessions, and various partnerships. Our efforts will include managing our website and social media. Additionally, we plan to exchange best practices, conduct cooperative audits, and organize annual seminars, while also publishing our audit compendium and undertaking relevant analyses. We will enhance methodological skills in municipality auditing through master classes and workshops on digital tools, and exchange insights on the impact of new technologies.

The working group is open to all EUROSAI members, and we welcome your contributions to enhance our efforts. Your participation and insights are highly valuable to making our work more effective and impactful. We look forward to your involvement!



[Video: Introduction to EUROSAI Working Group on Municipality Audit](#)
We invite you to take a look at our start of the further work together.

TFMA annual event in Warsaw



Participants of TFMA seminar and annual meeting in Warsaw, 2023

The TFMA seminar on the “Distribution of Transfers and Grants” and the 7th annual meeting took place in Warsaw in October 2023. The event was hosted by the SAI of Poland and gathered 60 TFMA members, both in person and remotely.

The seminar provided invaluable insights into the critical theme of the distribution of transfers and grants, emphasizing its paramount importance in municipal governance and financial management. Presentations by key speakers from the European Organization of Regional Audit Institutions (EURORAI), the Association of Polish Counties, and the Municipality of Warsaw brought significant contributions to the seminar. These presentations helped the members of the Task Force gain a better understanding of the challenges municipalities face and the changes that are needed.

Panel discussions on topics drawn from the Task Force members’ case studies, along with insights from the key speakers, underscored the vital role of effective fund allocation and management in ensuring the equitable distribution of resources and fostering sustainable development at the local level.

During the annual meeting, TFMA members focused on ongoing activities, discussed the upcoming strategic period, and identified potential activities for future development.

Enhancing municipal auditing: WGMA master classes drive collaboration and knowledge sharing

The online master classes series, a vital initiative for the WGMA, continues to provide a platform for its members to dive deep into methodological issues in municipal auditing and share best practices. These sessions, organised by the coordination team of the SAIs from Bulgaria, Latvia and North Macedonia, are key to improving the quality and effectiveness of municipal auditing across the region.

Master class overview in 2024



In 2024, WGMA has held two insightful master classes, focusing on advancing audit methodologies and sharing experiences from various member SAIs.

The third master class was held on 22 February 2024, with a focus on the methodological aspects and collaboration with external experts during the first-ever TFMA cooperative audit on “Municipalities’ Own Revenues for Providing Quality Services to the Citizens During the Pandemic.” Additionally, the SAI of Poland shared its experiences in working with public auditors during the audit process.



The fourth master class discussed audits on municipal forest resource and agricultural land management, focusing on evidence collection, criteria, sample selection, audit evidence, and analysis. The SAI of Serbia highlighted the performance audit results on state-owned agricultural land use. The SAI of Bulgaria presented a case study on managing municipal real estates in forest territories, sharing compliance audit insights. The SAI of Latvia shared a performance audit on forest resource management, emphasizing effective strategies and efficient municipal practices.

Fututre plans

Master classes will continue to be a valuable platform for sharing knowledge, enhancing audit quality, and supporting WGMA’s mission to improve municipal auditing practices for the benefit of citizens. Suggestions for future topics are welcome and encouraged.

Compendium “Audits of public local transport”

As part of Strategic Goal I, focused on sharing best practices to improve public financial management, a coordination group from the SAIs of Lithuania and Serbia prepared the fourth Audit Compendium. This edition highlights financial, compliance, and performance audits, along with assessments on public local transport from 2018-2023.

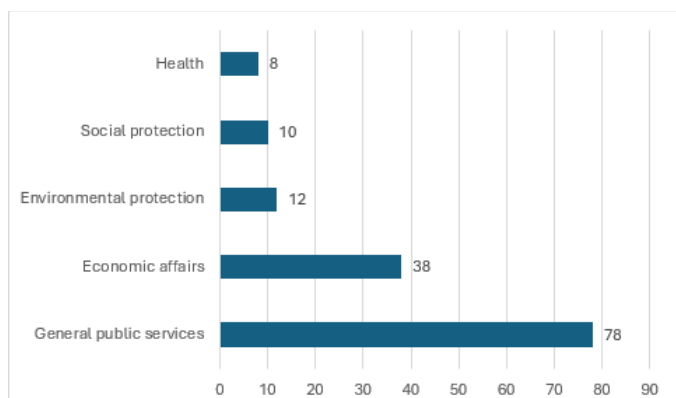
The Compendium features contributions from 12 SAIs and covers the role of municipalities, key audit findings, and innovative methods used in the audit process. [Source: https://www.tfma.eu/page.aspx?id=142](https://www.tfma.eu/page.aspx?id=142)

Overview of 2023 audit data: Areas, types and scope

The overview has been prepared based on information provided by 20 EUROSAI WGMA members on the audits conducted in 2023. It contains a summary of key insights from audits conducted, focusing on the areas audited, the type and number of audit reports, and the distinction between municipal and systemic audits.

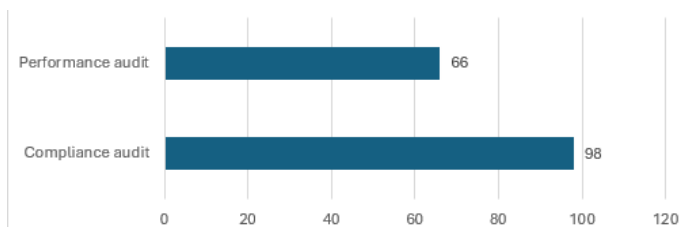
1. Audit area and number of audits

The data reveals a clear emphasis on administrative functions and economic evaluations. The most frequently audited area is General Public Services, with 78 audits, reflecting a broad and significant focus on administrative and governmental functions. Economic Affairs is the second most frequently audited area with 38 audits,



indicating substantial attention to economic-related evaluations, though less extensive than the focus on general public services. Environmental Protection, with 12 audits, shows a more specialized scrutiny, suggesting targeted attention to environmental issues. Additionally, Social Protection and Health are covered by 10 and 8 audits respectively, highlighting a focused, but less frequent, evaluation of social and health-related issues. Overall, the data demonstrates a prioritization of general administrative functions and economic matters, with specialized attention given to environmental and social issues.

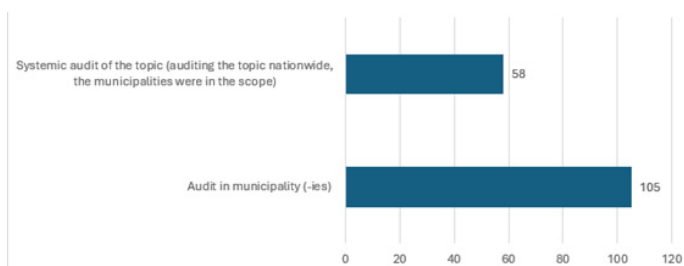
2. Audit type of the audit reports



From a summarized total of 176 audits, compliance audits are predominant, with 98 reports, indicating a strong focus on ensuring adherence to regulations and standards. Performance audits also play a substantial role, with 66 reports, concentrating on evaluating the efficiency and effectiveness of various programs and services. This distribution reflects a

balanced approach, combining both verification of regulatory compliance and assessment of operational effectiveness.

3. Audit in municipality(-ies) or systemic audit



The data shows a clear distinction between audits conducted within municipalities and those that are systemic in nature. There are 105 audits specifically targeting municipalities, reflecting a high level of localized scrutiny. In contrast, there are 58 systemic audits that cover broader, nationwide topics, including municipalities. This suggests a comprehensive approach to auditing, with a

substantial focus on local governance combined with evaluations of wider systemic issues.

SAO Croatia activities in 2024

Taking into account the audits of local self-government units or municipalities (local units) in 2024, SAO Croatia conducted financial audits and compliance audits, as well as follow-up audits of local units. Therefore, when it comes to local unit auditing, these are the most significant activities that the SAO Croatia undertook in 2024. In addition to the aforementioned audits, SAO Croatia started testing a new approach to conducting audits, the so-called agile audits. For the time being, this approach is still in the very early phase.

Financial & compliance audits of local units

Step 1



Audit conducted on 54 local units, covering counties, cities, and municipalities.

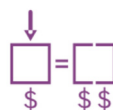
- 49 local units (15 counties, 21 cities and 13 municipalities) were audited on financial statements and their business operations for 2022
- 5 local units were audited on financial statements and business operations for 2021

Step 2



Total revenue audited reached 1.49 billion EUR, with expenses at 1.42 billion EUR.

Step 5



Total assets audited amounted to 6.59 billion EUR, with liabilities at 423.61 million EUR.

Step 3



39 local units reported a surplus of 168.54 million EUR while 15 reported a deficit.

Step 6

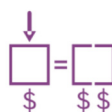


26 unqualified and 28 qualified opinions were expressed on financial statements and operations.

Step 4

Revenue composition included 45.9% from income tax and 30% from aids and budget entities.

Step 7



752 orders and recommendations were issued to improve financial reporting and compliance.

The audit identified most significant irregularities and omissions related to the:

- internal control system
- budget planning and execution
- accounting operations and financial reporting
- revenues and receivables
- expenditures and liabilities
- public procurement
- assets

Audit Conclusion

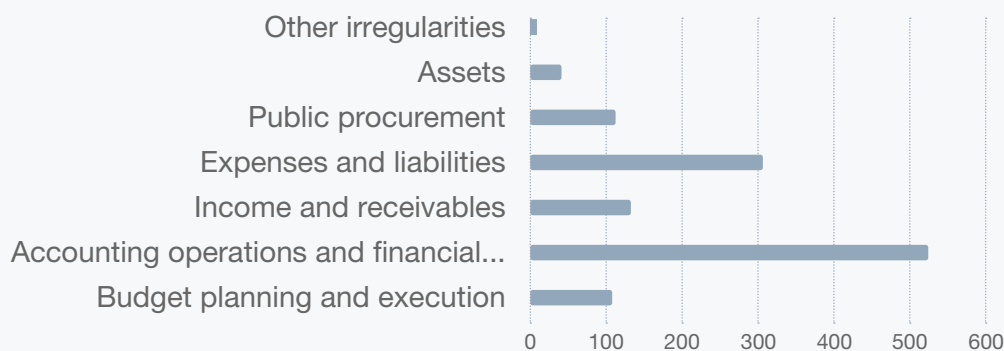
The audit highlights significant financial irregularities and areas for improvement.

- Financial oversight
- Improved compliance
- Enhanced operational integrity

Follow-up audits: Tracking orders and recommendations

Follow-up audits were conducted for the auditees on financial and compliance audits undertaken by SAO Croatia for the 2018 and 2019 business years. In the reports on financial and compliance audits for 2018 and 2019, the SAO has given a total of 1,248 orders and recommendations to local units.

Number of recommendations given by audit areas



Step 1



State Audit Office monitors activities of audited entities to ensure compliance with orders.

Step 4

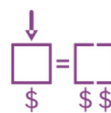
Verification of compliance is conducted based on the Annual Program and Work Plan.

Step 2



Audited entities must submit Implementation Plans within 60 days of Report receipt.

Step 5



Audits conducted for 74 local units across counties, cities, and municipalities.

Step 3



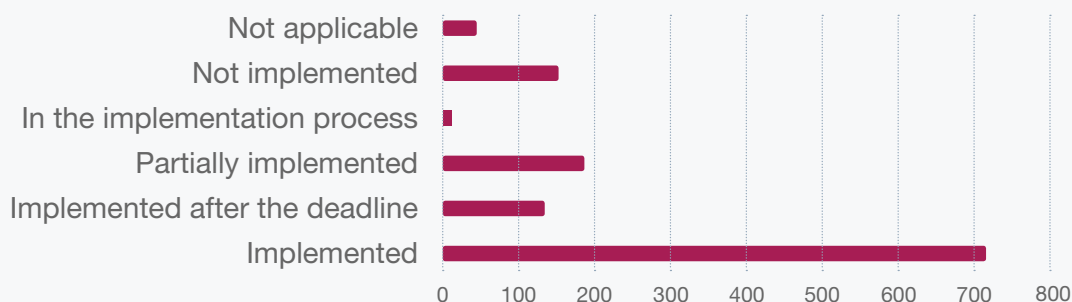
Auditees are required to report on implementation within 30 days regarding deadlines of activities included in the Implementation Plan.

Step 6

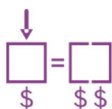


Data collection includes inquiries, documentation, and interviews with local unit staff.

Status of implementation



Step 7



Consolidated report submitted to the legal representative and Croatian Parliament.

Audit Conclusion

Evaluation of implementation ensures accountability in local government units.

- Implementation status
- Local units reporting
- Impact assessment

Overall conclusion

From the previously mentioned activities carried out by SAO Croatia in 2024, it is concluded that „regular“ audits (financial, compliance, as well as follow-up audit) were carried out, according to the Office’s Work Plan and Program. However, the Office started testing a new approach to conducting audits, the so-called agile audits, which is currently in the very early stage of the project life cycle.

Authors: Bojana Kramar, mag. oec., Bojana.Kramar@revizija.hr
and Tomislav Saić, mag. oec., Tomislav.Saic@revizija.hr

Summary report on regularity audits of local government units

For the second time, the State Audit Office of the Republic of North Macedonia (SAO) has prepared an Annual Summary Report on the regularity audits (audit on financial statements together with compliance audits) of the local self-government units (LSGUs).

The report is a result of the signed Memorandum of Cooperation between the Parliament and the SAO in 2022 for ensuring a permanent data exchange related to audit reports for strengthening the efficiency and transparency of public financial control.

According to the Annual Work Program for 2023, the SAO performed an audit of the financial statements together with compliance audit for 2022 on eight LSGUs, and expressed 46 opinions, of which 27 opinions on financial statements and 19 opinions on compliance with laws and regulations. Of the opinions expressed, 26% were unqualified, 11% were qualified, 57% were adverse, and 6% were disclaimer opinion.

In the audited municipalities, 146 findings were identified, referring to:

- weaknesses in the administration of real estate taxes, inheritance and gift taxes, because of inadequate calculation of the market value of real estate,
- weaknesses in the administration of communal fees and charges,
- weaknesses in the procedures for leasing municipal property,
- less budget funds for maintenance of public cleanliness and irregularities in green management,
- legal deadlines were not respected in the procedures for determining the legal status of illegally constructed buildings,
- weaknesses in the budgeting process and significant discrepancies between planned and realized budget revenues and expenditures, absence of participative budgeting and transparency,
- inconsistent financing of sports clubs, citizen associations, foundations and social benefits, without adopted programs and precisely defined criteria for the allocation of funds for social protection, sport, education, and support of civil organizations,
- subsidizing the public utility companies based on incomplete requests and documentation for the performed activities,
- public private partnership contracts for the reconstruction, modernization and maintenance of public lighting were not respected both by the private partners and by the municipalities, there is no control activities and determination of the effect of energy savings,
- irregularities during construction/reconstruction activities of streets and roads, water and sewerage networks, i.e. construction activities were carried out without construction permits, without prepared project documentation and no handover of constructed buildings is carried out,
- incomplete and improperly conducted inventory, municipalities property is not fully recorded in the accounting books and for most of the real estate, no ownership proof is provided,
- expenses were made without complete supporting reliable documentation for: repairs and maintenance of public lighting, reconstruction and construction of streets and roads, kindergarten, fuel consumption, travel allowances, restaurant services, repair and servicing of passenger vehicles,

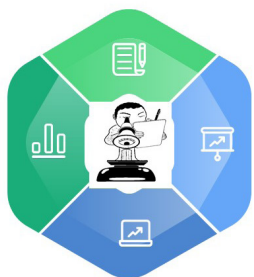
- weaknesses in the procedures for public procurement for: technical specification and quantitative calculation, tender documentation and criteria for selecting the most favourable offer and inconsistencies in contract realization, and
- weaknesses in the financial management and control system, and internal audit was not established/functional in some audited municipalities.

<https://dzt.mk/mk/240725-revizija-na-regularnost-2023-zbiren-izvestaj-za-izvrsheni-revizii-na-finansiski-izvestaji>

We have audited:

54 financial statements relating to 8 local government units

Assets/ liabilities
9,728,753 thousand denars



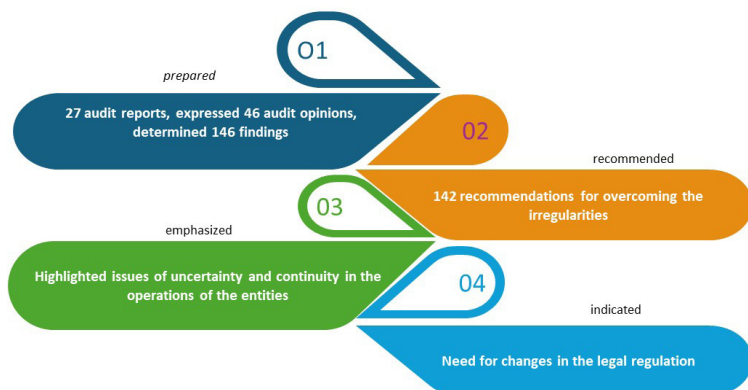
Audited public revenues
4,038,266 thousand denars

Audited public expenses
3,682,868 thousand denars

We have identified findings in:



We have done:



Author: Maksim Acevski, MSc, Auditor General,
State Audit Office of Republic of North Macedonia

Performance audits of the State Audit Institution of the Republic of Serbia regarding local self-government units

The State Audit Institution of the Republic of Serbia (SAI Serbia) - Sector No. 2, responsible for the audit of cities and municipalities, conducted six performance audits during 2023 - “Effectiveness of measures to protect water from pollution in order to improve water quality (SDG 6.3)”, “Efficiency of establishing internal financial control in local self-government units”, “Sustainable Development Goals: Preparedness of the Republic of Serbia to implement 2030 Agenda”, “Establishment of gender-responsive budgeting in the Republic of Serbia”, “Food safety in the Republic of Serbia” and “Efficiency of collection of receivables in public enterprises that provide utility services to users”.

The objective of the performance audit “Effectiveness of measures to protect water from pollution in order to improve water quality (SDG 6.3)”, was to evaluate the results achieved in improving water quality through reducing pollution, eliminating disposal and minimizing the release of hazardous chemicals and matter, as well as the reduction of the discharge of untreated wastewater, its recycling and reuse (SDG 6.3). At the time when 2030 Agenda entered into force, 60 percent of the population of the Republic of Serbia were connected to the public sewage network, and the public sewage system collected about 72 percent of the total waste water of the settlements. Of the total collected municipal wastewater, 84.7 percent were not previously subjected to any purification treatment before discharge into the recipient, while wastewater purification with at least secondary treatment was provided for 10.8 percent of the population. Official statistics data for 2021 show that over 70 percent of cities and municipalities still discharge their wastewater without prior treatment.

The key message in the performance audit “Efficiency of establishing internal financial control in local self-government units” is that the competent authorities did not fully ensure efficient establishment of internal financial control in local self-government units, which is the reason why there is a risk that the management and control of public funds are not in accordance with the principles of good financial management. The aim of the audit was to determine whether internal financial control was efficiently established in local self-government units and whether it is used to manage and control public funds, in accordance with regulations, the budget and the principles of good financial management, i.e. efficiency, effectiveness, economy and transparency, as well as whether the Central Harmonization Unit (CHU) of the Ministry of Finance efficiently performs the tasks of harmonization of financial management and control and internal audit. SAI Serbia conducted this performance audit at the Ministry of Finance - Central Harmonization Unit, the City of Valjevo and the City of Niš.

The Republic of Serbia has demonstrated its willingness to incorporate the Sustainable Development Goals into its national context, but the key message of the performance audit “Sustainable Development Goals: Preparedness of the Republic of Serbia to implement 2030 Agenda” is that it is necessary to define long-term national development priorities and establish continuous coordination of all competent authorities and stakeholders. The aim of the audit was to assess whether the competent authorities have undertaken the necessary activities so that the Republic of Serbia is prepared for the implementation of the Sustainable Development Goals from 2030 Agenda.

Although the Republic of Serbia has been rated by international organizations as one of the seven countries that successfully implements gender-responsive budgeting, a more efficient implementation of the gender perspective in the budget process is needed, as shown by the performance audit “Establishment of gender-responsive budgeting in the Republic of Serbia”. The audit determined that it is necessary to further improve the information system at the national level in order to facilitate and

speed up the consolidation of gender-responsive budgeting in budget proposals, the adopted budget and in performance reports. Data on implementation at the local level are incomplete, and it is concluded that implementation at the local level started much later. Therefore, a number of local self-government units (LGUs) have started implementing gender-responsive budgeting, but a significant number of LGUs do not yet apply gender-responsive budgeting. Also, LGUs do not have sufficiently developed capacities for gender-responsive planning and budgeting.

The key message of the performance audit “Food safety in the Republic of Serbia” refers to the fact that healthy and safe food is a basic human right, and the Republic of Serbia needs to strengthen the control and notification system in order to protect the health and well-being of all its citizens. The goal of the audit was to determine to what extent the competent authorities have effectively and efficiently established the food safety system in the Republic of Serbia and whether there is room for improvement. From the perspective of the Sustainable Development Goals (SDGs), the importance of this audit is reflected in the positive impact on the implementation of SDG 2: Zero hunger; SDG 3: Good health and well-being, and has a significant impact on



achieving SDG 6: Clean water and sanitation and SDG 1: No poverty. The audit determined that the planning and legislative framework in the area of food safety has not been fully established, because operational goals have not been elaborated in detail, important areas have not been fully regulated, and a planned approach to crisis management has not been established.

In order for the utility services provided by public companies to users to be of better quality, the key message of the performance audit “Efficiency of collection of receivables in public enterprises that provide utility services to users” is that it is necessary to increase the efficiency of the collection of receivables based on the provided utility services, by establishing up-to-date and

complete records of users and receivables, continuity in undertaking collection measures, adequate control and monitoring of effects, all with the aim of reducing amount of uncollected receivables, while reducing the risk of their obsolescence. The objective of the audit was to examine the extent to which public enterprises that provide utility services to users are efficient in ensuring full and timely collection of their receivables.

At media conferences held in January and February 2024, SAI Serbia presented the findings, conclusions and recommendations from all the aforementioned performance audit reports.

Source/Author: State Audit Institution of the Republic of Serbia,
kancelarija@dri.rs

Stadtwerke Klagenfurt Aktiengesellschaft: follow-up audit

Preamble – Impact monitoring of the Austrian Court of Audit (ACA)

The ACA's impact is reflected particularly in the implementation of its recommendations. In order to determine – but also to enhance – its impact, the ACA uses an outcome assessment process consisting of two phases.

- In the first phase, the ACA queries the auditees about all recommendations it has issued in the course of the previous year and assesses the degree of their implementation (implemented, partly implemented, promised or not implemented) by means of the information provided by the auditees.
- Based on this follow-up enquiry, the ACA checks the implementation of specific recommendations in the framework of on-site “follow-up audits” at the audited entities' premises. Such follow-up audits are selected via a risk-based approach and they are published as stand-alone reports.

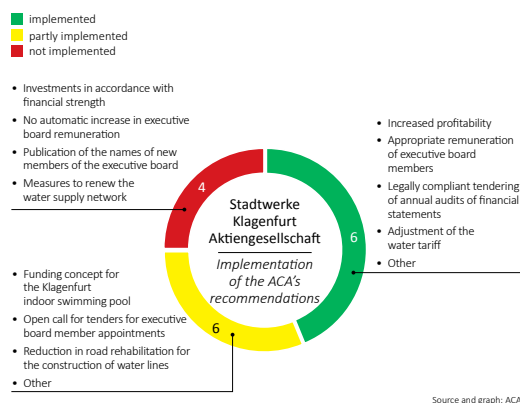
Background and audit objective

From October to December 2022, the ACA audited the Stadtwerke Klagenfurt Aktiengesellschaft (Stadtwerke), which is a legal entity wholly owned by the city of Klagenfurt am Wörthersee (City of Klagenfurt), in order to assess the state of implementation of recommendations it had issued in its preceding report “Stadtwerke Klagenfurt Aktiengesellschaft” (volume Carinthia 2020/1). In addition to the degree of implementation of its recommendations, the ACA also assessed the preparatory work for the construction of the city's new indoor swimming pool and the planned development of the Karawanken springs.

The main areas of responsibility of the Stadtwerke concerned energy supply, public transport with buses and parking space management, the operation of three lidos, an indoor swimming pool and a campsite as well as the supply of drinking water to the city of Klagenfurt. The population of the city of Klagenfurt at the time was around 105,000.

State of implementation

Abbildung: 2 englisch



The Stadtwerke implemented six of the 16 assessed recommendations of the ACA's preceding report in full, six in part and four not at all. As a result, there was still a need for action on more than half of the initial recommendations:

Figure 1: State of implementation of selected recommendations from the ACA's preceding report

Financial situation

In the years 2018 to 2020, the Stadtwerke's profitability improved – both in terms of sales by 10% (from 191.39 million EUR to 211.36 million EUR) and earnings before taxes by 63% (from 3.20 million EUR to 5.23 million EUR). Due to the unforeseeable increases in energy costs in 2021, the Stadtwerke was unable to continue this trend in part because it generated negative earnings before taxes in the amount of 4.48 million EUR (2021) despite a 12% increase in revenue (from 2020 to 2021).

According to the 2022 forecast and 2023 budget, the municipal utilities' income would continue to increase significantly in particular due to electricity and gas price increases. In the 2023 budget, the municipal utilities forecast earnings before taxes (38.47 million EUR) would be more than six times higher than the earnings before taxes in the 2022 forecast (5.74 million EUR). For the years 2024 to 2026, the Stadtwerke is also forecasting positive earnings before taxes between 26.81 million EUR (2025) and 32.71 million EUR (2024).

Executive board

In its preceding report the ACA had recommended that the Stadtwerke consider the annual salaries agreed with the members of the executive board as fixed amounts over the entire term of the contract and not to adjust them automatically. The ACA has now assessed that the agreed gross salaries of the members of the executive board were value-guaranteed.

Furthermore, the Stadtwerke did not publish the names of the members of the executive board appointed in 2019 or of those who had been involved in the decision regarding their appointments.

Family and indoor sports pool

In October 2020, the city of Klagenfurt commissioned the Stadtwerke to build a family and indoor sports pool and – without consulting the Stadtwerke – chose an area on the Südring near the sports park in Klagenfurt as the location.

After developing four pool concept versions for the new location, the board of the Stadtwerke decided to implement the version with a 50 metre sports pool, a 25 metre pool for swimming courses, a leisure pool and a children's pool. In addition to the funding sought from the federal government and the province of Carinthia, this version was expanded to include the Carinthian Olympic Center – a separate component for the professional care of athletes. The construction costs expected by the Stadtwerke amounted to 59.67 million EUR (including 5.73 million EUR for the Carinthian Olympic Center). To finance the construction costs, the municipal council of the city of Klagenfurt decided to grant the Stadtwerke a shareholder contribution of 50 million EUR and to disburse it to the Stadtwerke as earmarked funds in accordance with an agreement with a payment plan. At the time of the follow-up audit, an unsigned draft was available.

The Stadtwerke also sought funding from the state of Carinthia (4 million EUR) to finance the family and indoor sports pool and federal funding (5 million EUR) to finance the 50 metre pool and the Carinthian Olympic Center. Funding commitments from the funding bodies had not been available in writing by the end of 2022.

In order to be able to build the indoor pool on Klagenfurt's Südring, the city of Klagenfurt had to change the zoning plan. The Carinthian provincial government raised objections to the planned rezoning due to the risk of flooding from a nearby river. Those objections were, however, dispelled by a technical report from a civil engineering firm and the subsequent construction measures. Further on, the municipal council of the city of Klagenfurt approved the rezoning on 28 December 2022. The regulatory approval of the Carinthian provincial government was still pending at the time of the follow-up audit.

Water division

The ACA has recommended that the municipal utilities continue with the already considered water tariff adjustment if structural savings measures (e.g. savings in the area of road rehabilitation) were not sufficient to finance necessary investments. The municipal utilities heeded this recommendation by increasing water charges by 20%, with the last increase being in May 2022. Nevertheless, the planned high cash flows from investment activities for the planning period 2023 to 2026 in particular would lead to negative annual cash flows of between 3.87 million EUR (2023) and 7.16 million EUR (2026) after taking investment activities and investment and construction cost subsidies into account.

In order to meet Klagenfurt's long-term water requirements, the city of Klagenfurt and the municipal utilities purchased plots of land in the West Karawanken mountain range from the mid-1980s until 2022 to exploit the potential drinking water resources available there. The plots were located in the municipal area of St. Jakob im Rosental, mainly in the area of the river Großer Dürrenbach.

The nominal purchase prices for the Karawanken properties totalling 6.54 million m² amounted to 5.72 million EUR, excluding ancillary purchase costs. Of this, 3.33 million EUR or 4.61 million m² were attributed to the city of Klagenfurt and 2.39 million EUR or 1.93 million m² to the Stadtwerke. At the end of October 2022, the carrying amount of the Karawanken properties owned by the Stadtwerke amounted to 1.73 million EUR due to an extraordinary depreciation of 0.78 million EUR.

In 2008, the Stadtwerke wrote off in full the usufructuary right that had been granted to the Stadtwerke by the city of Klagenfurt to its properties free of charge in 2000 and that had been recognized in the balance sheet in the amount of 2.13 million EUR.

More than 35 years after the first land purchases, the Stadtwerke still lacked fundamental evidence and knowledge about the possible economic use of the Karawanken springs. This was also due to the fact that analyses obtained since the early 1990s contained different or inconclusive statements on the yield, economic viability and usability of the spring and groundwater.

Activities of local authorities in supporting people with special needs. Summary of the audit results.

In 2024, the National Audit Office of Estonia (NAOE) audited how adults with special needs were guaranteed access to social welfare assistance in local governments.

The purpose of the audit was to provide an overview of the support system for adults with special needs (aged 18 and older) and to present an objective picture of its functioning to the Parliament and the public. The audit focused on 4 key questions: (1) How has the principle of providing social welfare assistance based primarily on individual needs been implemented? (2) How do local governments ensure that the cost of social services does not become a barrier to receiving the service? (3) What is the process for an adult with special needs to receive assistance? (4) Are local governments' regulations on providing social welfare assistance in accordance with the Social Welfare Act? The period covered by the audit was the second half of 2023.

As a result of the audit, two reports were prepared. This article primarily focuses on the problems related to local governments. The broader analysis of the entire system is covered in the report "Activities of the State in Supporting People with Special Needs".

The audit addressed the activities of the Ministry of Social Affairs, the Social Insurance Board, the Estonian Unemployment Insurance Fund and local governments in supporting adults with special needs. In the audit no general assessment criteria were established and no evaluations were made. There was one exception, evaluations were provided in response to the fourth key question (the compliance of local governments' regulations with the Social Welfare Act).

Therefore, the audit was conducted as a combination of an overview and a compliance audit. To answer the audit questions, several interviews and surveys were carried out and data was collected from the Ministry of Social Affairs, the Social Insurance Board, the Unemployment Insurance Fund, local governments and the websites of all these entities. As part of the audit, all municipalities were approached. Semi-structured interviews were conducted with six of them, while the remaining municipalities provided information on their social assistance practices through a survey conducted in the NAOE's survey environment. Additionally, a selection of municipalities was made for an analysis of their regulations.

The audit concluded that, while local authorities mainly follow the principles of providing social welfare support in assisting adults with special needs, there are still situations where they fail to provide the assistance to the required extent. There are also still municipal regulations in place across Estonia that are contrary to the law and restrict access to services, because they make the receipt of services conditional on a disability identified by the Social Insurance Board. A person's access to assistance is dependent on the capabilities and priorities of the municipality where they live and its awareness of and compliance with its legal obligations.

Main observations regarding local governments:

- Most local authorities follow the principle of identifying a comprehensive need for assistance, they broadly assess the needs of individual and strive to provide the necessary support. But there are issues with how decisions on the need for assistance (administrative acts) are documented. The audit revealed that at least 40% of administrative acts may fail to adequately explain the reasons for denying assistance.
- Most local authorities grant social welfare assistance based on the individual's needs as required by law. Less frequently unacceptable criteria like the municipality's resources or the availability of a suitable service provider have been followed.

- More than half of the local authorities admitted that they have encountered situations in which a person (who has been identified by the local authority as needing services beyond the capabilities of the local authority) has not been provided social welfare assistance in the required extent.
- The regulations of several local authorities are still in conflict with the Social Welfare Act, because they make receiving social services conditional on a disability identified only by the Social Insurance Board. In fact, this kind of misleading information can be found also in some indicative guidelines issued by the Social Insurance Board, and this partially explains why the problem persists.
- The Social Insurance Board's recommended assessment tool has not yet been moved to a modern and user-friendly platform and does not include recommendations on how to calculate the amount of the service fee. More than half of the local authorities do not use assessment tools that have been worked out for them over years.
- The regulations of many local authorities also fail to take into account the economic situation of a person and their family. Most local authorities felt that there is a lack of indicative guidelines to establish common principles for charging for social services. An individual approach for charging for social services is a complex task to fulfil. Therefore, some local governments do not exercise the right to charge a fee for social services.
- Some local governments are unable to ensure that fees for services do not prevent access to services and leave this problem for the person to deal with. This means these people have to turn to the local authority once again to prove that they are unable to pay the fee.

As a result of the audit, the NAOE's suggestion to the Ministry of Social Affairs was to define more precisely the tasks of the Social Security Board in relation to local authorities to ensure that the board could support them in bringing their regulations in line with the law, both as regards the conditions of receiving the service and pricing them. The NAOE also advised the audited local governments to bring their regulations in line with the Social Welfare Act to ensure that no social service provided by a local authority is conditional on a disability identified by the Social Insurance Board. It suggested that the economic situation of individuals and their families should be considered when determining fees for social services.

Most of the audited local authorities agreed with the observations of NAOE or noted that their regulations needed some clarification.

The Social Insurance Board noted that, at the moment, no law imposes on them an obligation to advise local authorities or an obligation on local authorities to follow this advice. Therefore, the Board disagreed with the pervasive assumption made in the audit that it does not adequately advise or does not sufficiently contribute to the revision and clarification of the guidelines already drafted. The Social Insurance Board pointed out that it is necessary to solve the question of whether the state can even assume an obligation to monitor and ensure compliance with the state's recommended guidelines because of the local government autonomy. However, the Social Security Board promised to update all the guidelines for local authorities by the end of December 2024 to ensure a uniform implementation of the legislative requirements and obligations by local authorities.

In addition, The Ministry of Social Affairs agreed that the tasks of the Social Insurance Board should be clarified. In 2024 the services provided by the Board will be reviewed, which includes clarification of the tasks of the Social Insurance Board in relation to local authorities.

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Promoting gender equality in local government in Israel

SAI Israel has recently published an encompassing audit report on gender equality in local government in Israel.

The principle of gender equality, which prohibits discrimination between women and men, is a cornerstone of equality recognized as a supreme principle in Israeli law where a violation may be deemed a constitutional infringement on human dignity. The realization of this principle is closely tied to the democratic strength of the local authority. Ensuring gender equality across all sectors, particularly in decision-making centers, is vital during periods of national crisis and emergencies, as already existing disparities in the power dynamics between women and men can intensify in such times when women may also face heightened risks to their personal security and employment conditions.

In July 2024, SAI Israel published an audit report on the promotion of gender equality in local government. The audit, conducted by the Local Government Audit Division, took place during 2023 and included both compliance and performance reviews across various aspects of this issue.

Local authorities, both as employers and government bodies, are primarily responsible for fostering gender equality among their employees and integrating gender perspectives into decision-making processes which affect their constituents. Under the law, initiatives undertaken by local authorities to promote gender equality must be accompanied by the Consultant for the Advancement of Women's Status within that authority ("the Consultant"). The Consultant, among other things, is to be involved in shaping the local authority's policy, advocating for an assessment of the gender implications of the authority's decisions, and gathering information and data relevant to the Consultant's role.

Alongside local authorities, governmental regulatory bodies are accountable for promoting gender equality in local governance. Those include the Administration of Local Government within the Ministry of Interior, the Authority for the Advancement of the Status of Women, and the Equal Employment Opportunities Commission. Each entity ensures local government bodies comply with legal obligations and promote gender equality. The promotion of gender equality and the integration of gender perspectives hold significant importance regarding aspects of the local authority employees (intra-organizational aspects) and the residents of these local authorities (extra-organizational aspects). The report primarily focuses on the intra-organizational aspects of this topic.

Key findings

As of the audit end date, the State of Israel is ranked second to last among OECD member states regarding gender pay gap. A possible explanation for Israel's low ranking may be the relative success of other countries in mitigating the gender wage gap therein.

Figure 1: Israel's ranking relative to OECD member states in the gender wage gap index as of the audit end date in November 2023

According to data from the OECD Gender Wage Gap Index, processed by SAI Israel

The audit findings indicate significant gender disparities in the wages of male and female employees within local government, and the representation of women among elected officials and senior officials in local authorities. These disparities are particularly prominent given the substantial representation of women in local government employment – and not only among the general population. These disparities are exacerbated in local authorities with a low socio-economic index, peripheral, non-Jewish, and ultra-Orthodox authorities, and authorities lacking strength or stability.

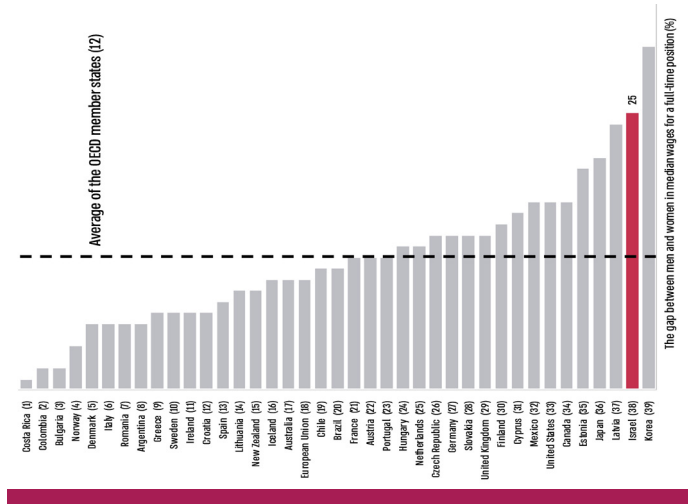


Figure 2: Key data on gender gaps in local government



	Nationwide	Ultra-orthodox authorities	Authorities under a rehabilitation*	Non-Jewish authorities	Periphery authorities	Authorities in a low socio-economic cluster
CEOs	21%	0%	9%	9%	24%	7%
Treasurers	21%	0%	10%	8%	24%	4%
Chief Engineers	21%	17%	12%	5%	12%	8%
Authority auditors	23%	43%	10%	3%	16%	13%
Legal Counsels	24%	20%	7%	3%	15%	6%
External Legal Counsels	14%	33%	7%	3%	10%	5%
Education Department Directors	48%	43%	23%	20%	36%	22%
Average for all officials	26%	21%	12%	8%	21%	10%

* or streamlining plan or for whom an accompanying accountant was appointed

In contrast to the Education Department Director position, where the gender representation of women and men is comparable, in other senior roles – such as the authority's CEO, Treasurer, Chief Engineer, Auditor, and Legal Counsel – the rate of women is significantly lower.

Key recommendations

- Local government and regulatory bodies should undertake proactive measures to reduce the gender wage gap as part of a joint and coordinated move in accordance with the clear intended objectives of the existing legal arrangements.
- The Ministry of Interior should implement further proactive initiatives to enhance gender equality in decision-making centres within local government, including regulating the obligations of local authorities and government bodies to promote gender equality. Initial actions should include the collection of statistical data on gender representation across all positions and levels, and continue with developing a strategic plan for promoting gender equality, as well as formulating multi-year and annual work plans with measurable goals and intermediate goals, up to public and periodic reporting on these goals and the degree of their attainment.
- It is recommended for local government bodies, including local authorities, to formulate a strategic plan to reduce gender disparities among their workforce – addressing aspects such as employment conditions and rate of representation in decision-making centres, from which work plans should be derived, incorporating measurable goals and established timelines for implementation, all with the involvement and leadership of the Consultants serving in these institutions.
- The anchoring in the legislation of the local authorities' obligation to appoint a Consultant and the obligation for a timely appointment of a new Consultant upon the position becoming vacant reflects the importance assigned to the role by the legislator. To ensure the effective and optimal functioning of these Consultants, the Ministry of Interior, in collaboration with the Authority for the Advancement of the Status of Women and the Union of Counsellors, should finalize the definition of the Consultants' roles and explore methods to ensure that prerequisites for optimally fulfilling their duties are adequately met.
- To secure the commitment of local authorities to the promotion of gender equality and recognize the critical link between ensuring equal representation in decision-making centers and the democratic strength of local authorities and the quality of their decision-making processes, it is recommended that the relevant regulatory bodies – the Authority for the Advancement of the Status of Women, the Administration of Local Government in the Ministry of Interior, and the Equal Opportunities Commission, in consultation with the Commissioner of Wages – collaborate to establish national goals reducing gender gaps and to formulate a structured and systematic action plan to oversee compliance with these objectives. It is recommended that this be achieved, among other measures, through a system of gender dashboards that facilitate the examination of phenomena specific to local government bodies, as well as by integrating gender criteria and dashboards in the indicators used for budget allocation and the decentralization or delegation of powers to local government bodies.

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The importance of citizen participation in municipal decision-making

Citizen participation can be understood as involvement of population in the formation and implementation of development planning and regulation, as well as in solving other issues important to the public interest in the state administration, including municipalities.

Taking into account the broad range of functions of municipalities close to the daily life of citizens, the balanced and high-quality decisions of such entities can impact on the quality of life of the population significantly.

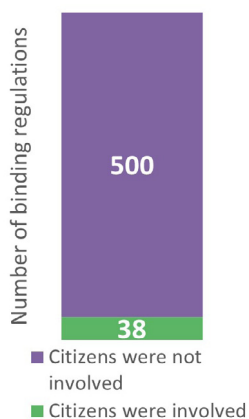
Therefore, in 2023 the State Audit Office of the Republic of Latvia completed a performance audit in 11 municipalities (out of 43 in total in Latvia) to determine how effective the actions of these municipalities were for ensuring citizen participation in their decision-making processes.

Lack of participation results in poor quality decisions

To talk about full-fledged participation, the involvement of citizens is essential in five consecutive stages.



Except for the elaboration of development and territorial planning documents, in which citizen participation is regulated by law and is mostly ensured in municipalities, the State Audit Office found the municipalities worked with citizens in a full-fledged manner only in the first stage: identification of needs and problems, in other issues relevant to citizens during the audit. In turn, the involvement of citizens in the stages related to searching for solutions, and developing specific projects, was noted only in some cases. Unfortunately, decision-making on draft solutions and evaluation of the impact of decisions took place completely without the involvement of citizens.



The audit findings show that municipalities do not ensure sufficient citizen participation in the implementation of development planning, in decisions about sectoral strategies, or binding regulations, etc. It is also confirmed by the amendments made to the binding regulations very soon after their approval, which had to be done to prevent the consequences of not involving the citizens. For example, citizen participation was planned in only 3 cases out of 10 strategies in different sectors in the municipalities included in the audit sample in the audited period. Moreover, citizens were involved in the development of only 38 out of 538 binding regulations.

Moreover, citizens were involved in the development of only 38 out of 538 binding regulations.

Ineffective communication without feedback

During the audit we conducted a survey in all 11 municipalities. We concluded that 85 % of the surveyed residents of municipalities in Latvia did not take part in decision-making processes due to lack of information or the fact that information was difficult to understand, as well as the fact that residents lacked confidence that their opinion would be considered.

Municipalities have chosen ineffective channels in their communication with the population, for instance, they publish information only on their municipal website when inviting them to take part in territorial planning or deciding about what will be located in a specific territory, which is not a popular communication channel among residents.

Moreover, these municipalities often use complicated sentence structure, professional vocabulary, specific sectoral terms and general phrases that people cannot perceive without in-depth understanding.

Such shortcomings have also been found in communication with young people because the channels used by young people (social media) are not used sufficiently by municipalities and the messages conveyed are complicated and excessively long.

Additionally, timely and sufficient feedback to residents on the outcome of their proposals in municipalities is almost never provided. It is not given in cases where it would be necessary to foster confidence among residents (e.g., after resident surveys), nor in cases where it is required by law.

Consequences of non-involvement of population

Everyone feels the consequences of the lack of citizen participation, as it results in municipal decisions that do not meet the needs of the population, are incomprehensible to the population, are rushed or challenged. When deciding what kind of infrastructure to build in a municipality, the consequences of missing full-fledged involvement of a target group are felt especially hard by the people with disabilities caused by functional impairments, the opinions and needs of which are not known and not taken into account, thus resulting in a complete or partial limitation of receiving high-quality education, healthcare services and other types of services.

Therefore, one of the issues we assessed was whether the infrastructure sites built or reconstructed by the municipalities were designed to meet the needs of people with functional impairments.

In cooperation with the non-governmental organization the goal of which is the integration of disabled people into society, the auditors surveyed 34 infrastructure sites built or reconstructed by municipalities and concluded that 33 out of 34 sites had various deficiencies that prevented disabled people from using them independently. For example, the entrance doors of buildings had no automatic opening possibility, a ramp or sidewalk was built too steep, induction loops were not built for hearing-impaired people, and colour contrasts were not created for visually impaired people.

Conclusions after the audit

Although the audit was very challenging, the benefit and added value that we were able to bring to the society was considerably large, as communication with citizens and informed decision-making are the basis for successful operation of municipalities and for public administration in general.

The findings and conclusions of the audit were also very useful for various non-governmental organizations, especially those representing the interests of the disabled, as discussions after the audit led to municipalities and state institutions taking care that infrastructure being created in the future is suitable for the disabled.

After the audit, we provided recommendations to municipalities to:

- envisage public participation in all issues that are relevant to them,
- make calls for citizen participation easy to understand and visible by applying diverse communication channels to reach all groups of the population,
- develop opportunities for youth participation and involve young people in the development of youth policy more actively.

A more detailed summary of the audit report is available [here](#).

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Performance audit of the Regional Development Programme 2022-2030

Relevance of the audit

Economic and social disparities between regions have been an ongoing issue in Lithuania. Inadequate regional development planning has been identified as one of the main causes for this. To decentralise regional policy so that local authorities can develop and implement their own development strategies, the Regional Development Programme 2022-2030 has been prepared. Ten legal entities—regional development councils—were established in 2021 by municipalities within each region to be included in the planning and decision-making process.

Objective and scope of the audit

In 2024 the NAO Lithuania conducted an audit which aimed to assess the organisation of the preparation and implementation of the Regional Development Programme (RDP) 2022-2030 from the point of view of efficiency and effectiveness.

The audited entity was the Ministry of the Interior, which formulates the state policy in the field of regional development and organises, coordinates and controls its implementation. In addition, auditors collected information from the Central Project Management Agency, the Ministries of Transport and Communications, Social Security and Labour, Education, Science and Sport, Environment, Health, and Finance, as well as from the Office of the Government of the Republic of Lithuania, regional development councils, and the Association of Lithuanian Municipalities. The auditors made a survey of all municipalities, and all municipalities responded.

The audit covered the period from 2021 to Q2 2024.

Key audit findings

The auditors concluded that the organisation of the preparation of RDP is not sufficiently efficient and effective, as the preparation was delayed by half a year and the needs of the regions were only partially met. The management of the programme needs to be improved, as the conditions for leadership are lacking and the cooperation between the participants in the competence network is not guaranteed.

1. The preparation of RDP was delayed and the needs of the regions were only partially met

The approval of the Programme was delayed by six months, and the draft programme was amended five times, one of the reasons being the changes in the national strategic management system.

The regional progress measures of five ministries (except the Ministry of the Interior) were developed in working groups without the involvement of regions and municipalities. Interviews with the representative of the Association of Lithuanian Municipalities revealed that municipalities were involved in the development of RDP only after the ministries had decided what measures would be included in the programme. Both the regional development measures and the scope of their funding, as well as preconditions for funding were introduced top-down.

Twenty-seven percent of municipalities indicated that there is a mismatch between the local needs they had identified and the problems addressed by the regional progress measures. RDP could have been broader, as all the regional development councils and more than half of the municipalities missed measures in four areas (culture, agriculture, economy and innovation, and energy), and the existing ones could have been more extensive. The lack of sufficient coverage of RDP and the failure to involve regions and municipalities in a timely manner does not address all the problems affecting the regions and does not result in bottom-up regional development planning, as was intended for the programme.

2. The start of RDP is not sufficiently result-oriented

No deadlines have been set for the preparation of regional development plans for the entire programme period. By 1 July 2024, the regional development councils have approved 94 (out of 113) descriptions for ten regional progress measures in the regional development plans for about 67% of the funds allocated to RDP, with two regions not yet having planned for 50% of the funds. The failure to set deadlines has had an impact on the start of project implementation.

By the end of 2023, the amount of EU investment funds planned for RDP was less than 35%. None of the 14 progress measures involve all municipalities due to pre-conditions set by the ministries, lack of funding, irrelevance of the problem or political decisions. The auditors found that less than half of the municipalities are planning to participate in five measures (three from the Ministry of Environment and two from the Ministry of Transport and Communications), while 34 municipalities, the participation of which is important for the achievement of the programme's impact milestones, will not participate in 11 measures.

Regional development plans set unambitious targets: 98 (out of 210) of the target values for the impact milestones planned for 2025 were achieved in 2022, while half of the actual values of the impact milestones of five regional development councils in 2022 already approached or exceeded the 2025 target values, without the implementation of the regional progress measures 2022-2030 having been launched.

3. Management of RDP must be strengthened

The monitoring plan for RDP was adopted one and a half years after the programme was approved. The role of the Ministry of the Interior as the horizontal programme manager is not defined in relation to the other participants, which means that the conditions for leadership are not in place and the programme is difficult to manage as the participants (the ministries) are independent managers of the appropriations.

A competence network has been set up for the participating institutions but does not include experts. There is a lack of expert support for municipalities in the preparation of functional area strategies and the implementation of projects for them. The lack of methodological support prevents regional development councils and municipalities from obtaining adequate and relevant information on planned measures.

Recommendations

For the Ministry of the Interior:

1. To ensure that the programme is implemented efficiently and effectively, action should be taken on defining the role of the programme manager in relation to other participants in the programme, on strengthening inter-institutional cooperation and on setting deadlines for the implementation of the programme's processes.
2. Revise the programme measures and ensure that municipalities are involved as much as possible in the identification of regional problems and in the definition of regional measures by the ministries.

THREE MONTHS ARE LEFT TO PLAN FUNDING FOR THE REGIONAL DEVELOPMENT PROGRAMME



EUR 1 624 million

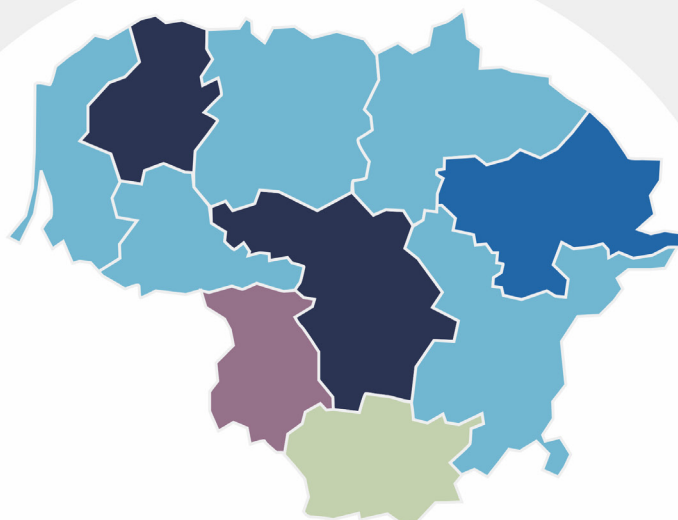
earmarked for regional development in 6 areas of ministerial activity by 2030 for 14 progress measures

~ EUR 1 086.34 million

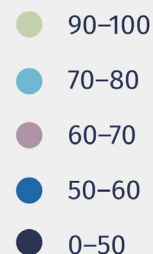
i.e. 67% of the Regional Development Programme funds planned in the development plans for regional progress measures until 1 July 2024

EUR 14.92 million

i.e. 1% of the Regional Development Programme funds have been allocated for the implementation of 14 projects until 1 July 2024



Proportion of funds planned by regions (%) of the funds earmarked in the programme



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Selection and examination of projects in the performance audit “Implementation of water management projects”

Insufficient water supply in rural areas, often accompanied by weaknesses in the development of other infrastructure and unfavourable living and working conditions, leads to a lag in economic development and a lack of interest of the population in living and working in these areas. Although several significant watercourses with numerous sources of clean water exist on the territory of Montenegro, the problem of water supply emerges from the insufficiently developed water supply network and other water supply infrastructure in rural areas of Montenegro.

The implementation process of water management projects starts with the proposal of the Ministry of Agriculture, Forestry and Water Management to the Government of Montenegro, which adopts the Program for stimulation of water management projects on an annual basis. The Program determines the amount of funds for financing water management activities, as well as their allocation by purposes, facilities and municipalities. One of the defined activities of the Program is support for the construction of water supply systems in rural areas, financed by the municipality and the residents of the local communities.

17 municipalities applied for the Program’s funding in 2022 for 51 projects, and the Ministry allocated funds for 37. The goal of the performance audit was to examine the effectiveness of the Program and projects related to the improvement of water supply in rural areas co-financed by the Program. The audit inquired into the existence and adequacy of the Ministry’s criteria when selecting projects for financing, as well as a control system for the use of allocated funds. In order to reveal the general weaknesses of the system as well as examples of good practice, the complete processes of the selected projects were examined: planning, implementation and realization - with a focus on efficient use of resources and compliance with relevant procedures, as well as coordination and communication between the Ministry and municipalities.

Preliminary data indicated that a number of projects were implemented over several years, the Ministry co-financed several projects for several years, most of the projects covered by the Program were in the implementation phase and funds were approved even for those without a main project (40% of cases). Auditors gathered data on the availability and up-to-date data on rural areas from the municipal territories not connected to the public water supply systems, strategic plans on the municipal level and criteria for selecting projects that stimulate water supply development in these areas.

After analysing the data collected from the municipalities and the competent Ministry, the audit team selected six projects based on four criteria: project realization degree, number of inhabitants who will receive water, amount of allocated funds from the Program (including the funds allocated through the Program in previous years) and the municipal development index.

The selection of projects with criteria is shown in the following table:

No	Municipality	Project	Criteria 1			Criteria 2			Criteria 3			Criteria 4			Total number of points
			Project completion rate			Number of inhabitants who will			Amount of the allocated funds			Municipal development index			
			Rating	Value	Points	Rating	Value	Points	Rating	Value	Points	Rating	Value	Points	
1	Andrijevica	water	1	40	0.4	2	20	0.4	4	30	1.2	3	10	0.3	2.30
2		water	3	40	1.2	1	20	0.2	1	30	0.3	3	10	0.3	2.00
3		water	3	40	1.2	1	20	0.2	2	30	0.6	3	10	0.3	2.30
4		water	3	40	1.2	1	20	0.2	1	30	0.3	3	10	0.3	2.00
5		water	3	40	1.2	1	20	0.2	1	30	0.3	2	10	0.2	1.90
6	Bar	water	3	40	1.2	1	20	0.2	2	30	0.6	2	10	0.2	2.20
7	Berane	water	4	40	1.6	0	20	0	2	30	0.6	3	10	0.3	2.50
8	Bijelo Polje	water	2	40	0.8	1	20	0.2	3	30	0.9	3	10	0.3	2.20
9		water	3	40	1.2	1	20	0.2	2	30	0.6	3	10	0.3	2.30
10	Gusinje	water	1	40	0.4	4	20	0.8	2	30	0.6	4	10	0.4	2.20
11		procure	1	40	0.4	0	20	0	1	30	0.3	4	10	0.4	1.10
12	Danilovgrad	hydroge	3	40	1.2	2	20	0.4	3	30	0.9	2	10	0.2	2.70
13	Žabljak	water	0	40	0	0	20	0	2	30	0.6	2	10	0.2	0.80
14		explorat	3	40	1.2	0	20	0	2	30	0.6	2	10	0.2	2.00
15	Mojkovac	water	3	40	1.2	1	20	0.2	2	30	0.6	2	10	0.2	2.20
16		water	3	40	1.2	3	20	0.6	1	30	0.3	2	10	0.2	2.30
17		water	4	40	1.6	1	20	0.2	1	30	0.3	2	10	0.2	2.30
18	Nikšić	water	0	40	0	1	20	0.2	4	30	1.2	2	10	0.2	1.60
19		water	3	40	1.2	1	20	0.2	2	30	0.6	2	10	0.2	2.20
20	Plav	rehabilit	1	40	0.4	4	20	0.8	1	30	0.3	4	10	0.4	1.90
21		water	1	40	0.4	3	20	0.6	1	30	0.3	4	10	0.4	1.70
22	Podgorica	water	1	40	0.4	4	20	0.8	3	30	0.9	1	10	0.1	2.20
23		water	4	40	1.6	0	20	0	2	30	0.6	1	10	0.1	2.30
24		water	2	40	0.8	3	20	0.6	2	30	0.6	2	10	0.2	2.20
25	Pljevlja	water	1	40	0.4	1	20	0.2	2	30	0.6	2	10	0.2	1.40
26		water	1	40	0.4	1	20	0.2	2	30	0.6	2	10	0.2	1.40
27		water	1	40	0.4	1	20	0.2	2	30	0.6	2	10	0.2	1.40
28		water	1	40	0.4	1	20	0.2	2	30	0.6	2	10	0.2	1.40
29	Rožaje	water	2	40	0.8	3	20	0.6	3	30	0.9	4	10	0.4	2.70
30	Tivat	water	0	40	0	1	20	0.2	2	30	0.6	0	10	0	0.80
31		reconstr	3	40	1.2	1	20	0.2	2	30	0.6	0	10	0	2.00
32	Herceg Novi	drilling	3	40	1.2	1	20	0.2	2	30	0.6	1	10	0.1	2.10
33		water	1	40	0.4	2	20	0.4	3	30	0.9	2	10	0.2	1.90
34	Cetinje	water	1	40	0.4	1	20	0.2	2	30	0.6	2	10	0.2	1.40
35		expansi	4	40	1.6	1	20	0.2	2	30	0.6	2	10	0.2	2.60
36	Šavnik	rehabilit	3	40	1.2	0	20	0	2	30	0.6	3	10	0.3	2.10
37		water	3	40	1.2	0	20	0	2	30	0.6	3	10	0.3	2.10

Number of inhabitants who will receive water	
SCALE	RATING
0-50 households	1
50-100 households	2
100-150 households	3
over 150 households	4
no data	0
Amount of the allocated funds	
SCALE	RATING
below 10.000 €	1
10.000 - 50.000 €	2
50.000 - 100.000 €	3
over 100.000 €	4
Project completion rate	
SCALE	RATING
no activities	4
preparatory phase	3
realization <50%	2
realization >50%	1
realization 100%	0
Municipal development index	
SCALE	RATING
over 125%	0
100-125%	1
75-100%	2
50-75%	3
below 50%	4

The audit subjects were the Ministry of Agriculture, Forestry and Water Management (Directorate for Water Management) and 6 municipalities, while the main audit question was: Are water management projects efficiently implemented?

Each criteria had a different value, and each project was evaluated separately with grades 1-4, while the final score was the result of their multiplication (grade x value). In the case of an equal number of points, priority was given to the project financed for several years by the Ministry. Also, one of these projects was chosen as a best practice example: the project that was fully implemented within a year of receiving Program funds.

Audit criteria derive from the logical sequence of project management: adequate planning, implementing, reporting, monitoring, and controlling. All mentioned phases and processes should be carried out in a way that ensures their efficiency: water management projects should be implemented in a reasonable or shortest timeframe possible, cover the largest possible volume of consumers, with costs kept at a reasonable or as low as possible level. To achieve this, it is necessary to have a system of planning, monitoring, reporting and control. Therefore established criteria include: adopted strategic documents and multi-year plans for the development of water management, adopted internal procedures on the method of proposing the Program and selecting projects that will apply for co-financing, established criteria for the allocation of funds for stimulation of water management projects, compliance with the Law and bylaws during the preparation and construction of facilities, regular supervision and communication between investor, contractor and supervisory authority.

The audit determined that key elements of efficient performance were missing during the implementation of the projects: planning and project documentation, as well as the requirements for the construction

of water facilities. As for the outcome, three out of the six audited projects still had a positive outcome, because regardless of the indicated irregularities, those projects were completed or the works are proceeding according to the predicted dynamics.

By analysing individual steps, it can be seen that what these three projects have in common is that project documentation is provided, as well as a feasibility study, a cost estimate, or both. However, for the project to be evaluated as efficient, in addition to a positive outcome, it is also necessary to be implemented within the planned period, as well as that the provided financial resources be spent for the intended

purposes while achieving the expected output values. Water management projects that were not adequately planned and did not have complete project documentation were not successfully completed, even though they had some other positive practices, leading to the conclusion that these two steps have the greatest, one can say determining, influence on the positive or negative outcome of the project, that is, on its success.

Table (legend): x - deviation from the criterion, √ - in accordance with the criterion, NA - not applicable in the given phase

Phase	Question	Projects for the construction of water supply systems in LGUs						
		Andrijevica Prisoja	Berane Dapašći	Rožaje Sušteri	Danilovgrad Zanica Jare	Žabljak Dobri Nugo	Cetinje Čisto polje Ljubotin	
Planning	Has a feasibility study been prepared?	✓	x	x	✓	x	x	
	Has a plan/estimate of the project construction costs been prepared?	x	x	x	✓	✓	✓	
	Are there established criteria and procedures for selecting priority projects?	x	x	x	x	x	x	
Implementation	Are the water conditions obtained?	✓	✓	✓	x	✓	x	
	Has a water consent been obtained?	✓	x	✓	x	x	x	
	Has the Main Project been completed?	✓	x	✓	✓	✓	x	
	Has the Main project been audited?	x	x	x	✓	✓	x	
	Has the contract been signed with the contractor?	x	x	x	✓	✓	x	
	Has a contract with the supervisory authority been signed?	x	x	x	✓	✓	x	
	Has a building application been submitted?	x	x	x	NA	x	x	
	Has a water permit been obtained?	x	x	x	NA	x	x	
Has the Project of the finished object been prepared?	x	x	x	NA	x	x		
Control and reporting	Does the Ministry adequately control the spending of funds allocated by the Program and the level of project implementation?	x	x	x	x	x	x	
	Did the LGU control the implementation of the project?	x	x	x	x	✓	x	
	Has the report of the supervisory authority been submitted?	x	x	x	NA	✓	x	
	Has there been communication between the Ministry and LGUs?	✓	✓	✓	✓	✓	x	
	Has there been communication between LGUs and investors*?	x	NA	NA	✓	✓	x	
	Has the LGU transferred the allocated funds to the investor*?	x	NA	NA	x	✓	x	
	Does the responsible person/working body report to the LGU management on the level of project implementation?	x	x	x	x	✓	x	
Did the LGU report to the Ministry about the degree of realization?	✓	✓	✓	✓	✓	✓		
Status	The allocated funds were used for the intended project		x	x			x	
	The allocated funds were partially used for the intended project	✓			✓			
	The allocated funds were fully used for the intended project					✓		
	Preparatory actions for the start of works have been carried out/the first phase of the HGR has been completed		x	x	✓			
	Work on the construction of the water supply system has begun		x	x			x	
Outcome	Works on the construction of the water supply system are proceeding in accordance with the expected dynamics		x	x	✓		x	
	The water supply system is completely built	✓				✓		

The audit found that the Ministry uncritically allocated funds to projects, regardless of whether or not they met the Ministry's basic requirements. No controls were established over the use of allocated funds, even though establishing a system for planning, allocating, and controlling the use of funds was recognized as a key success factor. The Ministry did not create an internal policy for submitting projects to the Program, their required content, the criteria for evaluating the submitted projects, and the founding of a body that evaluates and ranks projects.

It was recommended to the Ministry of Agriculture, Forestry and Water Management that it define the process of submitting the Program for stimulation of water management projects and the criteria for selecting projects through internal procedures, in order to allocate Program funds only if the conditions for the implementation of projects are met, as well as to improve monitoring of the implementation of projects co-financed by the Program and control of the fund spending.

It was recommended that the municipalities establish the criteria and procedure for ranking and submitting water management projects and establish a system for monitoring project implementation, reporting and control of compliance with all legal obligations and the intended use of funds.

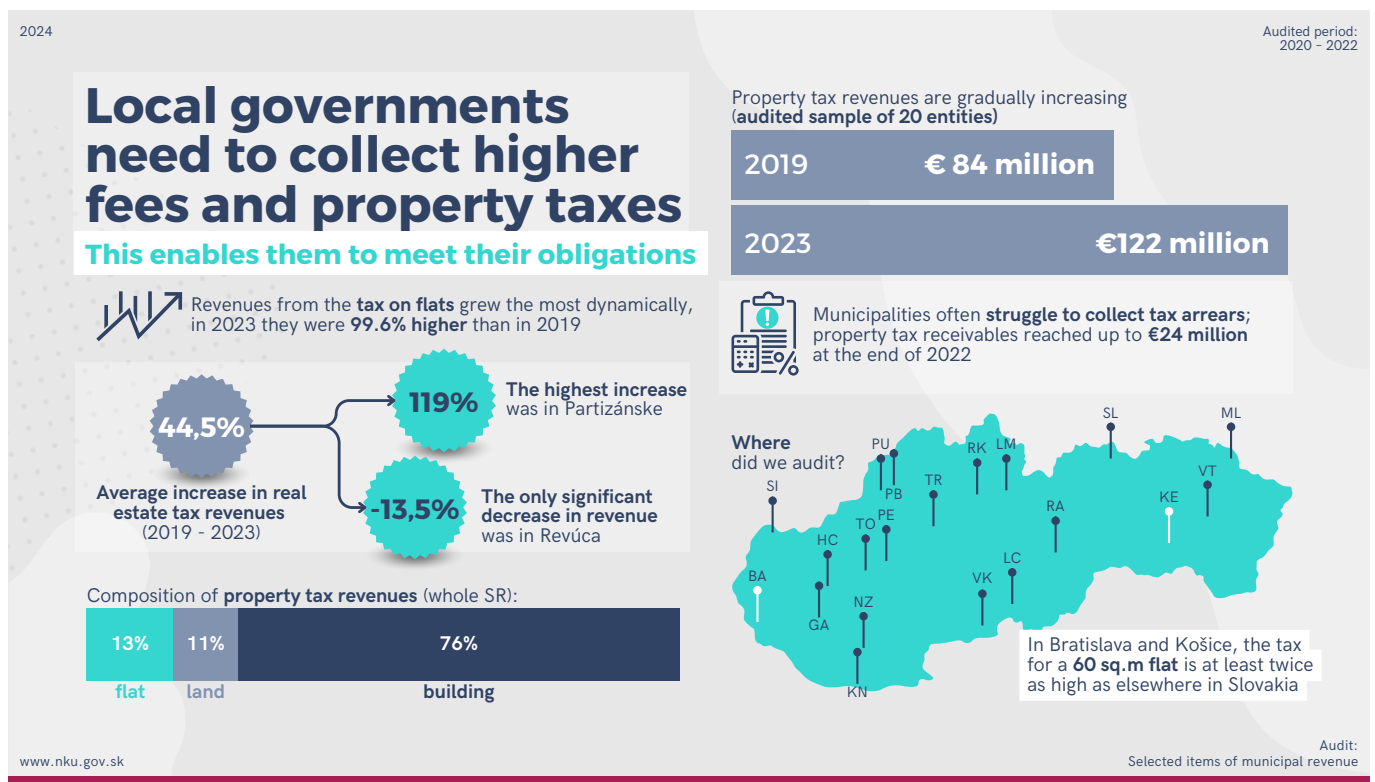
Audits focused on local taxes fees

Local authorities finance a variety of services. The amount of funding available to local government is an important determinant of the quantity and quality of services that they will be able to provide.

An essential element of local government finance is own source revenues, which consist of taxes and fees that a local government is authorized to collect. During the last year, the Supreme Audit Office of the Slovak Republic (SAO SR) carried out two audits focused on local taxes and fees. The audits revealed that:

Local governments are able to meet their obligations thanks to higher property taxes or fees

Thanks to property tax increases, local government revenues have been growing in recent years, which has helped to protect them from depreciation, mainly due to inflation. SAO SR focused its current audit on analysing the revenues of the municipalities of capitals Bratislava and Košice and 18 other district towns from 2019 to 2023. The revenues from property taxes of the audited municipalities amounted to EUR 122 million last year, an average increase of 44.5% compared to 2019. According to Datacenter data, all municipalities in Slovakia generated property tax revenue of nearly 497 million last year. Despite this, municipalities have reserves in raising revenue for their budgets, which is strongly reflected not only

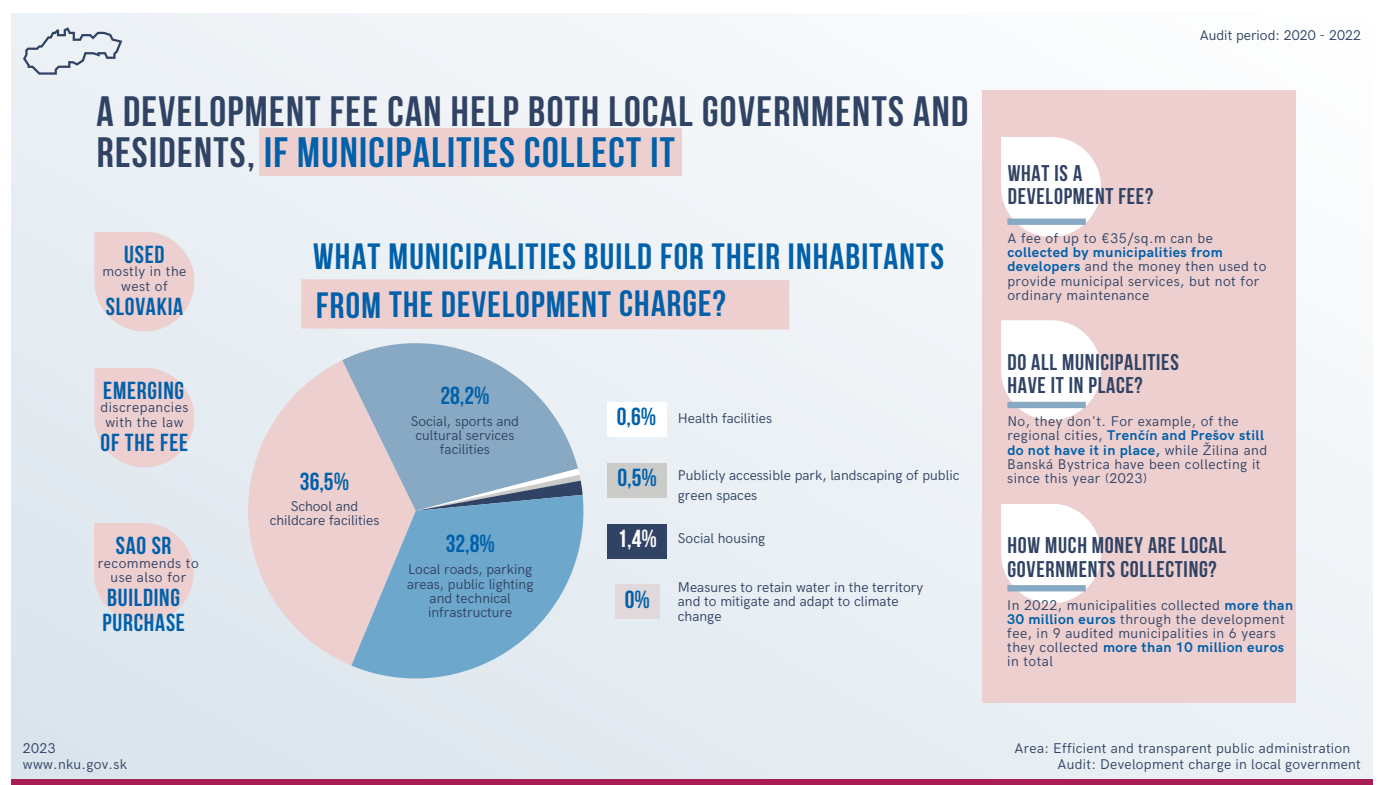


in their underinvestment in property renewal but also in limiting the fulfilment of their basic obligations to residents. These include, for example, ensuring cleanliness and order, cutting grass, and supporting social or cultural projects. The audit also identified insufficient recovery of tax arrears in the cities examined, with the real estate tax alone reaching up to EUR 24 million in arrears at the end of 2022, whereas more effective recovery of arrears could contribute to local governments getting more money into the municipal treasury. Sufficient revenue is necessary for the local government to finance its activities covered by the municipal or city budget. The most significant item of tax revenue that local government can influence through its actions is property tax revenue. The audited towns actively differentiated the individual property tax rates, contributing to increased revenues.

The development fee helps municipalities, but not all regional cities use it

The introduction of the development fee was beneficial for municipalities in Slovakia. This resulted from an audit of the SAO SR. Municipalities have been able to collect this fee from builders since 2017, and subsequently they are bound by law to use it for the payment of capital expenditures for the construction of buildings necessary to provide municipal services, not for routine maintenance or repairs of municipal property. According to Datacenter data, from the introduction of the fee until the end of 2021, 80 municipalities had an income from this fee of more than 60,000 euros; the auditors took a deeper look at the use of the fee in nine of them. This method of obtaining finance for their development is mainly used by municipalities and cities in the western part of Slovakia. On average, this is approximately 14% of the volume of capital expenditures, while a higher share is generally achieved in smaller municipalities, where house and apartment construction is intensive. Out of the regional towns, it is still not introduced in Trenčín and Prešov, but in Žilina and Banská Bystrica it has been introduced since this year.

Since 2017, the amount of the selected contribution has been increasing every year. While in the first year the municipality thus obtained over 2.6 mil. euros, last year all municipalities in Slovakia collected more than 30 million euros through the development fee. In nine audited municipalities, a total of more than 10 million euros was collected in six years. Out of this amount, more than 8.93 million euros have already been reinvested for purposes established by law. Some municipalities used the selected funds together with other own funds for one significant investment, e.g. to build a social service facility or to expand the sewage system. In municipalities with a lower annual income from the development fee, funds were also used as a source for mandatory co-financing of projects financed from non-refundable financial contributions, e.g. funds of the European Union.



Audit report: Effectiveness of the oversight of municipal operations in Slovenia

The Ministry of Public Administration (Ministry) plays a key role in the national system of oversight and regulation of municipal operations in Slovenia. This oversight should ensure that local governments operate within the legal framework set by national laws while maintaining the autonomy necessary for effective local governance. The Court of Audit conducted a review of the Ministry's performance in overseeing municipalities during 2021, which revealed several areas where improvements are needed both in the work of the ministry itself and in the system as a whole.

Relevant legal provisions

- The Constitution of the Republic of Slovenia stipulates that state authorities supervise the legality of the work of local community bodies;
- The European Charter of Local Self-Government establishes that any state supervision over the activities of local authorities should primarily focus on ensuring legality. According to the Charter, such supervision must be defined by law and should be proportional to the importance of the interests it seeks to protect. The Charter aims to balance the independence of local governments with the need for appropriate oversight by the state;
- The Local Self-Government Act in Slovenia stipulates that, in order to carry out supervision over the legality of the work of municipal bodies, the ministries must ensure appropriate cooperation, mutual information, and professional assistance to municipal bodies.

Scope of the audit

The audit focused on the efficiency of the Ministry in performing its oversight duties over municipal operations in 2021. Specifically, it examined whether the Ministry had established adequate organizational structures to support its supervisory role, how it conducted its oversight, and the mechanisms in place for monitoring and reporting on these activities. The audit also considered whether the Ministry effectively communicated its findings to relevant stakeholders, including other ministries, the Slovenian government, and municipal associations.

Findings on organizational preparedness

One of the key findings of the audit was that the Ministry had only partially established the necessary organizational conditions for effective oversight. While certain supervisory tasks were defined, there was no comprehensive strategy that covered all areas where municipalities perform duties. This lack of a unified approach resulted in inconsistent oversight practices across different sectors.

Moreover, the Ministry had not clearly identified the specific tasks or actions of municipalities that required oversight. Without a clear definition of the most critical areas for supervision, the Ministry risked overlooking important issues that could have significant legal and operational implications for local governments.

The Ministry also faced challenges related to resource allocation. In 2021, the Ministry did not prepare documents that would have outlined planned supervisory activities based on available resources and risk assessments. This gap in planning further hindered the Ministry's ability to carry out systematic and effective oversight.

Implementation of oversight activities

In terms of actual oversight activities, the audit revealed that the Ministry provided support to municipalities through consultations, responses to inquiries, and educational programs. However, direct supervisory activities, such as the formal review of municipal actions, were limited to a small subset of cases, and no systemic oversight was performed.

The Ministry's primary focus in 2021 remained on aligning municipal legal acts with national legislation. This process was particularly concentrated on resolving issues identified in oversights conducted between 2013 and 2018. However, the Ministry did not conduct new, systematic oversights of municipal operations during the audit period.

This reactive approach limited the Ministry's ability to identify and address potential issues. Furthermore, the Ministry did not conduct audits of individual municipal acts or the execution of local government responsibilities under Article 90.a of the Local Self-Government Act.

Monitoring and reporting

The audit highlighted gaps in the Ministry's monitoring and reporting processes. While the Ministry compiled a report on the state of municipal regulation based on oversight activities from 2013 to 2018, this report was not shared with key stakeholders, including the government, other ministries, or municipal associations.

Additionally, the Ministry did not regularly monitor how the system of municipal oversight was functioning in practice, nor did it analyze whether adjustments were necessary to improve the system. This lack of monitoring meant that the Ministry was unable to evaluate the effectiveness of the current supervisory framework or to propose any legislative or procedural changes that might enhance the system's overall efficiency.

Another critical finding was the lack of systematic collaboration between ministries concerning municipal oversight. The Ministry did not engage in regular exchanges of best practices with other government bodies, nor did it take steps to unify the approach to oversight across different sectors. This lack of coordination could lead to inconsistent enforcement of national standards across municipalities, which in turn could undermine the uniformity of public services and governance at the local level.

Recommendations for improvement

The Court of Audit provided several recommendations to enhance the effectiveness of the Ministry's oversight activities. First and foremost, the Ministry needs to develop a comprehensive plan for municipal oversight that clearly identifies the areas most at risk of legal or operational issues. This plan should be based on a thorough risk assessment and should allocate resources accordingly.

The Ministry should also establish systematic monitoring and reporting processes to ensure that it can track the effectiveness of its oversight activities and adjust them as necessary. This would involve regular reviews of how the oversight system is functioning in practice and the preparation of reports that are shared with all relevant stakeholders.

Improving interministerial collaboration is another crucial step. By working more closely with other ministries and government agencies, the Ministry can develop a more consistent and coordinated approach to municipal oversight. This collaboration would also allow for the sharing of best practices, which could help improve the quality of local governance across Slovenia.

Conclusion

The audit of the Ministry of Public Administration's oversight of municipal operations in Slovenia highlights several areas where the Ministry's performance could be enhanced. By addressing these issues, the Ministry can improve its ability to ensure that municipalities operate within the legal framework while also respecting the autonomy of local governments. The recommendations provided by the Court of Audit contribute to strengthening the Ministry's supervisory role and ensuring that it effectively supports good governance at the local level.

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Data-driven auditing of local governments

In Hungary, the State Audit Office of Hungary (SAO) is the supreme financial and economic audit institution of the National Assembly, which among others audits local governments and local governments of minorities (collectively: the municipal sector, hereinafter: the sector) according to the criteria of legality, expediency and effectiveness. If we look at the number of entities potentially subject to audit in the sector, we find very high figures: 3177 local governments, 1265 municipal offices, 3564 institutions run by local governments, 2303 local governments of minorities and their budgetary institutions, and 2075 business



associations wholly or partly owned by local governments. Including a few other entities, the number of institutions and organisations belonging to this sector is close to 14,000.

Economic organisations operating under the state budget submit data to the electronic data collection and reporting system run by the Hungarian State Treasury (called KGR-K11) on a monthly (interim budget report) and quarterly (interim balance sheet report) basis, as

well as publish their annual financial statements here. Business associations also publish their annual financial statements in electronic form on a designated online platform run by the Ministry of Justice.

Thus, as you can see, on the one hand, we are dealing with a large number of institutions, and on the other hand, we have a huge amount of data. The question is how to make use of all these in the SAO's auditing the sector. One of the SAO's projects, launched in 2023, is examining this issue.

The first aspect is the role of data analysis in the audit process. Data analysis can first and foremost play a role in the selection of the audit topic and the entities to be audited, which is a kind of classification or anomaly detection exercise. In the case of classification, the aim is to classify the audited entity into one of the known categories (e.g. whether the municipality is in danger of bankruptcy), while anomaly detection aims to identify individuals or processes that deviate from the 'norm' (e.g. to detect suspected fraud). The successful completion of this task requires information on the 'normal' functioning of the institutions in the sector, i.e. abnormal trends can be identified by certain indicators and/or by patterns in the data. It is therefore necessary for the SAO to examine its audit practice with this in mind, and to build up a kind of train dataset. Experience in this area shows that simple indicators cannot describe the sector's processes, and that the problematic cases are usually indicated by a combination of several indicators. It should also be noted that the current value of indicators rarely shows a problem, but rather a process can be qualified on the basis of 3-5 years of data.

Data analysis can also play a role in the processing of data received from the auditee. In this context, it is important how the audited organisation manages its data, as well as to what extent it organises the data into a system and a searchable form. In the case of IT-supported audits of organisations and processes, the raw data obtained from the systems of the audited organisation may lead to findings that would be obscured by traditional document-based audits.

The third area could be to support traditional audit work through automation. This could include the collation and processing of submitted data tables and the use of text analysis software. This approach can have the advantage of reducing costs and increasing efficiency, but also of reducing potential errors.

In the current phase of the project, the SAO is assessing existing and potential databases and data sources; investigating the usefulness of indicators defined on a professional basis; and looking for opportunities to apply better known machine learning techniques.

Does this mean that the future auditors will become IT specialists? By no means. Data analysis requires competence in three areas: basic data analysis skills; IT skills to use the tool; and domain specific knowledge (related to the audited area). Data-driven audits obviously require a coordinated team effort of experts from different domains. At the same time, supreme audit institutions (SAIs) will certainly be more and more staffed with specialists in data analysis, data storage and data visualisation.

What are the limits to data analysis?

The first one – already mentioned – is the lack of a train database on which to draw the analysis. While there is already an established practice in the business sector (e.g. identification of potential debtors,



customer value calculation, rating systems), useful applications in the practice of SAIs are not obvious: one has to find questions that can be answered properly on the basis of data. Databases can be selected or established on the basis of this knowledge.

In this context, it cannot be ignored that monthly, quarterly or annual reports contain financial and asset data, but say nothing about the quality of public task delivery. Therefore, the SAO is also seeking to move away from compliance audits towards performance audits. Since the quality of task delivery is difficult to quantify and is not covered by the data provision obligations, innovative solutions are required.

The high degree of individuality of organisations also constitutes a challenge. The members of the sector can be grouped into a number of very different groups, but even within a group there is a great deal of diversity. The significance of certain characteristics (e.g. size of the municipality, number of inhabitants, etc.) is obvious, but there are also characteristics which play an unclear role. For example, investments financed by public or EU grants may seem to indicate a better financial situation, but experience shows that they can also represent a significant risk factor because of the repayment obligation.

Machine learning systems offer many methods where little is known about the processes between input and output, or their operation cannot be easily presented to the non-specialist community. An example could be a decision tree-based clustering process, where the algorithm formulates questions based on the variation in the value of each variable and answers them by classifying the observed cases into different groups until it obtains relatively homogeneous groups. The method results in a set of questions and, following the branches like the branches of a tree, the questions lead to different groups, which can be characterised by the answers to the questions. However, the large number of branches thus drawn and the “arbitrary” values of the parameters chosen for the branches may make the process as a whole difficult to explain and therefore unlikely to be the basis for a finding that would trigger a legal obligation (obligation to take action). Such algorithms can be useful tools to highlight certain risk factors or the importance of certain characteristics, but the audit report cannot present these findings in the form generated on the basis of the algorithm.

Principal Component Analysis (PCA) can also be a useful tool. Its aim is to identify the degree of importance of the variables that determine the process being examined. This method can also be used in cluster analysis to identify the variables that actually influence each cluster.



SAIs traditionally carry out audits, the findings of which are included in the audit report. In principle, data analysis provides an opportunity to formulate predictions for the future based on the patterns that can be extracted from the data. However, it is necessary to consider the extent to which the risk indications formulated on this basis are appropriate to the role of the SAIs and in which cases they may constitute an intervention in the management of the audited entity.

In light of the above, data-driven analysis has a place in the toolbox of a SAI, but the specific features of a SAI's work must also be considered.

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How does the State Audit Office of Latvia extend the impact of its work in local governments?

This year, the State Audit Office of the Republic of Latvia is celebrating its 101st anniversary. The State Audit Office of Latvia has been an important player in the monitoring and development of public administration for years. With the mandate established by the State Audit Office Law, the State Audit Office of Latvia covers a broad range of audited entities, including the auditing in 43 local governments, that is, 36 municipality governments and seven city governments (see the map below).



In relation to local governments, the State Audit Office of Latvia aims to ascertain that local government actions with budget funds are regular, accurate, economic and effective, as well as to provide recommendations for the elimination of discovered irregularities. However, there are cases when not all local governments are included in the scope of performance or compliance audit, and recommendations for the elimination of irregularities are provided only to the local governments included in the audit scope. It is an essential fact that made the State Audit Office of Latvia understand that only traditional audit reports are not enough.

What opportunities exist for improvement of performance?

One of the action lines of the State Audit Office of Latvia is to increase the impact of its work for the benefit of the public. To achieve a broader impact of public sector auditing by increasing the overall public benefit, the State Audit Office of Latvia has developed a series of post-audit products that both increase the impact of audit results and help all other local governments improve their operations.

Since ISSAI standards emphasize the continuity of auditing and the creation of the greatest possible added value, as well as they call on supreme audit institutions to ensure that their work helps the public achieve better governance and more effective use of resources, the State Audit Office of Latvia is convinced that the developed post-audit products contribute to the compliance with ISSAI requirements.

Post-audit products developed by the State Audit Office of Latvia

The State Audit Office of Latvia has developed a number of important post-audit products for local governments such as a manual for local governments, a self-assessment questionnaire, a road map, the methodology used in auditing, training, visualization tools, and short films. They have been well received by the target audience.

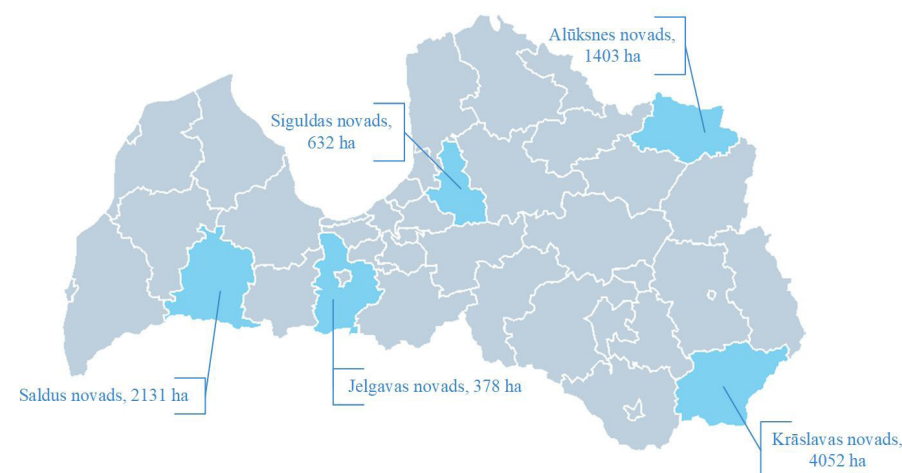
Since there is a turnover of employees of the local government administration and there are periodic local government councils elections, the auditors have elaborated and maintain an up-to-date Manual for Local Governments, which is a guide and advisor for working and broadening of horizons based on

the audit results and updated regularly for a chairperson of a local government council, a councillor, an auditor, an accountant, and a manager of state-owned or local government owned enterprise since 2021.

Each chapter of the Manual defines problematic issues, risks and the key conclusions and recommendations of the State Audit Office of Latvia for improving the situation, including links to the reports prepared

by the State Audit Office, timeframes for implementation of recommendations and developed post-audit products, for instance, self-assessment questionnaires, etc. Moreover, the best practices identified in the audits are outlined in the Manual.

After each audit, in which local governments are randomly included in the audit scope and recommendations are made to them, the auditors draft self-



assessment questionnaires that provide an opportunity to perform a “self-test” on the issues examined in the audit for those local governments that were not included in the audit sample.

For example, a self-assessment questionnaire was developed and published after the audit on actions of five municipality governments (see the map on the left) with the forest resources simultaneously with the audit report, which gives the 38 local governments not included in the audit scope the opportunity to evaluate the efficiency of their activities in managing their forest resources according to the approach used in the audit.

A separate road map has been elaborated in the compliance audit on the achievement of UN Sustainable Development Goals. By using the information obtained from the audit on international best practices in sustainability, the purpose of the road map is to support all local governments in their practical work by solving problems in accordance with the framework of the UN SDGs. Eight local governments were included in the audit and given specific recommendations, but the road map will be useful for all 43 local governments. In this way, the impact of the audit results will be expanded by another 81% to cover the entire “playing court”.



In audits experts are often invited and a methodology is developed in cooperation with them aiming to assess one of the audit matters according to uniform principles. After an audit, we sometimes decide to make the methodology used in the audit available to local governments. For instance, after the performance audit, which assessed whether local governments had determined the optimal number of employee workloads for the performance of functions, the State Audit Office of Latvia has published a uniform workload assessment methodology based on measurements of the productivity of the work performed by human resources, which can become a valuable work tool for any local government where administrative structure and provision of functions are reviewed.

To ensure the transfer of knowledge gained during audits and to increase the impact of the work of the State Audit Office of Latvia, the human resources of the State Audit Office of Latvia are invested in the education of the employees of the local government administration every year. The Latvian Municipal Training Centre is an essential partner in the education of the employees of the local government

administration. Following the received invitations, the State Audit Office of Latvia has participated in workshops and trainings, which included the topics covered in auditing. In 2023, the State Audit Office of Latvia has provided training for approximately 532 participants at the Latvian Municipal Training Centre.

In its turn, in the performance audit of whether a child with behavioural problems and his or her family have access to and are provided with the required support and whether it is effective (prevents the risks of the child's behavioural problems or the child's behavioural problems), the State Audit Office of Latvia has developed a visualization tool for revealing the audit results at the level of local government's administrative territory: Problēmbērni PowerBi | Valsts Kontrole (Irvk.gov.lv). Since there is no data available in the country, the tool includes auditors' estimate of a number of children in local government's administrative territory, who have behavioural problems or are at risk of developing them, information on social services provided by municipalities for children with behavioural problems and their families and services in educational institutions, and other useful information. The tool also serves the needs of benchmarking graphically.

In cases where the auditors have obtained a significant amount of photo materials and have taken a video of the situation in nature during the auditing process, a short film developed by the auditors can serve as a useful visual material for other local governments: https://www.youtube.com/watch?v=O6vz_lxCTPw

In general, the experience of the State Audit Office of Latvia shows that post-audit products are both a valuable addition to public sector auditing and an essential tool for promoting public welfare.

Therefore, the State Audit Office of Latvia will continue to develop its post-audit product ideas and adapt them to each performance and compliance audit confidently to achieve the greatest possible impact of the audit result in local governments.

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Traffic light method in performance auditing: *How to balance assessment effectively and improve outcomes?*

In the modern practice of performance audits, especially where the audit scope includes several municipalities as audited entities, one of the tools created by auditors for the perceptibility of audit results is the so-called “traffic light” method.

This method has been applied in the State Audit Office of Latvia due to its simplicity and ability to convey information about audit results clearly and succinctly, including providing a visual benchmarking to every user of an audit report.

However, when using this method, it is not uncommon to encounter disagreements between auditors and audited entities, as the latter tend to perceive the nature and meaning of the assessment differently than auditors. In this article, we will share how to use the traffic light method properly according to ISSAI standards and also offer simple solutions to reduce conflicts and improve audit results.



The essence and significance of the traffic light method

In the traffic light method, three colours are used: red, yellow and green. They demonstrate the level of performance of an audited entity, which is evaluated against the set audit criteria, which describe a situation “how it should be”. The red rating indicates that there is room for significant improvements, the yellow one indicates a partial need for improvement, but the green one indicates that an audited entity (or its operation or an achieved result) meets the set criteria and is considered a best practice in the opinion of the State Audit Office of Latvia. For the method to be used effectively and for the assessment to be constructive, it is important that all parties involved have a mutual understanding of the meaning of these three colours.

In the example (Figure 1) from one performance audit report, five municipalities were included in the audit scope, and eight criteria are put forward in the audit, against which an assessment using the traffic light method was done.

An auditor should make it clear to the auditee that a red rating is not to be seen as an ultimate failure, but rather as an indication of areas where improvement is needed to achieve the principles of economy, efficiency and effectiveness (3Es).









































One should remember that performance audits are the top bar of professionalism in the environment of supreme audit institutions. If the audit result indicates significant improvements, an auditor has succeeded in developing the best audit approach, which is also highly appreciated by professionals conducting performance audits.

The added value of public sector auditing is demonstrated precisely by the red colour. It describes the fact that a topic chosen in an audit was really problematic and waiting for a solution.

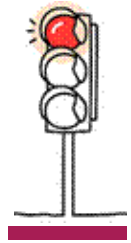
In turn, any audited entity must understand that criteria evaluated in red is an indication that the audited entity has paid insufficient attention to such processes, calculations, or actions.

Assessment by the State Audit Office of Latvia

Audit objective – Do municipalities deal with the forest resources in their ownership and legal possession effectively and efficiently?

Audit question	Municipality				
	1	2	3	4	5
1. Do statements in the development planning documents of the municipality promote effective and efficient forest management?					
The long-term and medium-term development planning documents of the municipality include measurable goals, tasks, deadlines and the results to be achieved through forest management.					
2. Does the municipality act to obtain complete and accurate information about the forest resources at its disposal?					
The municipality has carried out an initial and repeated (if applicable) forest inventory					
The municipality has developed an action plan for the initial and repeated inventory of the non-inventoried forests					
3. Do municipalities plan forest management?					
The municipality has developed and approved a long-term forest management plan					
4. Does the municipality act to increase the value of forests?					
In forests where artificial regeneration is allowed, the municipality carries out regeneration by planting or seeding, using selected seeds or seedlings					
The municipality maintains young forest stands and growing stock according to best practice					
Municipalities maintain the established land amelioration systems					
The municipality does not have overgrown, abandoned or excessively humid forest stands					

A practical example: a performance audit is conducted on efficiency, and the traffic light method is applied in the audit to reflect the assessment. An audited entity receives a red rating for optimization of work processes, as there is an opportunity to optimise document processing time. In particular, this assessment indicates that there are significant opportunities to improve the work process to increase efficiency and reduce costs.



ISSAI standards and application of the traffic light method

The International Standards of Supreme Audit Institutions (ISSAI 300) stipulate the basic principles of performance auditing and emphasize the objective of an audit – to provide assurance that public resources are used responsibly and effectively. This means that an audit should be both critical and provide valuable recommendations that will help to achieve a better result of an audited entity.

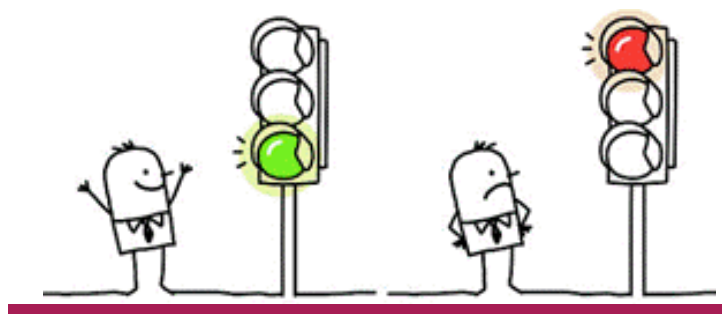
ISSAI 3000, which specifically applies to performance audits, stresses the need for clear and impartial assessment criteria.

Auditors believe that the traffic light method is an effective way to structure this assessment. In turn, recommendations can be made against those assessment results that are marked with red and yellow colours. Therefore, as auditors, we are convinced that the traffic light method can be safely used in an audit, as it meets the requirements of ISSAI.

Conflicts and mitigating them

Often audited entities believe that a red rating threatens their reputation a priori, so they try to achieve a positive (green) rating for subjective reasons, even if it does not correspond to an impartial/true assessment of the situation. Such a position can lead to conflicts between auditors and audited entities, especially when both parties do not understand each other's objectives and methodology.

Audited entities often try to explain to the State Audit Office of Latvia that the activities are done correctly and therefore deserve the green rating. However, the conformity of actions performed in a process is not always an aspect to be assessed because one should remember that a performance audit focuses on result. For instance, what one could have done differently to achieve a better result.



To facilitate a mutual understanding and reduce the probability of conflict, the standards governing SAIs emphasize the need for open and regular communication between auditors and audited entities. It includes both initial discussions with an audited entity and regular feedback throughout the audit process. For example, auditors can organize meetings to explain the nature and objectives of the traffic

light method. It would help audited entities to understand better how an audit is conducted and how ratings are allocated.

Another effective way to avoid conflicts is to cooperate in the development of audit criteria. According to ISSAI 3000, audit criteria should not only be clear and understandable, but also be agreed to by the audited entity. Thus auditors and audited entities can discuss and agree jointly on the criteria to be

applied in an audit by ensuring that both parties are satisfied with the chosen approach. This agreement is one of the prerequisites for the audit result to be useful for further decisions. One should remember that an auditor is an ally of an audited entity in a performance audit, in contrast to a compliance audit, where an auditor plays the role, more or less, of a judge.

To illustrate, if a performance audit is carried out on the economic activities of municipalities with forest resources, the criteria could include the result of the mutually achieved agreement on what the economic activity of a municipality means, what qualitative or quantitative measurements would indicate this. Thus, one reduces the probability of subsequent conflicts over the fairness of the assessment.

The traffic light method is a powerful tool in auditing that can help demonstrate audit results clearly and concisely. However, its effectiveness depends on how well the method is understood and accepted by both auditors and audited entities.

To avoid conflicts and achieve a better result, it is essential that the audit process adheres to ISSAI standards, which emphasize transparency, open communication and the development of common criteria.

Only when both parties understand and accept the importance of the assessment, the traffic light method can become an effective tool that contributes to the improvement of the audited entities' performance and the achievement of better results.

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