



# OVERVIEW OF EXTERNAL AUDIT SYSTEMS IN LOCAL GOVERNMENT

| 2018



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# INTRODUCTION

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The Overview of external audit systems in local government was prepared as a result of the activities of the EUROSAl Task Force on Municipality Audit (TFMA), implementing the Strategic Goal 2 of the Working Programme "Making the external municipal auditing system more efficient".

In different countries various models of external audit of local government exist. External audit of local government is conducted by SAls, private auditors, other institutions; all of them have different mandate and audit practice. The Overview implements the first activity under the Goal 2 and aims to present summarised information on how the external audit of local government is organised in the TFMA countries. Based on this information and following the implementation of the Goal 2, later on the analysis of various models of external audit of local government will be performed, including identification of strengths of various models and disclosure of a good practice examples.

The Overview encompasses information obtained from 26 TFMA Member State SAls. It provides general information about the local government of every country (local authorities, their competences, budget structure) and describes the system of external audit of local government (entities entitled to carry out external audits, their mandate regarding audit types, auditees, etc.). As the Overview focuses on external audit, it does not include information about internal auditors or any other supervisory or control institutions. Likewise, it does not cover audit authorities, established solely for conducting audits of EU funds.

Information from the TFMA members was gathered via questionnaire during October – December 2017 and was revised in June 2018. It was reviewed and summarized into the Overview by the Coordination Group, composed of representatives of SAls of Lithuania (leader of the activity), Estonia and Greece.

The Overview relies entirely on information received and verified by members of the TFMA. The sources of information used by SAls were national legislation, various statistical databases, SAls' reports and audit practice, other internal SAls' documents (e.g. strategic planning documents), literature, internet.

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# DEFINITIONS OF TERMS

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## AND ABBREVIATIONS

### LOCAL GOVERNMENT (LOCAL AUTHORITY)

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public institution with legal personality, part of the State structure, below the level of central government and accountable to citizens. These units are usually composed of a legislative body (council or assembly) and an executive body (the Mayor or executive officer), directly or indirectly elected or selected at local level. The term encompasses different tiers (levels) of government, e.g. villages, municipalities, districts, counties, provinces, regions, etc. In this document, this term also refers to joint municipalities and municipal corporations.

### MUNICIPALITY OWNED ENTERPRISE

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corporate entity recognised by national law as an enterprise, and in which the local authority exercises ownership (joint stock companies, limited liability companies and partnerships limited by share etc.).

### PRIVATE AUDITORS

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auditors from the private sector, financed from the public budget and appointed to audit local authorities (counties, municipalities, municipality owned enterprises or other entities of local government).

### SAI

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Supreme audit institution.

### MUNICIPAL EXTERNAL AUDIT INSTITUTION (MUNICIPAL AUDITOR)

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institution established or auditor appointed (elected) by local authority in order to conduct external audit of local government and related entities (e.g. municipality, municipality owned enterprises or other entities of local government). This term also applies to audit institutions established by counties or other regional divisions, if the country has two levels of local government (municipal and regional).

### OTHER AUDITORS

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entities or institutions conducting external audit of local government, excluding SAIs, regional and municipal external audit institutions and private auditors.

### REGIONAL EXTERNAL AUDIT INSTITUTION

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audit institution established by governmental institution or regional parliament in order to conduct audit of local authorities (counties, municipalities, municipalities' owned enterprises or other entities) in the specified region.

### TFMA

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the Task Force on Municipality Audit, established within European Organisation of Supreme Audit Institutions (EUROSAI) in the 44th EUROSAI Governing Board meeting in Luxembourg in June 2016 in order to create an open platform for sharing the best practice and experience among SAIs. TFMA focuses on audit of various tiers of local government, including municipalities as the closest to citizens.

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# ALBANIA

## 1 | LOCAL GOVERNMENT OF THE COUNTRY

In Albania there are two tiers of local government: municipalities and counties. Albania's territory is divided into 61 municipalities and 12 counties. Population of Albania is 2,804,751 (according to the census of 2011) or 4,341,918 according to the civil registry. The high discrepancy of population is due to the emigration. Total size of Albania is 28,252 km<sup>2</sup>. The population in municipalities varies from 557,422 in the capital of the country to 329 citizens in rural areas.

### Competences of local authorities

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Local self-government in the Republic of Albania ensures effective, efficient management at the level closest to citizens through the competences in the following fields:

- Municipal budget
- Local revenues and charges
- Management of municipal property
- Social services
- Culture
- Territory planning
- Environment
- Transport, local roads
- Supply of water, waste management

The Municipalities in Albania are not fully autonomous. They carry 3 types of competences: exclusive (listed above), shared (e.g. managing public building) and delegated by the central government.

Counties do not have direct local competences but more general such as implementation of regional politics, harmonization of regional politics in line with the state politics and any other function given by law.

## Structure of local government

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The structure of the **Municipality** is as follows:

1. The Mayor, elected by citizens every four years;
2. The Municipal Council – the decision-making body (adopts legislative acts, approves the budget, taxes, fees, monitors the internal control, establishes new local institutions, etc.), elected by citizens every four years;
3. Relevant commissions according to programs and functions (act like parliamentary committees and propose to the Council the approval of different legal acts);
4. Directories, departments, offices that cover the management and fulfillment of functions;
5. The secretary of the City Council, which ensures the link between the Municipal Council and the Municipality Administration, is responsible for the preparation of the Draft Decisions.

The structure of **Counties** is respectively:

1. The Head of County (Chairman) – elected by the council;
2. The Directorate – executive body;
3. The Council of County – the decision making body, approves budget, takes loans, monitors the internal control. The Council of the County is not elected by citizens. The Mayors of the Municipality are automatically members of the County Council while the other members are selected by the councils of those municipalities that are part of the territorial jurisdiction of the County.

The local authorities can establish the Water supply company, various agencies, e.g. for the protection of territory from illegal construction, the Municipality Police, The Culture Center, the Agency of Park etc., based on the needs and the characteristics of the municipalities. Counties have the authority to establish enterprises as well as municipalities, but are inactive on that field.

## Budget

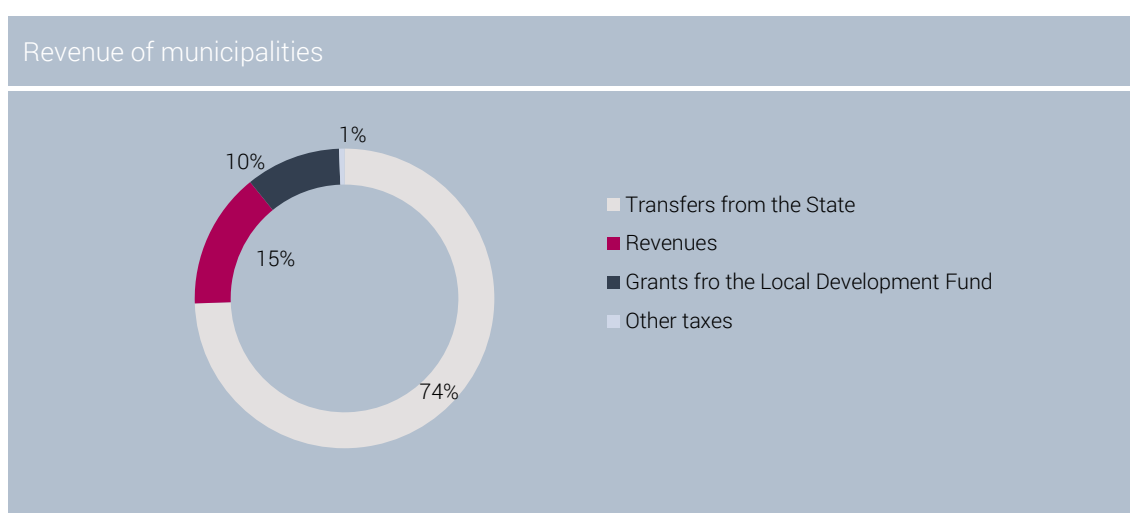
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Sources of own revenues for municipalities are outlined below:

- Property tax
- Infrastructure impact tax
- Billboard fee
- Small business tax
- Cleaning and greenery fees

- Other fees and charges
- Hotel taxes
- Fee for use of public space
- Other local revenues (interest, fines)

Nevertheless, the own revenue level of municipalities is very low (approximately 15% of total revenue) and most of the municipalities are not at least auto-sufficient, so the main source of revenue is grants and transfers from the State (approximately 85%).



For counties, the law entitles them in general to collect taxes for public services that are delivered at county level, but there is not explicit definition of what taxes they should collect. Their budget is based on the transfers given by central government and also by membership fees of constituent municipalities, as defined in the municipality's budgets (i.e. 1-3% of the revenues of municipalities is transferred to counties).

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## EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

The external audit of local government is conducted only by the Albanian Supreme Audit Institution (ALSAI). In the ALSAI, there is a Department for the Audit of Local Units. However, according to the new regulation adopted in 2017, the Minister of Finance and the President of ALSAI, with a joint administrative act, determine the cases when audit is carried out by other legal auditors (private auditors), as well as procedures, deadlines and external audit standards applied by these auditors.

## The role of SAI

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### The mandate

The ALSAI has a mandate to carry out financial, compliance and performance audits in local authorities. The ALSAI may perform audits in municipalities, counties and municipality owned enterprises, on which state holds at least 50%+1 of the share, e.g. Water supply companies. Audits in these local government entities are performed on a selection basis.

The scope of **financial audits** is financial statements, use and management of state grants and budget execution. Financial statements of municipalities are prepared according to national accounting principles (modified cash basis) and are not consolidated. In 2017, Albanian Supreme Audit Institution has carried out 5 financial audits in the municipalities.

As a result of the audit, the opinion and audit report are prepared and submitted to the Mayor of the respective municipalities.

The scope of **compliance audits** relates to budget execution, public procurement, revenues, local asset management etc. In 2017, 33 compliance audits on municipalities were carried out. The ALSAI may also conduct compliance audits together with financial audits.

**Performance audits** cover various aspects, including effectiveness, efficiency and economy of using local governments' funds and assets (e.g. delivery of special public services, human resources management, the territorial reform etc.). Usually audits are conducted horizontally, in several municipalities.

The audit reports and recommendations are submitted to the Mayor and the Municipality Council.





# AUSTRIA

## 1 | LOCAL GOVERNMENT OF THE COUNTRY

Austria is a federal state with 2 levels of local government: 9 Provinces and 2098 Municipalities. The provinces are Burgenland (171 municipalities), Carinthia (132), Lower Austria (573), Upper Austria (440), Salzburg (119), Styria (287), Tirol (279), Vorarlberg (96) and Vienna (both province and municipality). Municipalities are clustered into districts within provinces. This is a purely administrative structure, district authority offices implement province or federal law. However, in some provinces they may play a role in municipality supervision.

Population of Austria is 8,764,540 (as of 2016-10-31), total size – 83,879 km<sup>2</sup>.

### Competences of local authorities

The constitution defines a list of competences which the federal government is responsible for (e.g. taxes, national defense, security, jurisdiction, some part of the education system, high-level transport).

Austrian **provinces** are responsible for anything that does not fall into the scope of federal level, e.g. construction law and housing subsidies, nature protection and regional planning, waste management and kindergarten. In some areas the federal level is responsible for legislation while the provinces are responsible for administration.

**Municipalities** are self-governing bodies, their main responsibilities are local roads, fresh and waste water, waste management, permissions and supervision regarding buildings, land use, emergency services, fire brigades. Beyond that, municipalities are allowed to run municipality owned

enterprises or services like cultural or sporting facilities. On the whole, there is no full and complete list of municipalities' responsibilities.

## Structure of local government

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The main bodies of the **provinces** are: the Parliament (Landtag), the Government and the Governor, who is elected by the Landtag. In most provinces, the Landtag is elected for five years. Although the federal constitution granted all legislative powers to the provinces, many powers have been subsequently taken away and nowadays only a few remain. As the judiciary is an exclusively federal matter, there is no judiciary of the provinces.

The main bodies of the **municipalities** are:

1. The Mayor – both head of the municipality administration and the municipality council, elected by the members of the municipality council (Lower Austria, Styria, Vienna) or by public vote (all other provinces). The period of office is five years, except for Carinthia, Upper Austria and Tyrol (six years).
2. The Council – elected by municipality's inhabitants (citizens of other EU-countries who live in Austria may vote on the municipal level, except for Vienna where the municipality council is also the province council). In most of the provinces the municipality councils are elected for five years, only in some the period lasts for six years (paralleling the mayor's period of office).
3. The Municipality Executive Board – executive body of the municipality, appointed by the municipality council from its members. Members of the board are responsible for certain topics within the municipality.

There is no legislation on the municipality level, only self-governance.

Local authorities in Austria may establish municipality owned enterprises and municipal corporations.

## Budget

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Types of revenue for local authorities:

- Fixed share of federal taxes
- Own taxes
- Fees or charges

The revenues of the province are quite similar to the revenues of the municipalities. Provinces' own taxes, transfers and fees are lower, whereas the provinces' share of the federal taxes is higher than in municipalities. Municipalities' own taxes are regulated by the federal level, so municipalities have hardly any influence on tax rules.

## EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

External audits of local government in Austria are conducted by:

- The Austrian Court of Audit
- 8 Provinces' courts of audit
- 8 Provinces' supervisory authorities
- The audit institution of Vienna

In particular cases private auditors may be also engaged in audit of local government to provide some special knowledge, but their role in the external audit system is not significant.

### The role of SAI

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#### The mandate

The Austrian Court of Audit (ACA) is free to define the mandate in audits, so it may carry out financial, compliance or performance audits in local authorities (provinces, municipalities and their owned enterprises). Concerning municipalities, the mandate of ACA is limited to:

- Municipalities with at least 10,000 inhabitants (therefore only 87 of the 2,098 Austrian municipalities)
- Municipality-owned enterprises (and likewise legal forms) which are either owned (at least 50% ownership held by municipalities alone or together with other institutions the ACA may audit) or controlled by municipalities

Mandate of ACA in municipality audit has extended recently. Before constitutional changes in 2011, ACA was allowed to audit municipalities with at least 20,000 inhabitants.

So far, ACA haven't carried out financial or compliance audits in municipalities. The main activity of ACA is **performance audits**. ACA is free to choose the scope of audits. Usually performance audit covers more than one local authority. Around 10 to 40 entities are audited per year. Audit can also affect multiple levels, e.g. "fiscal rules" or "quality of budget data" are audit topics which include the federal, the province and the municipal levels. The results of the audit are presented in the audit report. Municipality audit reports are submitted to the mayor (in his/her role as chairman of the municipality council) and to the parliaments of the respective provinces.

#### Other functions and products

ACA has developed a Municipality monitoring tool, which provides short, standardized reports or tailor-made analyses of municipalities' data. Such analyses are used by the ACA and may be also sent to interested municipalities.

#### Relationship with other auditors

Competences of external audit institutions in municipality audit are strictly separated by the threshold of 10,000 inhabitants, so there is no cooperation among them on certain topics.

However, coordination exists in audits of provinces. In order to avoid overlap, ACA and Provinces' courts of audit have a tight cooperation in the audit planning procedure, such coordination is ensured by a written agreement. As a consequence, every autumn the ACA holds coordination talks with the court of audit of every province. In case of overlapping audit topics provincial courts of audit own the right of preference. Finally, the ACA develops information letters to the governors and the elected legislatures of the provinces which comprise the coordination results as well as the planned audit activities.

## The role of regional audit institutions

On regional level, external audit of local authorities is carried out by the 8 Provinces' courts of audit, 8 Provinces' supervisory authorities and the audit institution of Vienna. The ninth province, city of Vienna, is a municipality at the same time, for this reason the audit institution of Vienna differs from other provinces' courts of audit and has a special status.

**Provinces' courts of audit** are established by provinces' constitutions – by provinces' parliaments and are accountable to them. Provinces' parliaments provide funding and appoint heads. The structure of Provinces' courts of audit consists of the head and auditors employed. Number of staff varies from 10 to 30 depending on the province. Audit institution of Vienna is a special case, with about 100 people and more elaborated organizational structure.

**Provinces' supervisory authorities** are departments of provinces' administration, in some provinces established in cooperation with district authority offices, accountable to the provinces' heads of government. Like any other administrative bodies of the province, they are financed by the provinces' parliaments.

## The mandate

In general, **Provinces' courts of audit** may carry out audits of the provinces, municipalities and their owned enterprises and entities. However, the mandate to audit certain institutions is different depending on the province. As for municipality audit, provinces' parliaments have been allowed to give their respective courts of audit the competence to audit municipalities only since 2011. As a result, six out of eight provinces' courts of audit (Vienna is a special case) recently received the mandate to carry out audits in municipalities (see the table below).

Province	The mandate of Province's court of audit to audit municipalities	Number of municipalities (October 31 <sup>st</sup> , 2016)	The mandate to audit municipality-owned enterprises
Burgenland	Yes	170	Yes, more than 50% share
Carinthia	No	--	Yes, more than 50%, in municipalities < 10,000 inhabitants
Lower Austria	Not audits, only reports if demanded by province government	--	No
Upper Austria	Yes, municipalities < 10,000 inhabitants	429	Yes, more than 50% share
Salzburg	Yes, municipalities < 10,000 inhabitants	112	Only if province holds share, 25% threshold
Styria	Yes (>10,000 on demand)	273 (287)	Yes, 25% threshold
Tirol	Yes, municipalities < 10,000 inhabitants	271	Yes
Vorarlberg	Yes, municipalities < 10,000 inhabitants	86	Yes

In Austria, provinces' courts of audit normally have the mandate to audit what is called "Gebärung", which is defined as any activity by a governing body that has financial consequences. Hence, while audit mandates are limited with regard to auditees, there are hardly any limits in terms of scope. In practice, Provinces' courts of audit focus on performance audits, in which some compliance aspects may be also included. The audit institution of Vienna has a mandate to perform special "security audits", which investigate whether the administration is working properly in areas relevant for peoples' security. Typically, the scope of a single audit is limited to one municipality of the province. Audit reports are submitted to the provinces' parliaments and recommendations addressed to the municipalities.

**Provinces' supervisory authorities** are regionally different, but basically have a mandate and are obliged by federal constitution to audit and supervise all municipalities within a province according to the regulation in provinces' law. As a supervisory authority within the administration, their mandate is not free, also they have limited mandates in terms of municipality owned enterprises. The main audit activity of these authorities is financial audit of municipalities. They carry out regular (for instance, once in a legislature period) audits of the budget execution of every municipality (with some exceptions regarding statutory towns, which have their own control offices), audit financial statements, debt management, also give their approval regarding municipal budgets and taking out loans. For reporting the results of financial audits, supervisory authorities introduce municipalities directly, mostly there are no public audit reports or recommendations.



# AZERBAIJAN

## 1 | LOCAL GOVERNMENT OF THE COUNTRY

In Azerbaijan, there is only one tier of local government – municipality. The total number of municipalities is 1,606, which include 68 city, 140 settlement, 1,228 rural municipalities and 170 municipalities in Nakhchivan Autonomous Republic in the Republic of Azerbaijan.

The Municipalities in the Republic of Azerbaijan may create associations to coordinate their activities and to implement their rights and interests effectively. These associations must be registered according to the law. Currently, 3 associations of the municipalities operate as local government divisions in the Republic of Azerbaijan.

In the beginning of 2017, the number of population in Azerbaijan was 9,810,000 and the territory is 86,600 km<sup>2</sup>.

### Competences of local authorities

Municipality is a form of local self-government within a territory defined by the Law. A municipality has its own property and local budget and it resolves important local issues independently within its powers defined by the Constitution of the Republic of Azerbaijan and Law on the Status of Municipalities of the Republic of Azerbaijan. Important local issues are issues related to providing the living conditions of the population of municipality.

According to the Constitution of the country, the following questions are settled at the meetings of the municipalities (municipal councils):

- Recognition of authority of municipal members, loss of their authority and termination of their authority according to legislation
- Approval of regulations of municipality
- Elections of the chairman of municipality, his deputies, permanent and other commissions
- Establishment of local taxes and payments
- Approval of local budget and reports on its implementation
- Possession of municipal property, use and disposal thereof
- Acceptance and implementation of local programs of social protection and social development
- Acceptance and implementation of local programs of economic development
- Acceptance and implementation of local ecological programs

The municipalities are vested with additional executive powers. Appropriate financial resources should be allocated to municipalities to implement these powers.

## Structure of local government

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The legislative authority of the municipality is the municipal council. The members of municipal councils are elected in public elections for the period of 5 years.

The executive body of a municipality is its executive apparatus. The municipal apparatus consists of the chairperson of the municipality, structural departments defined by law and the municipal charter, and other executive structures created in accordance with the municipal charter.

The municipal apparatus implements organizational, information, clerical, logistical support issues of municipality as well as permanent and other commissions of municipality, fulfils the tasks of the chairperson of the municipality and ensures the implementation of municipal decisions. Heads of the departments of the executive apparatus of a municipality report to the chairman of municipality on the work done and provide information on matters relating to their competence for the permanent and other commissions.

The chairperson of a municipality manages the activity of the municipal executive apparatus. In accordance with the directions of the municipality; the municipal chairman appoints the heads of the executive structures created to implement services for the local population and economic and social development programs.

According to the Law, municipalities may create independent legal entities to engage in economic activity and other activities not prohibited by law, settle the matters connected with their reorganization and liquidation.

## Budget

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According to the law municipalities form the income of local budget by following sources:

- Land tax of natural persons
- Property tax of natural persons



- Mining tax on construction materials of local importance
- Income tax of enterprises and organizations that are the property of municipalities
- Payments for street advertisements in lands, buildings and other objects belonging to municipally property
- Resort fee, hotel tax, parking tax and other local payments determined by law
- Grants, subventions and transfer payments allocated from the state budget of the Republic of Azerbaijan
- Funds obtained from privatization and lease of municipal property, local lotteries, other funds created as the result of municipal activity in accordance with the law
- Financial aids and grants of natural and legal persons, international organizations and funds
- Funds for payment of expenses as a result of decisions of state bodies and events of state significance
- Local (municipality) taxes, interests and sanctions for payments according to the law

In 2016 tax revenues were 41.1%, non-tax revenues were 55.5% (including 15.8% from grants and dotations from state budget, 32.9% from privatization and leasing of municipality property, 6.8% non tax- revenues) and other revenues were 3.5% of total municipal revenue.

## 2

# EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

External audits of local government in Azerbaijan may be conducted by:

- The Chamber of Accounts (the SAI)
- Private auditors

## The role of SAI

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### The mandate

The Chamber of Accounts may conduct financial, compliance and performance audits. In particular, the Chamber of Accounts supervises purposeful use of funds to be allocated from the State budget to municipalities. According to the law, the Chamber of Accounts carries out financial and budgetary expertise of local budget, renders opinions, submits proposals and conducts audit if necessary at the request of the body conducting administrative control over the activity of municipality.

According to the current Law audits of municipalities must be carried out at the request of the Center for Work with Municipalities of Azerbaijan's Ministry of Justice. Since, there hasn't been such request for last 10 years, the Chamber of Accounts hasn't conducted any audit of municipalities.



## Other functions and products

In Azerbaijan the Chamber of Accounts renders opinion on the draft state budget for the next year. Attitude to funds for financing of implementation of duties of municipalities for implementation of different projects and subsidies allocated to municipalities from state budget is expressed in that report.

## Relationship with other auditors

The Chamber of Accounts of the Republic of Azerbaijan and the Chamber of Auditors of Azerbaijan Republic signed a Memorandum of Mutual Understanding. The Memorandum envisions organization of mutual activity in increasing the effectiveness of establishing closer cooperation, expanding and strengthening of bilateral cooperation, summarising of auditor experience, mutual exchange of national and international experience, also solution of issues of mutual interest within their powers.

Taking necessary measures for improvement of audit system by Chamber of Auditors and improvement of financial audit by Chamber of Accounts, appropriate measures on conducting joint researches, compile of analytical and methodical materials, implementation of normative legal acts, The International Standards of Supreme Audit Institutions (ISSAI) and International Financial Reporting Standards (IFRS) are envisioned within the framework of the Memorandum.

However, since audit or analytical analysis haven't been carried out in municipalities by SAI for the last 10 years, cooperation in municipal audit doesn't exist.

## The role of private auditors

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According to the Law of the Republic of Azerbaijan on Audit Service all municipalities are the subject of mandatory financial audit conducted annually by private auditors. The scope of audit is financial statements of municipalities, audit may also be conducted in municipality owned entities. Audit may include compliance aspects as well. Certified private auditors are selected on contract basis by municipalities and remunerated from the municipal budget. In 2016 private auditors conducted financial audits on contract basis in 1,265 of 1,606 municipalities of Azerbaijan and it means about 79% of all municipalities. Audit statement (report) on audit findings, audit opinion and recommendations are prepared and submitted to audited municipalities.

Audit entities in the Republic of Azerbaijan are coordinated by the Chamber of Auditors of the Republic of Azerbaijan and are closely involved in the implementation of normative methodological documents, also international and national accounting standards



# BOSNIA AND HERZEGOVINA

By the General Peace Agreement for Bosnia and Herzegovina, formally signed in Paris on 14 December 1995, Bosnia and Herzegovina (hereinafter BiH) consists of two entities: Federation of Bosnia and Herzegovina (hereinafter: FBiH) and Republic of Srpska (hereinafter: RS), and Brčko District BH formed in 2000 (hereinafter: BD BiH).

Federation of Bosnia and Herzegovina as one of two entities in Bosnia and Herzegovina consists of 10 cantons (federal units). Cantons in FBiH are divided into 80 units of local government (71 municipalities and 9 cities; including Sarajevo – the capital, consisting of four municipalities). Republic of Srpska, as one of two entities in Bosnia and Herzegovina, consists of 64 municipalities. Brčko District BH was given a special status.

The national audit office of Bosnia and Herzegovina is the Audit Office of the institutions of Bosnia and Herzegovina (hereinafter SAI BiH), which performs audits of all public institutions of Bosnia and Herzegovina, in accordance with the Law on auditing of the institutions of Bosnia and Herzegovina.

Additionally, there is a separate external audit system created in each of the entities as well as the District:

- The Audit Office of the institutions in the Federation of Bosnia and Herzegovina (hereinafter SAI FBiH) performs audits of all public institutions in the Federation of Bosnia and Herzegovina (including the Parliament and the President of FBiH; the FBiH Government and respective ministries, Assemblies and governments of cantons in the FBiH, municipalities on the territory of FBiH, all budget institutions directly financed from the budgets adopted by parliaments, assemblies of cantons and municipal councils, state-owned companies, funds, agencies etc.), in accordance with the Law on auditing the institutions in the Federation of Bosnia and Herzegovina.
- The Audit Office for the Republic of Srpska (hereinafter SAI RS) performs audits of all public institutions of RS, in accordance with the Law on public sector auditing of Republic of Srpska.

- The Audit office of public administration and institutions in Brčko District of BiH (hereinafter SAI BD) performs audits of all public institutions of BD.

External audit of units of local government and institutions and companies owned or/and established by municipalities is under the mandate of SAI FBiH and SAI RS.

# FEDERATION OF BOSNIA AND HERZEGOVINA

## 1 | LOCAL GOVERNMENT

Federation of Bosnia and Herzegovina consists of 10 cantons, 71 municipalities and 9 cities (Sarajevo, Mostar, Zenica, Široki Brijeg, Tuzla, Bihać, Cazin, Livno i Goražde). Sarajevo is the capital of Bosnia and Herzegovina, administrative center of BiH and consists of four municipalities.

Most cantons in FBiH adopted canton local government laws (in compliance with Federal law), that additionally regulate the details of local governance for the specific canton.

Surface area of Federation of Bosnia and Herzegovina is 26,110.5 km<sup>2</sup>. Population as at 30 June 2017 in the FBiH was estimated to be 2,201,193.

### Competences of local authorities

Both the Federal government and the cantons as federal units have responsibilities for the following: guaranteeing and enforcing human rights, health, environmental policy, infrastructure for communication and transport, social welfare policy, implementing laws and regulations concerning citizenship, tourism, use of natural resources. The responsibilities may be exercised jointly or separately. The cantons have the right to make policy and enact laws accordingly concerning each of these responsibilities.

The **cantons** also have all responsibilities not expressly granted to the Federal Government in the following spheres:

- Establishment and control of police forces
- Education policy
- Cultural policy
- Housing policy

- Policy concerning public services
- Regulating local land use
- Availability of local energy production facilities
- Policy concerning radio and TV facilities
- Implementing social welfare policy and provision of services
- Cantonal tourism policy

**Municipalities and cities** are considered as local government units, in accordance with the Law on principles of local self-government in Federation of Bosnia and Herzegovina. Competences/spheres of municipalities in FBiH are defined by Constitution of BiH, Constitution of FBiH, constitutions of cantons, Law on principles of local self-government in the Federation of Bosnia and Herzegovina and by municipal statutes.

Competencies of municipalities and spheres of their activities relate to:

- |   |   |
|---|---|
| ▪ Municipal budget  | ▪ Preschool education   |
| ▪ Local taxes, fees and charges                                   | ▪ Primary education – partly  |
| ▪ Development and conditions for economic growth and job creation | ▪ Culture and sports  |
| ▪ Management of property and natural resources                    | ▪ Assessing the work of institutions and quality of services in the areas of health care, social welfare, education, culture and sport, and ensuring funds required for the improvement |
| ▪ Spatial planning and environmental protection policies          | ▪ Primary healthcare  |
| ▪ Local public infrastructure                                     | ▪ Other   |
| ▪ Local public transportation and local roads                     |   |

Municipalities have the right to manage their property freely and independently, in accordance with the law. However, most of the previously listed functions (spheres) are also regulated by state, federal and cantonal laws. This means that municipalities are not absolutely independent in all respective areas.

## Structure of local government

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The bodies of **cantons** are:

- Cantonal Assembly – performs legislative power in canton – Assembly is representative body consisting of one House comprising a number of deputies/legislators determined in proportion to its population, but not less than 30 and no more than 50. Cantonal deputies are elected democratically by eligible voters in a direct, canton-wide elections for a four-year term. Each cantonal Assembly elects its Chairman and vice chairman among its members. Main responsibilities of an Assembly are preparation and adopting the Cantonal Constitution, adoption of laws and other regulations within its competencies, adopting cantonal budget etc.
- Cantonal Government – executive authority – composed of the President and ministers. The president of the cantonal government is appointed by Cantonal Assembly Chairman and approved by Assembly. The Cantonal government is nominated by Cantonal President and

approved by Assembly. Cantonal government is responsible for executing and enforcing cantonal policies and laws, pertinent decisions of any cantonal or federal court and any responsibilities assigned to the canton by Federal government, preparing budgetary proposals for the approval of the Cantonal Assembly etc.

Bodies of **municipalities/cities** are the Municipal/City council and the Municipal/City Mayor:

- Municipal/City Council is the decision-making body. Council consists of representatives of the community, democratically elected on direct local elections for a four-year term. Number of councilors is defined by Municipal/City Statute. Competencies of the Council are defined by law, and include: municipal/city Statute and budget adoption, selection and dismissal of the chairman and deputy chairman of the council, adoption of regulations concerning taxes, fees, reimbursements and contributions in the local authority in accordance with the law; decision-making on the management and control of municipal property, establishment of the companies and institutions to conduct activities of local interest and other, as defined by the Law.
- Municipal/City Mayor - The executive authority. The Mayor represents and acts on behalf of the local unit of self-government, produces drafts and submit the following to the Council for adoption: draft budget and budget proposal, economic, development, investment, urban and other plans and regulatory documents; implements the policy of municipality/city pursuant to the decisions of the council, implements the budget, decisions and other bills rendered by the council, sets the structure of administrative services and other services of the local authority etc. Mayor is elected for a four-year term on local elections.

According to the Law, municipalities/cities may conduct activities from within the framework of its inherent competencies, as well as delegated activities, through joint agencies, services, departments, organizations and institutions with public authority, and through other forms of cooperation within a local unit of self-governance.

Internal structure of the municipality/city is defined by rulebook on internal organization, adopted by the Mayor. Rulebook defines organizational units, mandates, systematization of workplaces etc.

Municipalities or cities may establish:

- Municipality owned enterprises – public enterprises conducting activities of interest for the local community (limited liability companies, companies with share capital);
- Public institutions and funds (institutions established to serve public interest in performing social, educational cultural, sport and other activities).

## Budget

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There are three sources of revenue of the cantons:

- Tax revenue
- Non-tax revenue (fees, taxes etc.)
- Grants

Municipalities/cities are entitled to the following types of revenue, in accordance with the law:

- Own revenues and
- Other revenues

Own revenues comprise of:

- Taxes for which municipalities/cities set the rate independently
- Local fees and reimbursements in the amount which is set by the council
- Fines and interest rates
- Revenue from property use and sale
- Revenue from companies and other legal entities owned by the municipality/city, as well as from concessions
- Gifts, aids and donations
- Revenues from budget beneficiaries

Other revenues are tax revenue distribution as defined by the law and transfers and grants from higher authority levels (federal and canton budgets). According to the research conducted by Public Interest Advocacy Group – CPI Foundation (published in February 2016), grants and donations to local authorities in 2014 amounted to 16% of total revenues.

## 2

# EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

External audits of local governments in the Federation of Bosnia and Herzegovina are conducted by:

- Audit Office of the Institutions in the Federation of Bosnia and Herzegovina (SAI FBiH)
- Audit companies from the private sector (partly)

## The role of SAI FBiH

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### The mandate

In accordance with the Law on Audit of Institutions in FBiH, when it comes to local governments, the mandate of the Audit Office of the FBiH Institutions includes the cantonal assemblies and cantons in the FBiH, the units of local self-government (municipalities and cities) in the Federation of Bosnia and Herzegovina; all budget institutions that are directly financed from budgets adopted by cantonal assemblies and municipal councils; institutions and funds established by cantons / municipalities / cities, and companies in which the state has a shareholding of more than 50% (at all levels of government).

According to the data in the Registry of auditees of the SAI FBiH dated September 4, 2017, the total number of audit entities is 2,113, out of which 831 entities relate to municipalities, institutions, funds and companies established by municipalities / cities. The remaining 1,282 audit entities relate to subjects of the federal and cantonal levels.

SAI FBiH has the mandate to carry out financial, compliance and performance audits both at cantonal and local (municipal/city) levels.

The subject of **financial audits** are financial statements, including reports on the execution of municipal budgets. The financial statements of municipalities are not consolidated at the state level.

The SAI of the FBiH conducts audits in accordance with the established annual audit plan. Given that over 2,000 auditees are in the mandate of the SAI of the FBiH, and that there are very limited human resources, the audit coverage of the mandate of financial audits is very low. In addition to performing 20 mandatory financial audits each year, the number of other audit entities is selected taking into account the available resources and other criteria established by the SAI methodology. Therefore, the financial audit is not carried out on an annual basis in all local government units, but only in the selected, in accordance with the annual plan.

In the past period, the activities of the Audit Office in the area of cantonal audits were mostly focused on the financial audits of the consolidated financial reports of the cantonal budgets in the Federation of BiH. The main reason for such an approach is the considerable amount of the budget, which at the level of all ten cantons annually amounts to close to EUR 1 billion, but also due to identified irregularities in the spending of public funds in previous audits. The aforementioned resulted in less attention directed to the audits of local self-government units, but also the individual cantonal budget users. Therefore, for the 2016/2017 auditing cycle, 12 financial audits of local self-government units for 2016 were completed, one city and 11 municipalities. Six of these were audited for the first time by the SAI. Of the total of 80 local government units that exist in the FBiH, there are still six municipalities that have not been audited by the Audit Office to date (3 are included in the Audit Plan for 2017/2018).

Since 2016, the SAI conducts **compliance audit** together with the audit of the financial statements and issues two opinions. The subject of the compliance audit is compliance of the activities, information and transactions reported in the financial statements (including a report on budget execution of municipalities) with the applicable laws and regulations (e.g. managing and using grants from higher levels of government and the use of other funds, assets, etc.).

The results of audits of the Audit Office are presented in the audit report. A report is issued covering the results of the audited financial statements and the audit of compliance. From 2016, the SAI FBiH within the Financial Audit Report gives two opinions: an opinion on the financial statements and opinion on compliance. In accordance with the Audit law, the audit reports are submitted to the auditee (for the municipality - the mayor and the municipal council), to the FBiH Government, the FBiH President, the FBiH Parliament, as well as other competent institutions that are deemed necessary to submit the report (i.e. the prosecutors office). All reports on the audits carried out, together with opinions, are also published on the website of the SAI of the FBiH.

Recommendations are provided to all auditees within the audit report, taking into account the mandate of each individual entity (municipalities, public enterprises, institutions, etc.). Also, recommendations can be presented in a Management letter.

The subject of **performance audits** depends on the topic and goals that are determined by the annual audit plan, and includes activities and processes related to the use and management of resources, the provision of services, the implementation of functions, and more. The SAI carries out performance audits of a certain topic/area, which may include a certain number of local government units, chosen on a sample basis.

The SAI presents the results of the conducted performance audits in the audit reports. They are submitted to the audited entities, the Government of the FBiH, the FBiH Parliament, the FBiH President and other competent institutions that are deemed necessary. Recommendations are given not only to the auditees but also to other institutions that were not covered by the audit, but which were identified during the audit as responsible institutions for the given area/topic.

## Relationship with other auditors

So far, the SAI FBiH has no cooperative activities with private sector auditors.

The external audit carried out by the SAI of the FBiH involves the implementation of the audit of financial statements and the compliance audit and has a much wider scope than financial audits conducted by private sector auditors. Also, due to the large number of audit entities, the SAI FBiH is not able to conduct audits of all entities on an annual basis (audit entities are determined by the annual audit plan). Because of the above, the possibility of duplication of work is not present to a large extent.

## The role of private auditors

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In accordance with the Law on Accounting and Auditing in FBiH, the financial statements and consolidated financial statements of large and medium-sized enterprises established by municipalities (as well as the Federation of Bosnia and Herzegovina and cantons) are subject to mandatory annual audit performed by private sector audit firms. Private auditors are hired according to public procurement procedures and paid from the funds of the auditee. As a result of an audit, the opinion and the audit report are prepared and submitted to the audited entity.

Also, the municipal/city council may decide to conduct audits of financial reports of other entities (municipalities or public enterprises and institutions to which the founder is the municipality, as well as other engagements). In this case, the selection procedure is also conducted in accordance with the Law on Public Procurement and commercial audit companies are engaged.



# REPUBLIC OF SRPSKA

## 1 | LOCAL GOVERNMENT

Republic of Srpska, as one of the two entities of Bosnia and Herzegovina, consists of 64 municipalities (7 units with city status and 57 municipalities).

The total area of the Republic of Srpska is 24,641 km<sup>2</sup>, and the population is 1,157,516 according to the estimates of the Statistical Office of the Republic of Srpska for 2016.

### Competences of local authorities

The jurisdiction of municipalities is defined by the Constitution of the Republic of Srpska, the Law on Local Self-Government and statutes of municipalities. In accordance with the Law on Local Self-Government, municipalities exercise their functions in the following areas:

- Organization of work and management of the unit of municipality
- Providing utility services and other services
- Spatial planning and construction
- Housing and communal services
- Culture and education
- Social protection
- Social care for children and youth
- Sport
- Tourism
- Protection of natural assets
- Protection of citizens from natural disasters

Municipalities have the right to freely and independently dispose of its' assets and financial assets in accordance with the law. However, the previously mentioned functions (tasks) are regulated by laws which bring a higher level of government (republic), which means that municipalities are not completely independent in mentioned areas.

### Structure of local government

The bodies of municipalities are:

1. Municipal Assembly – decision making body. The assembly consists of representatives of the local community elected by citizens in general and direct elections for the period of 4 years. The number of councilors is determined by the statute of the municipality in accordance with the election regulations. Municipal assembly approves statute, budget, financial reports, decides on borrowing, make decisions on communal taxes and other public revenues of the municipalities in accordance with the law, makes decisions on the management and disposal of assets, establishes enterprises and institutions for performing activities of interest for the

municipalities, elects and dismisses the president and vice-president of the assembly, deputy mayor/mayor, etc.

2. The Mayor/Mayor Administration – executive body, elected in general and direct elections for a term of 4 years. The mayor represents the municipality, prepares and submits to the municipal assembly draft budget, planned and regulatory documents, implements the policy of the municipalities in accordance with the decisions of the assembly, the budget of the municipalities and ensures the implementation of decisions and other acts of the assembly, determines the organization of the administration services and other services of the municipalities and adopts the internal organization of the municipalities etc.
3. Municipal Administration – administrative services in the function of the implementation and execution of decisions of the Assembly and the Mayor and all others regulations and acts.

Municipalities may establish:

- Public companies of interest for the municipalities (limited liability company, stock company)
- Public institutions (institutions that perform activities in various fields – social protection, culture, sports, tourism, etc.)

## Budget

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According to the Law on the Budget System of Republic of Srpska, the revenues of the budget of municipalities are:

1. Property tax
2. Fines imposed in misdemeanor procedures for misdemeanors determined by the acts of cities or municipalities
3. Municipal administrative fees
4. Communal fees
5. Special water charges
6. Municipal fees for the use of natural and other goods of general interest
7. Tax on winnings from games of chance
8. Residence tax
9. Other income, such as:
  - revenue from grants, transfers and revenues which is realized by budget users by performing regular and supplementary activities in accordance with the law, as a percentage determined by the decision on execution of the budget (The jurisdiction Ministry, on the basis of the criteria defined by the Rulebook, assigns grants to undeveloped and highly underdeveloped municipalities)
  - other municipal revenues

Additionally, municipalities receive a share of revenues that are divided between the budget of the Republic, the budget of municipalities and other users. These are:

- Revenues from indirect taxes, paid into the Republic budget from the single account of the ITA (Indirect Taxation Authority), which after the allocation of part of the funds for servicing the

external debt of the Republic are divided as follows: 24% are transferred to the budgets of municipalities, 72% - to the budget of the Republic and 4% - to the Public Company "Roads of the Republic of Srpska";

- Revenue from income tax (municipalities receive 25% of the income tax on self-employment and 25% of the personal income tax);
- Revenues from fees for changing the purpose of agricultural land (municipalities receive 70%);
- Income from the lease of land owned by the Republic (municipalities receive 50%);
- Revenues from concession fees for the use of mineral resources (municipalities receive 70%);
- Revenue from special water charges;
- Confiscated material gain and assets received from the sale of seized items.

Funds allocated to municipalities and cities are considered a general transfer, so municipalities use them in accordance with their budget.

## 2

# EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

External audits of local government in the Republic of Srpska are conducted by:

- The Audit Office for the Republic of Srpska (SAI RS)
- Private auditors (partly)

## The role of SAI RS

### The mandate

In accordance with the Law on the Audit of the Public Sector of the Republic of Srpska, the SAI RS is authorized to audit municipalities and public companies, institutions owned by a municipalities or state. SAI RS has the mandate to carry out financial, compliance and performance audits in local authorities. Audits are performed in accordance with the established annual audit plan.

The subject of the **financial audit** is the financial statements, including budget execution reports, balance sheet and income statement, cash flow statement and other attached reports and information. Financial statements of municipalities are not consolidated at the state level.

Financial audit is not carried out on an annual basis in all municipalities, but only in the selected, or in accordance with the annual audit plan. The average annual number of municipalities audited is 16.

The **compliance audit** is carried out together with the audit of the financial statements, therefore the subject of the audit is also activities, transactions and information presented in the financial statements (including a report on budget execution), the management and use of grants from higher levels of government, and the use of other funds and assets.

The results of the conducted audit are presented in the audit report. A report is covering the results of the audited financial statements and the audit of compliance. Since 2014, the SAI RS gives two

opinions, an opinion on the financial statements and an opinion on compliance that form part of a single report.

The subject of the **performance audit** in municipalities in the past period was the activities in the local administrative bodies, the realization of revenues under the jurisdiction of municipalities, asset management and infrastructure projects, financial management in municipalities, management of activities of public enterprises and public institutions. In the current audit cycle, the subject of the performance audit is the processes and activities in the municipalities and public institutions within the competence of municipalities. At the annual level, SAI RS carries out about 5 performance audits, of which at least one performance audit refers to the audit of activities and processes within the jurisdiction of municipalities or public companies or public institutions founded by municipalities. Performance audits are carried out at several municipalities or public enterprises/public institutions within their jurisdiction. Audits can also be conducted combining horizontal and vertical approach, when entities both from local (municipalities, municipal enterprises) and Republic level (ministries, administrative organizations) are included.

Prior to the preparation of the draft performance audit report, a focus group is organized to present preliminary audit findings to organizations covered by the audit and other stakeholders in order to ensure additional quality, comprehensibility and acceptability of the performance audit report. The prepared draft performance audit report is submitted to the organizations that were included in the performance audit for the comments and remarks. After consideration of comments and remarks on the draft report, the final report is prepared.

All audit reports and opinions are, in addition to the audited institution (for the municipality - the mayor and assembly or the manager in other cases), submitted to the National Assembly of RS (Audit Committee), The Government of the Republic of Srpska, the Ministry of Finance of the RS, the President of the Republic and the competent ministry (Ministry of Administration and Local Self-Government of RS and other institutions that need it (prosecution in case of adverse opinion). All these documents are published on the website of the SAI RS.

The recommendations can be proposed to the government, municipalities, ministries, municipal or public enterprises and public institutions, etc.

## Relationship with other auditors

So far, the SAI RS has no cooperative activities with private auditors.

The external audit carried out by the SAI RS involves the implementation of the audit of financial statements and the compliance audit and has a much wider scope than financial audits conducted by private auditors. The possibility of overlap is present only in the financial audit of municipal enterprises which, according to the regulations, is mandatory to conduct by the private auditors.

## The role of private auditors

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According to the criteria set by the Law on Accounting and Auditing of the Republic of Srpska (average number of employees, total annual income and average value of assets determined on the date of creation of financial statements in the financial year), large legal entities are subject to mandatory audit of financial statements. It is the duty of all companies (even municipal ones) to choose a private auditor if they are subject to audits based on the aforementioned criteria. After

the audit private auditors submit an audit report in which the opinion on financial statements is expressed and recommendations may be formulated. The remuneration for auditors is paid from the budget of the company or the public enterprise.



# CROATIA

## 1 | LOCAL GOVERNMENT OF THE COUNTRY

In Croatia, there are two tiers of local government – local and regional. The Republic of Croatia consists of 576 local authorities, out of whom 20 with the status of regional self-government unit (county), 127 with the status of a city and 428 with the status of a municipality. The capital city of Zagreb has the authority and legal status of both a county and a city. The population of the Republic of Croatia is 4,284,889 according to the 2011 census, total size – 56,594 km<sup>2</sup>.

### Competences of local authorities

The main activities and responsibilities of **counties** are:

- Education
- Health care
- Urban planning
- Economic development
- Transit and traffic infrastructure, maintenance of public roads
- Planning and development of network of educational, medical, social and culture institutions
- Issuing building license
- Other

The main activities and responsibilities of **cities and municipalities** are:

- Settlement and housing
- Urban planning
- Utility service
- Child care, social welfare
- Primary health care
- Protection and improvement of environment
- Education
- Culture, physical culture and sport
- Consumer protection
- Fire protection and civil defense
- Traffic, maintenance of public roads
- Issuance of building licenses (cities with population more than 35,000)

## Structure of local government

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Local authorities have representative and executive bodies. Representative bodies are City Council, Municipal Council and County Assembly. Executive bodies are County Prefect (Head of County), Mayor of the City and Municipality Prefect (Head of Municipality). All these bodies are elected for a four-year term in direct elections.

For the implementation of their functions, local authorities may establish their owned enterprises (mostly utility service companies) and institutions (e.g. in the field of education, culture and sport).

## Budget

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Sources of revenue of the local government are:

- Taxes
- Grants from the State budget, international organizations and European Union funds
- Property revenue
- Charges (administrative and municipal charges)
- Donations

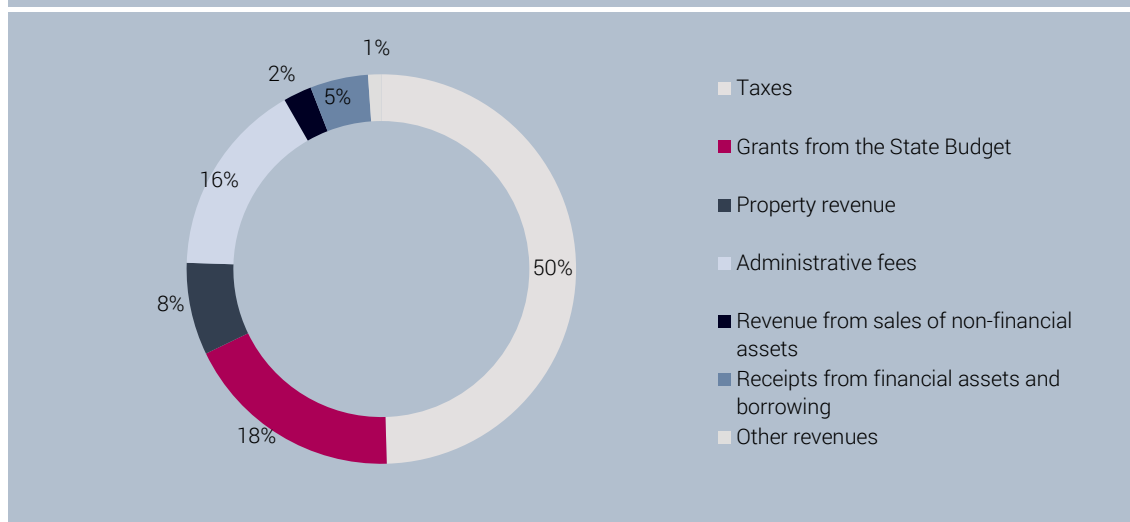
According to the Croatian tax system, taxes are divided into three categories in terms of to whom certain tax belongs:

- County taxes – include inheritance and gifts tax, the tax on road motor vehicles, the tax on vessels and the tax on coin operated machines for games for amusement;
- City or municipal taxes – include surtax on income tax, the consumption tax, tax on holiday houses, tax on the use of public land and real estate transfer tax;
- Joint taxes – consist of income tax.

Municipal charges belong to the budgets of municipalities and cities.

Out of total budget revenue of local authorities for 2016, own-source revenue constitutes the biggest part – approximately 81.7%. These are revenues from taxes, property, administrative fees, revenue from sales of non-financial assets, receipts from financial property and borrowing. The remaining part (some 18.3%) comes from grants from the State Budget.

Revenues and receipts of local government (2016)



## 2

## EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

The State Audit Office of Croatia is the only external auditor carrying out audits of local government.

### The role of SAI

#### The mandate

The State Audit Office of Croatia (SAO) has the mandate to carry out financial, compliance and performance audits in local authorities. SAO may audit local and regional self-government units, legal entities founded by a local and regional self-government unit and enterprises and other legal entities where a local or regional self-government unit is a majority shareholder or holds a majority stake, as well as the use of funds from the European Union and other international organizations or institutions that fund public needs shall be subject to audit.

Concerning **financial audit**, it is carried out annually in selected local authorities according to The Annual Plan and Program of the State Audit Office. Approximate number of audit entities is 93 per year. For the fiscal year 2016, financial audits of 82 local authorities were conducted. Financial statements of municipalities are prepared on modified cash basis, consolidated at national level, but the consolidated set is not audited by the SAO. The scope (subject-matter) of the audit includes financial statements, budget execution, compliance of local authorities' business operations with the legislation, as well as audit of other activities of local authorities. After the audit, the opinion on financial statements of local authorities is submitted.

**Compliance audit** is not carried out as a separate audit but as a part of financial audit. Approximate number of audit entities (local authorities) is the same, 93 per year. The scope of compliance audit refers to compliance of local authorities' business operations with legislation.



The scope of **performance audit** depends on the audit area, it may include effectiveness, efficiency and economy of using local governments' funds and assets. SAO carries out horizontal audits in local authorities (e.g. local authorities' revenue management, asset management, mineral resources management, local road maintenance, waste management, building and managing entrepreneurial zones, quality of building pre-university schools). There is no practice to carry out a performance audit with the scope limited to one local authority. Performance audit on certain topic could be carried out in several local authorities, for example performance audit on building sport halls was carried out regarding six sport halls.

Audits results are presented in the audit report. Audit report is submitted to executive body: County Prefect (Head of County), Mayor of the City and Municipality Prefect (Head of Municipality) and to representative body of local authority as well as to the Croatian Parliament. In the case of performance audit, Parliamentary committees take discussions on each audit report and joint report (every committee in its field of work). Discussions on performance audit reports are also held on plenary session of the Croatian parliament. Audit reports are published on SAO's official website.

After the audit SAO can propose recommendations to local authorities. Also, when different procedures are noticed due to insufficient normative regulations, a consolidated report may highlight omissions and make recommendations to the competent authorities in whose jurisdiction is business operations in which omissions were noticed.

## Other functions and products

SAO of Croatia participates in seminars attended by representatives of local authorities. Most commonly this refers to participation in internal auditors' seminars organized by the Ministry of Finance or the Institution of internal auditors.



# DENMARK

## 1 | LOCAL GOVERNMENT OF THE COUNTRY

In Denmark, there are two tiers of local government: 5 regions and 98 municipalities. Population of the country is 5,748,769 (as of 2017-01-01), total size – 42,925 km<sup>2</sup>.

### Competences of local authorities

In Denmark, the public sector is highly decentralized. Following the principle of subsidiarity, “what can be dealt with on a local basis is dealt with on a local basis”. Thus, delivering welfare services in collaboration with citizens, mobilizing resources on a local level, and setting the direction for the development of local communities is done at a city-council level. The regions are mainly responsible for health/hospitals, regional development.

The municipalities are responsible for primary schools, childcare, eldercare, social care, integration, employment and benefits, etc. Municipalities are funded by municipality tax and state funds.

### Structure of local government

Each of the 5 regions is governed by a regional council of elected politicians, where each council choose a regional chairman, similarly to the election and formation of a municipal council.

The highest decision-making authority in municipal affairs is the elected municipal council. The municipal council chooses the mayor immediately after the election. The mayor is the chairman of the municipal council and head of the municipality's management. He/she is not entitled to make political decisions without the approval from the municipal council.

Democratically elected councils lead respectively each municipality and region. Municipal and regional elections are held simultaneously every 4<sup>th</sup> year. Each region consists of 41 politicians, whereas the number of politicians in the municipal councils depends on the size of the municipality and varies between 9 and 31 – always being an uneven number. The size of the council in the city of Copenhagen is, however, 55 including the Lord Mayor and 6 additional mayors.

Municipalities often have their own municipality owned enterprises (or together with a neighboring municipality) in the areas of waste management, logistic services (transportation, harbor etc.), water supply etc. Together with the local municipalities the regions own regional traffic companies.

## Budget

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Regions are almost 100% funded by state funds. Each region receives block grant from the State budget (transferred by the Ministry of Interior).

Municipal revenue has 2 main sources: State budget funds and municipal taxes. Municipal taxes constitute the biggest part of municipal budget (approximately 70%) and these are mainly revenue from the income tax paid by citizens. Revenue from the State constitutes approximately 30% and includes block grant, some other grants and Government reimbursements (refunds of expenses, e.g. 50% of some social benefits).

## 2

## EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

External audits of local government in Denmark are conducted by:

- The National Audit Office of Denmark (only regarding State funds)
- Private auditors

### The role of SAI

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#### The mandate

In general, the National Audit Office of Denmark has the mandate to carry out financial, compliance and performance audits in local authorities. However, in practice the scope of audits is limited.

The National Audit Office may audit regions, but in practice financial audits of regions are not conducted. The financial statements of regions are audited by the private auditors, such annual audits are monitored by the SAI. The National Audit Office can conduct performance and compliance audits regarding regions. In such cases, the SAI does not audit regions themselves, the entities audited are the ministries, which allocate State budget funds.

On municipal level, the mandate of the National Audit Office is restricted to the State funds. Financial audits of every municipality are conducted by private auditors (as in regions). The SAI can carry out compliance and performance audits in municipalities only if State funds are included.

The auditees are ministries, but for example reforms administered in municipalities can be included in the audit scope.

The results of audits are presented in the audit reports, which are submitted to the relevant ministries. Recommendations may be proposed to the municipalities (but they do not have to respond) and ministries.

## Relationship with other auditors

As regards audits of regions, competences of the National Audit Office and private auditors are separated. Private auditors do most of the auditing in the municipalities, they audit a large amount of the municipalities' funds, which the National Audit Office has no access to audit (e.g. municipal taxes). So far, the SAI has no cooperative activities with private auditors.

## The role of private auditors

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The municipality or region selects a private auditor every 4<sup>th</sup> year via tender procedures. There are special requirements for them – auditors should be certified and conduct audits according to the public audit standards. The remuneration is paid from the municipality's or region's budget.

The scope of audit covers all entities and accounting areas belonging to the municipality or region. According to the Public Sector Audit Standards, private auditors are obliged to conduct all types of audits (financial, compliance, performance) in local authorities.

Financial audits are conducted annually. The auditor is obligated to verify that the annual accounts are correct and the transactions included in the financial statements are in accordance with the appropriations granted. Public audit, carried out by private auditors, for many years has included evaluation of compliance and performance, but since 2017 legal acts have determined 6 fixed subjects (areas) on compliance and 5 fixed subjects (areas) on performance, which are obligatory to assess by private auditors within a 5 years period in each local authority.

The results of an audit are provided in the audit report (in financial audit also an opinion on the financial statements is issued). In addition, the auditor issues interim reports during the year when it is prescribed or when the auditor considers it appropriate. The reports are submitted to the municipal council or to the regional committees and they implement the recommendations if a consensus occur.



# ESTONIA

## 1 | LOCAL GOVERNMENT OF THE COUNTRY

In Estonia, there is one tier of local government – municipality. The territory is divided into 79 municipalities (15 city municipalities and 53 rural municipalities). The population of Estonia is 1,315,635 (2017-01-01), the average number of citizens in the municipality is 17,118, total size – 45,339 km<sup>2</sup>. The population in municipalities varies from 160 in small island municipalities to 448,758 residents in capital.

### Competences of local authorities

In national legislation the functions of municipalities are divided into functions of a local authority and State (delegated by the State to municipalities) functions.

The functions of a local authority include:

- The organisation of social services and benefits and other social assistance
- Welfare services for the elderly
- Youth work
- Housing and utilities
- The supply of water and sewerage
- The provision of public services and amenities
- Waste management
- Spatial planning
- Public transportation within the local government

- The construction and maintenance of rural municipality roads and city streets
- The organisation of the maintenance of pre-school child care institutions, basic schools, secondary schools, hobby schools, libraries, community centers, museums, sports facilities, shelters, care homes, health care institutions and other local agencies if such agencies are in the ownership of the local authority (payment of specified expenses of such agencies from the state budget or other sources may be prescribed by law)
- The resolving and organising local issues which are assigned to local authorities by other Acts and which are not assigned by law to other persons for resolution and organisation

But the functions of a local authority are also regulated by law, this means that municipalities are not absolutely independent in any respective area.

Local authorities fulfil state functions:

- which are assigned to them by law (expenses shall be covered from the state budget), e.g. keeping the record of births and deaths, payment of subsistence benefit and needs-based family benefit, the transportation of unknown dead people);
- which arise from a contract between an authorised state body and a specific municipal council, e.g. obligations in connection with heritage protection, administering state highschools.

## Structure of local government

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Municipal institutions responsible for the implementation of the right to self-government are (by law):

- The Municipal Council – the representative body of a local authority elected by the residents of the rural municipality or city. The Municipal Council consists of representatives of the municipal community – members of the Municipal Council (councilors) who have been elected for 4 years by universal and equal suffrage, in a secret ballot at direct elections. Number of councilors in every municipality varies minimum from 7 to 79, depending on the number of residents. The number of members of the next membership of the municipal council is determined by the current council.
- The Municipal Government - the executive body formed by the council for a period of up to four years. The rural municipality or city mayor is elected by municipal council under the conditions and pursuant to the procedure provided in the statutes of each rural municipality or city, for a period of up to four years.

By law local authorities have the right to form associations and joint agencies with other local authorities on the bases of and pursuant to the procedure provided for in legislation.

A municipality may establish agencies under the administration of rural municipality or city administrative agencies which are not legal persons for the provision of services.

A municipality may be a partner or shareholder in a company, and also establish foundations and be a member of non-profit association taking account of the terms and conditions stipulated in the Local Authority Financial Management Act.

## Budget

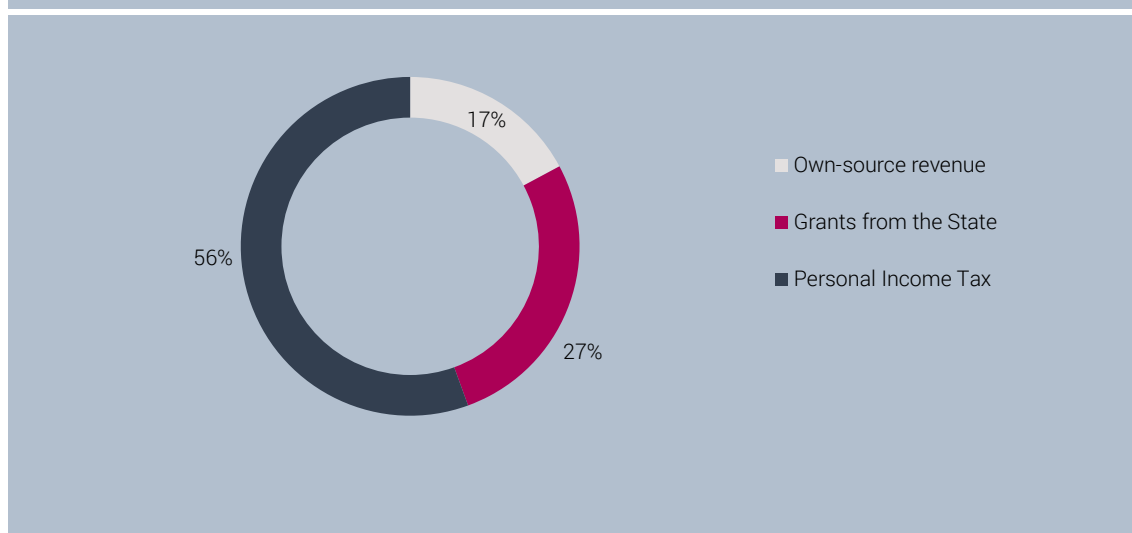
Legal acts of Estonia set the following types of revenue in the budget section of operating revenue of local authorities:

- Tax revenue (personal income tax, land tax, local taxes)
- Revenue from sale of goods and services
- Received support from state budget
- Other operating revenue

The Personal income tax in 2016 constituted 55% of total municipal budget revenue, incomes from this tax are distributed between State and municipalities' budgets in proportions set by the law (11.60% out of 20% to municipal budget).

The own-source municipal revenue in 2016 was 17% of total municipal budget revenue (the same in 2015). This amount includes various taxes, set by municipalities or assigned to municipal budgets by law (e. g. land tax, local taxes, revenues from sales of fixed assets, revenue from sale of goods and services, financial revenues etc.). The amount of this revenue depends mostly on the decisions of municipalities.

Municipal budget revenue structure (2016)



## 2

## EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

External audits of local government in Estonia are conducted by:

- The National Audit Office of Estonia
- Private auditors



## The role of SAI

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### The mandate

National Audit Office of Estonia (NAOE) has the mandate to carry out financial and compliance audits in local authorities. Performance audits in local governments are prohibited (only the use of state aid and EU subsidies and the state assets granted to the local authority could be audited).

NAOE may perform audits also in foundations and non-profit associations founded by local governments or whose members include a local government; companies, where local government exercises dominant influence and subsidiaries of abovementioned companies.

Concerning **financial audits**, they are carried out as a part of compliance audits. The NAOE has the mandate to audit financial statements of every municipality, but in practice municipal financial statements of each municipality are audited annually not by the NAOE, but by the private auditor firms. Private auditors are hired by municipalities (the audit of annual reports is compulsory). Private auditors audit annual reports of municipality and their owned enterprises.

Each year NAOE audits the consolidated annual report of the state (and these reports include local governments). In this evaluation the National Audit Office says, among other things, whether the state's annual accounts, which include municipal accounts, are correct and economic transactions have been lawful. But annual financial reports separately are not audited within these audits by NAOE.

The scope of **compliance audits** (including financial audits) in local governments includes their activities regarding the possession, use and disposal of municipal property and assets, the mandate includes assessing:

- Internal control, financial management and -statements
- The legality of economic activities including economic transactions
- The reliability of the auditee's information technology systems

Auditing the **performance** of the use of the local authority's own assets is prohibited in local governments. NAOE has the mandate to audit performance only over the following aspects:

- The use of property of the state transferred into the possession of LG
- The use of allocations for specific purpose
- Subsidies granted from state budget
- Funds allocated for the performance of state functions
- Use of EU funds allocated through the mediation of LG

Mostly performance audits carried out by the NAOE include compliance components.

The results of the audits are presented in NAOE's audit reports or overviews. These documents are submitted to all auditees and Parliament and are published on NAOE's webpage. NAOE can propose recommendations to all municipalities, ministries, state agencies, municipality owned companies and associations and joint agencies of municipalities, parliament committees.



## Other functions and products

By law, NAOE implements the following additional functions related to local authorities:

- Annual report of the use of state assets - each year the Auditor General submits an overview of the use and preservation of state assets including local governments to Parliament.
- Report on the work of the National Audit Office - each spring the NAOE prepares a report on its activities and submits it to the Parliament along with the annual report and the opinion of an independent external auditor. The report contains an overview of the work performed by the National Audit Office over the year and whether the auditor of the state has reasonably and lawfully used the taxpayer's money allocated to it. Sometimes some parts of the report involve issues also concerning municipalities.
- Cooperation in internal control and internal audit - The National Audit Office cooperates with local authorities and the Government of the Republic in order to improve the internal control and internal audit systems of government authorities and authorities administered by government authorities.

## Relationship with other auditors

The National Audit Office cooperates with internal auditors of local governments in order to improve the internal control and internal audit systems of government authorities and authorities administered by government authorities. NAOE has organized in cooperation with the Local Government Internal Auditors Association meetings for internal auditors of local governments so that they can make contacts and share their experiences. However there are only few internal auditors in local governments.

As the annual financial statements of local governments are audited by private auditors (an audit of the annual accounts is compulsory for local governments by Auditors Activities Act) in 2016 NAOE carried out an overview about problems in auditing local governments by private auditors. In the course of this overview private auditors were questioned about their work in auditing local government's annual reports and NAOE suggested beneficial changes in legislation in cooperation with the ministries to improve external audit system and private auditor's audit impact. The private auditors participated at the seminar where NAOE introduced related audit results and gave a lecture for private auditors.

NAOE has given guidelines to private auditors about what are the important areas private auditors need to especially focus on to give the reliable service for public sector.

In addition, NAOE cooperates with the Board of Auditors (a public-private network of 150+ audit firms, standing for a reliable business environment in Estonia and contributes to the development of the financial regulatory and legal framework as well by organising trainings for professionals, exchange of information, networking, and oversight of the audit profession). NAOE has organized in cooperation with the Board of Auditors and the Ministry of Finance seminars for private auditors. In the last seminar we introduced shortcomings and problems in auditing local governments' annual reports by private auditors and the Board of Auditors worked out guidelines for local government specifics for auditors - what to pay attention to in auditing annual reports to enhance the quality of audits.

## The role of private auditors

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The annual financial reports/statements of local governments are carried out by private auditor firms in Estonia. Private auditors mostly are appointed to carry out audits of annual financial statements of municipality (mandatory by law) and audit of annual financial statements of municipality owned companies if required by law. However, private auditor may audit all kind of local government entities, it all depends on what kind of service local government wants (other scopes are not required by law). If a private auditor wants to qualify for auditing public sector he/she must pass the public law examination, the qualification is assigned by the Oversight Board (a body of Board of Auditors).

Private auditors submit audit reports to municipal governments and to local councils or to the other auditee. The letter of representation is sent to management. The recommendations are directed to municipality (municipal government and to financial department) and municipality owned companies. Municipal council supervises how the implementation by government has been carried out.



# FINLAND

## 1 | LOCAL GOVERNMENT OF THE COUNTRY

In Finland, there are two tiers of local government: regions (regional councils) and municipalities.

The first level comprises 19 regions called “maakunta” in Finnish. The regions are governed by regional councils, which serve as forums of cooperation for the municipalities of a region. Regional councils are elected by municipal councils, each municipality sending representatives in proportion to its population.

The second subdivisions and basic units for organising government and public services in Finland are the municipalities. As of 2017, there are 311 municipalities and 136 joint municipalities (joint municipal authorities). Municipalities may, by the Local Government Act, arrange the functions provided for them by law themselves or may agree on transferring service arranging responsibilities to another municipality or a joint municipal authority. Municipalities are responsible for the financing of their functions, even if the service arranging responsibility has been transferred to another municipality or a joint municipal authority. Typically, joint municipalities are established to take care of health care or education services. From the auditing point of view, joint municipalities are parallel to the municipalities, and similar auditing rules and practices are applied.

Population of Finland is 5,509,984 (2017-10-24) and total area 338,424 km<sup>2</sup>. The largest municipality is the city of Helsinki with 628,208 inhabitants. The smallest municipality, Sottunga, has 99 inhabitants.

## Competences of local authorities

The main tasks of the **regions** are regional planning and development of enterprise and education. In addition, the public health services are usually organized on the basis of regions. The regional councils operate according to the principles of local self-government and they articulate common regional needs, long term development goals and conditions for sustainable development. Regional development plans elaborate policy objectives in the areas of:

- Housing, logistics, infrastructure and the environment
- Employment opportunities, education and innovation
- Public services and welfare

To support their strategic planning, the Regional Councils also assemble statistics about their regions, either by contracting out studies or by producing their own. As well as providing funding for local projects, the councils are also actively involved in the promotion of cross-border cooperation among European regions.

Finnish **municipalities** have a strong social impact and, on a European scale, an exceptionally wide range of functions. Local authorities arrange basic public services for their residents, including social welfare, health care, education and culture, and technical services. Local authorities are responsible for about two third of the public services, the remaining one third being the responsibility of the central government.

The Finnish Local Government Act of 2015 stipulates that municipalities shall strive to advance the well-being of their residents and to promote sustainable development on a local basis. Most of a municipality's functions are statutory and based on special legislation. Municipalities may, by their own decision, engage in other functions as well. New responsibilities or duties cannot be assigned to local authorities, nor can they be deprived of existing responsibilities or rights, except by passing legislation to this effect.

Finnish municipalities have over 500 statutory functions. Below is a list of the most important ones, given by the area of responsibility:

- Social services: securing a basic livelihood, rehabilitative work activities, services for people with disabilities, child welfare, care of the elderly;
- Health services: primary care, specialist care, oral health care and environmental health services;
- Education and culture: early childhood education and care, basic education, general upper secondary education, vocational education and training, library and information services, youth work and sports services;
- Technical services: planning, maintenance of streets and other public areas, construction of buildings and infrastructure, traffic, and water supply and sewerage systems.

In addition, municipalities have official duties such as building control, environmental protection, rescue services and public waste management.

According to the Finnish Local Government Act, a municipality may:

- Provide the services itself
- Provide services jointly with other municipalities
- Procure services from other municipalities or joint municipal authorities
- Establish a limited company, or be a member of one, for provision of services
- Procure services from private service providers

Due to organizational and financial reasons, often services are provided in co-operation with other local authorities, communities and enterprises. In practice, these kinds of arrangements are based on agreements between municipalities.

## Structure of local government

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A **regional council** is the region's statutory joint municipal authority; every local authority must be a member of a regional council. The autonomous province of Åland Islands off the southwest coast of Finland is also a region, but its administration is organised differently from the other 18 regions located on mainland of Finland. Each regional council is governed by a regional assembly and a regional board, which is assisted by the staff at the regional council office. The office is run by the regional council director. The staff of all offices totals about 650 persons and the overall budgets are some EUR 50 million, or just below EUR 10 per resident.

The Assembly is the highest decision-making body of the Regional Council. The member municipalities elect representatives to the Assembly for a period of four years, the time between local elections. The local Government Act states that the composition of the Assembly has to correspond to the strength political parties in the region. Only Councillors of the member municipalities can be members in the Assembly of the Regional Council.

The executive and administrative body of the Regional Council is the Board. Its members are elected by the Assembly along party lines to be politically representative of the region.

The Region Mayor has responsibility of leading the Regional Council on operational level. He leads regional development activities in the region and works as a supervisor of the interests of the member municipalities. The appointment of the Region Mayor is open in public, and the formal appointment to the office is made by the Assembly. In that sense the procedure is analogous to one which is applied in municipalities.

**Municipality** can organise its administration relatively freely. Each municipality must have:

1. The Municipal Council – the supreme decision-making body, elected for the four-year term in direct, proportional elections held within the municipality.
2. The Local Executive Board – body that manages the municipality's activities, administration and finances. The board is composed of members elected by the municipal council.
3. The Auditing Committee – appointed for auditing municipal administration and finance.

4. The Chief Executive or Mayor – the most senior position in municipality. Whereas the chief executive is a local government officer and not a member of the local council, the mayor is chosen from among local councillors. The municipal council may decide that the municipality is to be led by a mayor instead of a chief executive. Most Finnish municipalities have a chief executive. When the Finnish Local Government Act was reformed in 2015, a decision was made still not to permit a direct election of a mayor by local residents.

Municipalities may set up also other decision-making bodies, for example a school management board, an equality commission and a personnel sub-committee.

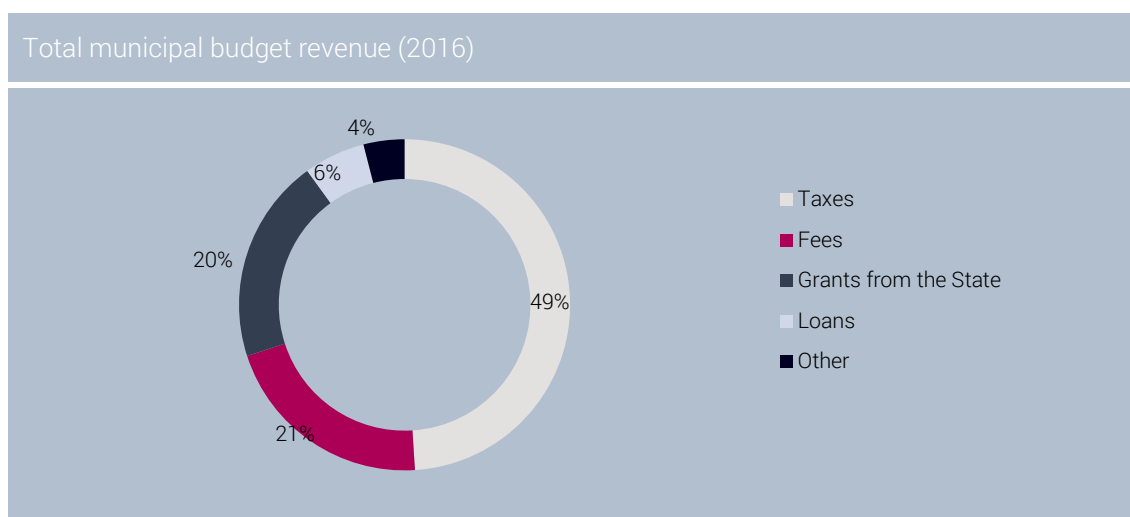
## Budget

Each **Regional Council** receives its funding from its member municipalities. They also receive funds for regional development from the Government and the European Union.

**Municipalities** spent EUR 42 billion in 2016 on arranging services and promoting the welfare of residents. Social and health care services account for almost a half of the total expenditure and education and culture almost one third.

Municipalities finance their services with taxes, central government transfers, various fees and charges, and sales revenues. Local income tax paid by residents, real estate tax and a share of corporate tax account for almost half of all municipal revenue. Each local authority decides independently on its income tax rate. The average local tax rate is 19.91% of taxable income.

Fees and charges account for about a quarter of municipal revenue. Most of the customer charges are collected for services such as water supply, waste disposal, power supply and public transport.



Just under one tenth of social welfare and health expenditure is covered through customer and patient charges. Basic education is free.

The central government participates in the financing of statutory local services by granting transfers to local government. The central government transfer system evens out financial inequalities between local authorities and ensures equal access to services throughout the country. Central government transfers account for less than one-fifth of all municipal revenue.

Local self-government is an essential element of municipal finances. Municipalities have substantial freedom to choose how they finance their services and investments.

## EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

External audits of local government in Finland are conducted by:

- Local authority audit committees
- Certified public finance auditors

External financial auditing is executed by certified public finance auditors (CPFA) and performance auditing is executed by local authority audit committees. The same auditing framework refers to the municipalities and regional councils.

From the year 2020 the regional government reform and the health and social services reform is planned to take effect in Finland. Parliament will decide on the reform in autumn 2018. In this context, a more detailed timetable for the reform is also decided. These reforms comprise one of the largest reform packages dealing with administrative structures and practices ever undertaken in Finland. The purpose of the regional government reform is to coordinate the regional State administration with the new county-level administration and to simplify the organization of regional government. In the context of the reform, new regional audit system will be organized in the counties.

### The role of SAI

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In Finland, The SAI has no mandate to audit local authorities. SAI may carry out audits on public finances from macroeconomic perspective. These so called fiscal policy audits are near to performance audits in methodology. However, they cannot be targeted at single municipalities but at the local government sector as a whole as a part of public finances. An example of this kind of audit is the audit on local government macroeconomic steering executed by central government.

### The role of municipal audit institution

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Each municipality and joint municipality in Finland has to have an audit committee. Local councils shall set up a local authority audit committee to arrange audits and assessments of the administration and finances. These committees are nominated by local councils and their members are local persons elected by the council to a position of trust, not professional auditors. The committee's chairperson and deputy chairperson are also appointed by the local council from its members. The exact number of members is under consideration of municipal council. In most municipalities, audit committees are rather small (2-3 persons), while in a few bigger city municipalities number of audit committee members varies between 6 and 11. The audit committee receives funding from the local council and is accountable to it.

## The mandate

The local authority audit committee has no mandate to carry out financial audits, the main audits conducted by this entity are performance and compliance. Audits may be performed in municipalities, municipality-owned enterprises and joint municipalities.

By the Local Government Act, the local authority audit committee shall oversee **compliance** with the obligation to declare private interests and submit the declarations to the local council. Recommendations are not provided.

While conducting **performance audits**, the local authority audit committee shall assess the extent to which the operating and financial targets set by the local council have been achieved in the municipality and the local authority corporation and whether or not the activities are arranged in a cost-effective and appropriate manner. The local authority audit committee shall draw up an assessment plan and submit to the local council an assessment report on each year, in which the assessment results shall be presented. The local council shall consider the assessment report in conjunction with the financial statements. The local authority audit committee may provide the local council with other documents regarding the assessment results if the committee deems this necessary. The assessment reports may include recommendations to the auditees.

## Other functions and products

By law, local authority audit committees also implement additional functions, the results of which are addressed to the municipal council:

- Conduct preparatory work and prepare reports on matters for the decision of the local council concerning audit of the administration and finances;
- Ensure that the auditing of the municipality and its subsidiaries is coordinated. As a result, the Assessment report is issued;
- Draw up proposals for the local executive concerning provisions in the administrative regulations covering the committee's tasks and for the auditing budget;
- Assess the extent to which the finances were balanced in the accounting period and the adequacy of the current financial plan if the municipality's balance sheet has an uncovered deficit. As a result, the Assessment report is issued.

## The role of private auditors

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In Finland, private financial auditors annually audit the municipal financial statements which include consolidated financial statements of municipalities and municipality-owned enterprises. Within financial audit the auditor's task is also to audit whether the administration of the municipality has acted according to laws and to decisions of the local council (i.e. compliance audit).

By the Local Government Act, the accounting period for municipalities is the calendar year. The local executive must prepare financial statements for the accounting period by the end of March of the year following that accounting period and must submit these to the auditors for auditing. The auditors must audit the financial statements by the end of May. For the audit of the administration and finances, the local council appoints a firm of authorised public accountants,



which must be a firm approved by the Board of Chartered Public Finance Auditing (a CPFA corporation). The CPFA corporation must appoint a chartered public finance auditor (a CPFA auditor) as responsible auditor. According to law the same audit corporation should audit the municipality-owned enterprises as well (unless there are good reasons related to carrying out audit for organizing otherwise). The financial auditor is chosen according to the rules of public procurement and paid from the municipality's budget.

In financial audit the auditors are required to examine whether:

- The administration of the municipality has acted in accordance with the law and with the decisions of the local council;
- The municipality's financial statements and the consolidated financial statements have been drawn up in accordance with the relevant provisions and whether they provide accurate and sufficient information on the activities, finances, financial trends and financial obligations of the accounting period;
- The information provided about the basis for and use of central government transfers to local government is correct;
- The internal control and risk management of the municipality and the local authority corporation, and oversight of the local authority corporation have been properly arranged.

As the financial statements shall comprise a balance sheet, income statement and cash flow statement and a budget review and report on operations, the budget execution is included in the subject matters of the audit.

If auditors find substantive/material irregularities already during the audit, they have to give immediate notification to the municipal executive, and additionally for information to the audit committee.

Auditors report their results in an audit report which is given to the municipal council. The report has to state whether the financial statements can be approved and whether the members of the decision-making bodies and the senior local government officers for the relevant areas of responsibility of the decision-making bodies (parties liable to render accounts) can be discharged from liability.

If the auditors find that the municipality's administration and finances have been managed contrary to the law or decisions of the local council, and the error or the damage caused is not of a minor nature, the party liable to render accounts must be admonished in the auditors' report. The local council may not be admonished.

The local authority audit committee must procure an explanation of the admonishment in the auditors' report from the party concerned and a statement from the municipal executive. When approving the financial statements, the local council shall decide whether to discharge from liability the parties liable to render accounts.

After the audit, recommendations can be addressed to any municipal entity except the council.

Private auditors also conduct financial audits of regional councils.



# GEORGIA

## 1 | LOCAL GOVERNMENT OF THE COUNTRY

Georgia's territory is divided into 69 municipalities (5 self governing cities and 64 self governing communities). It includes two autonomous republics: Adjara and Abkhazia. Population of Georgia – 3,729.6 thousand<sup>1</sup> (as of 2018-01-01). Total size – 69.7 thousand km<sup>2</sup>. The population in municipalities varies from 3,800 to 1 million residents.

### Competences of local authorities

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There are two types of powers exercised by municipalities:

- Own powers – determined under the legislation, which the municipality exercises independently and under its own responsibility;
- Delegated powers – delegated by the state authorities in accordance with the law or an agreement concluded under the legislation of Georgia, together with appropriate material and financial resources.

Municipalities exercise their activities independently in the following main spheres:

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<sup>1</sup> Excluding the population of occupied territories of Abkhazian Autonomous Republic and Tskhinvali region.

- Municipal budget
- Management of municipal property
- Local fees and charges
- Territory planning
- Public services (cleaning of public areas, municipal waste management, water supply etc.)
- Transport, local roads
- Organization of education (partly)
- Culture
- Maintenance of Infrastructure
- Social services
- Giving names to objects
- Other services

Municipalities receive targeted transfer from the State budget for implementation of the state functions. A municipality may, on its own initiative, solve any issue that, under the legislation of Georgia, does not fall within the powers of any other public authority and that is not prohibited by law.

## Structure of local government

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Municipal institutions responsible for the implementation of the right to self-government are:

1. Municipality Council - legislative body of a municipality, a collegiate administrative body. The members of the council are elected by direct elections for 4 years by the citizens of Georgia, based on universal and equal suffrage, by secret ballot.
2. Municipal City Hall – the executive body.
3. Mayor - the highest official of a municipality, elected for the period of 4 years in direct elections. The Mayor represents a municipality and exercises its powers, accountable to the municipality council and to the population.

By law municipalities may establish:

- Municipality owned enterprises (as a rule, limited liability companies)
- Non-entrepreneurial (non-commercial) legal entities
- Legal entities under public law (only Tbilisi municipality may establish Legal entities under public law)

## Budget

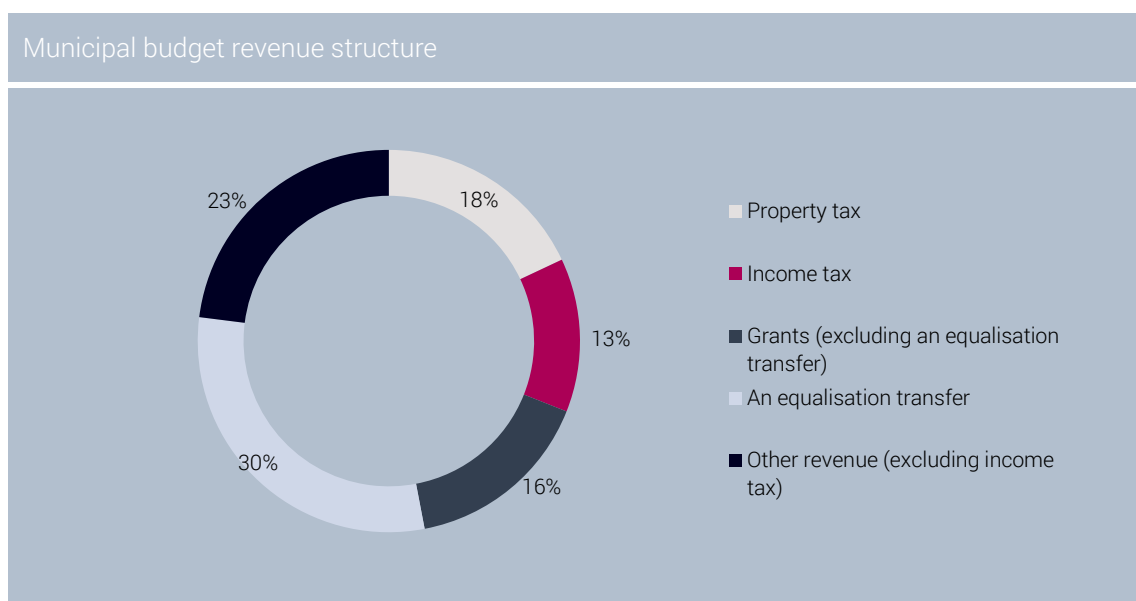
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Each municipality of Georgia has its own independent budget, while the central government plays an important role in planning and finance municipal revenue. The receipts of a municipal budget include its own receipts (property tax, equalization transfer and other receipts) and transferred funds (capital, targeted and special transfers as well as loans).

In 2016, grants from the State budget were about 46% of total municipal revenue and included:

- An equalization transfer (30% of total municipal revenue). The purpose of an equalization transfer is the equalization of different financial capabilities of municipalities. It is allocated for municipal budget from the state budget, but at the same time it is considered as own receipt of municipality.

- A capital transfer (12.6%) – allocated for the implementation of capital projects.
- A targeted transfer (0.6%) – transferred for the financial support of the delegated power.
- A special transfer (3%) – allocated to eliminate the consequences (damage) of natural calamities, ecological and other disasters, wars etc.).



## 2

## EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

External audit of local government in Georgia is conducted by:

- State Audit Office of Georgia (more specifically – Local self-government entities budget audit department)
- Private auditors

### The role of SAI

#### The mandate

According to the law, the State Audit Office of Georgia may conduct financial, compliance and performance audits in:

- Municipalities
- Municipality owned enterprises (the financial and economic activities of legal entities under private law in which the State, the autonomous republics and/or local self-government bodies own 50% or more of shares/equity)
- Non-entrepreneurial (non-commercial) legal entities established by municipalities
- Legal entities (corporations) under public law – only with respect to the spending and use of property and/or funds transferred to such entities by the State, autonomous republics or local self-government bodies

- Legal entities under private law – if they use in any form, the property of the State, of the autonomous republics and of local self-government units, with respect to the use this property

Audits are performed on a selection basis.

The subject matter of **financial audit** of municipalities is financial statements and/or municipal budget execution. According to the legislation financial audit involves:

- Examining and evaluating reports and financial statements of an auditee and issuing relevant audit reports
- Checking the compliance of relevant activities and financial systems with the legislation of Georgia
- Checking internal control and internal audit functions
- Checking whether an auditee is managed properly and in good faith
- Examining, evaluating and reporting on any issue related to audit activities that are of critical importance for improving management of public funds

The SAI prepares audit report, opinion and letter of recommendations for reporting the result of financial audit. The documents are submitted to the auditee. Once in every 2 years, the SAI prepares a report on the audits in municipalities and submits this document to the parliament. The SAI develops recommendations and submits them to the legislative body using this report. In 2017 SAI conducted 23 financial audits in 23 municipalities.

**Compliance audit** involves checking, evaluating and reporting on the lawfulness and reasonability of the activities of an auditee. The subject-matter of this audit is local budget execution, use and management of state grants, local governments' funds and assets. When SAI conducts compliance audit, it also evaluates effectiveness aspects of municipalities' activities. Audit results are presented in a report submitted to the auditees. The SAI can propose recommendations to municipalities, their institutions and other central government institutions (e. g. ministries), for which the conclusions were formulated. In 2017 SAI conducted 30 compliance audits in 30 municipalities.

**Performance audit** involves examining, evaluating and reporting on the economy, efficiency and effectiveness of the activities and/or programs/projects carried out by an auditee. The scope depends on audit topic, objectives and includes certain activities, processes in local authorities related to use and management of municipal funds and assets, implementation of functions, provision of services etc. The SAI can conduct performance audit in one municipality and evaluate the whole activities of the municipality and/or programs/projects carried out by the municipality. Horizontal audits also are conducted. Audit results are presented in the audit report, which is submitted to the audited entity and other institutions for which the conclusions are formulated and / or for which recommendations are submitted. In 2017 SAI conducted 1 performance audit and in 2018 it is planned to carry out 3 performance audits in municipalities.

## Other functions and products

By law the State Audit Office of Georgia implements the following additional functions related to local authorities:

- A report about audits in municipalities. Once in every 2 years, the State Audit Office presents to the Parliament a report on the audits conducted with respect to the spending and execution of the budgets of municipalities;
- Certification of public auditors. The Public Audit Institute is established by the State Audit Office of Georgia. The Institute holds training sessions on public audit and conducts certification of the auditors of the public sector. Only certified auditors can conduct audits in municipalities;
- Annual report of State Audit office of Georgia. A chapter of the Annual Report of the State Audit Office of Georgia which is submitted to the Parliament, is about results of the audits conducted in the municipalities.

The State Audit Office, by its own initiative has developed an innovative web-platform – Budget Monitor ([www.budgetmonitor.ge](http://www.budgetmonitor.ge)), which is an entirely unique product. The web-page is interactive and enables all users to access comprehensive information about public resource management in an easy-to-interpret manner; all the interested parties can receive information in editable format and make comparisons. On the web-site one page is dedicated to municipalities.

## Relationship with other auditors

In financial audit, SAI and private auditors cooperate in the following areas:

- Exchange of risks (various risks related to financial statements of municipalities, budget etc.). Private auditors read the reports of SAI on the web-page. According to the legislation, private auditors' reports and opinions are submitted to the State Audit Office of Georgia. In some cases independent audit results are considered in the risk assessment process by State Audit Office of Georgia;
- SAI conducts certification of the auditors of the public sector. Only certified auditors can carry out audits in municipalities.

## The role of private auditors

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By decision of a municipality council, a private auditor can be invited not more than once in a year, to carry out an independent audit of the activities of municipal bodies (municipalities, municipality owned enterprises, municipality-established non-entrepreneurial (non-commercial) legal entities, etc.). Private auditor can be invited by the request of at least one third of the members on the current list of the council. Private auditors are financed from the budget of municipality.

According to legislation private auditors may conduct any type of audits which are required by municipality council, but mostly they carry out financial audits. The subject-matter of this audit is municipal budget execution, financial statements of municipality, financial statements of municipality owned enterprises etc. Only certified auditors can conduct audits in municipalities. As above mentioned, the Public audit institute conduct certification of the auditors of the public sector. A report and opinion of an independent auditor is submitted to the council, to the State Audit Office and becomes public.



# GREECE

## 1 | LOCAL GOVERNMENT OF THE COUNTRY

Local Government in Greece has always had two levels. Greece's territory is divided into 7 Decentralised Administration Authorities, 13 Regions (second level Local Authorities) and 325 municipalities (first level Local Authorities). According to the official 2011 census, the population of Greece was 10,816,286. Total size of Greece is 131,957 km<sup>2</sup>. Greek municipalities have one of the highest scores among European countries in terms of population (mean value of 33,753,44 inhabitants). The maximum population is 745,514 inhabitants and the minimum is 98 inhabitants. 45 municipalities have less than 5,000 inhabitants. The average size of the municipalities is 405 km<sup>2</sup>. There are several island municipalities and many mountainous municipalities. As for the regions, the size varies from the 2,307 km<sup>2</sup> of the Ionian Islands to the 18,881 km<sup>2</sup> of the Kentriki Makedonia. The population varies from the 3,761,810 inhabitants of the Attiki, or the 1,871,952 of the Kentriki Makedonia to the 206,121 inhabitants of the Northern Aegean Sea.



## Competences of local authorities

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**Regions** design, plan and implement regional policies within the context of their competencies, according to the principles of transparency, effectiveness and efficiency. Regions exercise their competences within the framework of the relevant laws and administrative regulations, in the fields of:

- Planning, Development
- Agriculture, Livestock, Fishery
- Natural Resources, Energy-Industry (water management, mineral wealth, energy, industry and manufacturing)
- Employment, Trade, Tourism
- Transports, Communications
- Works, Spatial planning, Environment
- Health
- Education, Culture, Sports
- Civil protection, Logistics

**Municipal authorities** manage and regulate all local affairs according to the principles of subsidiarity and proximity, aiming at protecting, developing and improving the quality of life as well as promoting local interests. Municipal responsibilities include 8 specific areas mainly comprising the fields of:

- Development
- Environment
- Quality of Life and proper functioning of cities and settlements
- Employment
- Social Protection and Solidarity
- Education, Culture and Sports
- Civil Protection
- Rural development - Livestock - Fisheries

In order to provide their services, regions and municipalities may set up legal entities of public or private law.

## Structure of local government

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The main governing bodies of the **regions** are:

1. The Head of the Region is responsible for defending the public interest, monitoring implementation of the regional development plan and performing regional duties based on the principles of transparency and efficiency.
2. The Deputy Heads of the Region who assist the Head of the Region are either elected or appointed by the Head of the Region. The deputy Heads of the Region perform sectoral duties.



3. The Regional Council is responsible for all regional issues, with the exception of those assigned by law to other regional bodies. It is composed of the elected councilors.
4. The Executive Committee is a collective, executive and coordinating regional body which monitors implementation of the regional policy as well as implementation of the regional development plan. It is composed of the Head of the Region who heads the Committee and the Deputy Heads.
5. The Economic Committee is responsible for carrying out the audit and monitoring implementation of the regional budget. It is composed of the Head of the Region, or the Deputy Head of the Region, and regional councillors elected by the regional council in order to participate in the Committee.

The main governing bodies of a **municipality** are:

1. The mayor is responsible for defending local interests, heading local development actions, ensuring local society unity, implementing municipal council decisions and appointing the deputy mayors. The deputy mayors are councillors from the majority party. They assist the mayor in the exercise of sectorial and territorial competencies defined and allocated to them at his decision.
2. The Municipal Council is responsible for all municipal affairs with the exception of those under the responsibility of the mayor or any other municipal body. Number of Municipal council members varies from 13 to 49, depending on the number of residents.
3. The Executive Committee is a collective, executive and coordinating municipal body responsible for preparing and implementing the municipal programme, monitoring and implementing municipal decisions. Committee is presided by the mayor and composed of the deputy mayors.
4. The Economic Committee is responsible for the economic control and regular monitoring of implementation of the municipal budget; it makes proposals to the municipal council for the imposition of charges, fees and levies. It is composed of the mayor and a number of municipal councillors elected by the municipal council.
5. The Quality of Life Committee is set up in municipalities with a population of over 10,000 inhabitants. It consists of the Mayor and a number of municipal councillors elected by the municipal council. It has responsibilities in the areas of urban planning, land-use planning, environment, business and shop licensing, in determining street market spaces and outdoor trade places. It also has special responsibility for, and takes action with a view to, upgrading the quality of life in the municipality.
6. The Consultation Committee is set up in municipalities with a population of over 10,000 inhabitants. Composed of local society representatives and municipal residents, the Municipal Consultation Committee is vested with consultative powers.

Heads of regions, Mayors, members of Regional and Municipal Councils are elected by direct universal suffrage in a secret ballot every 5 years.

In order to provide their services, regions are entitled to set up the legal entities of public law (i.e. institutions, special purpose associations set up with one or more municipalities, regional associations in the field of waste management) and legal entities of private law (i.e. limited companies, urban non-profit companies, regional development funds). Municipalities as well may

set up entities of public law (i.e. municipal establishments such as nurseries, orphanages, museums etc., public entities in the fields of social protection, education, culture, etc., municipal associations) and private law (i.e. welfare companies, municipal enterprises, special purpose companies, limited companies, urban non-profit companies).

## Budget

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Municipal and regional revenues are divided into ordinary and extraordinary revenues.

The ordinary revenues derive from:

- Statutory resources and regular subsidies from the state budget; central autonomous funds (CAF)
- Income coming from municipal/communal/prefectural property
- Compensatory fees and entitlements
- Taxes, fees, entitlements and contributions
- Local potential fees, entitlements and royalties

The extraordinary revenues derive from:

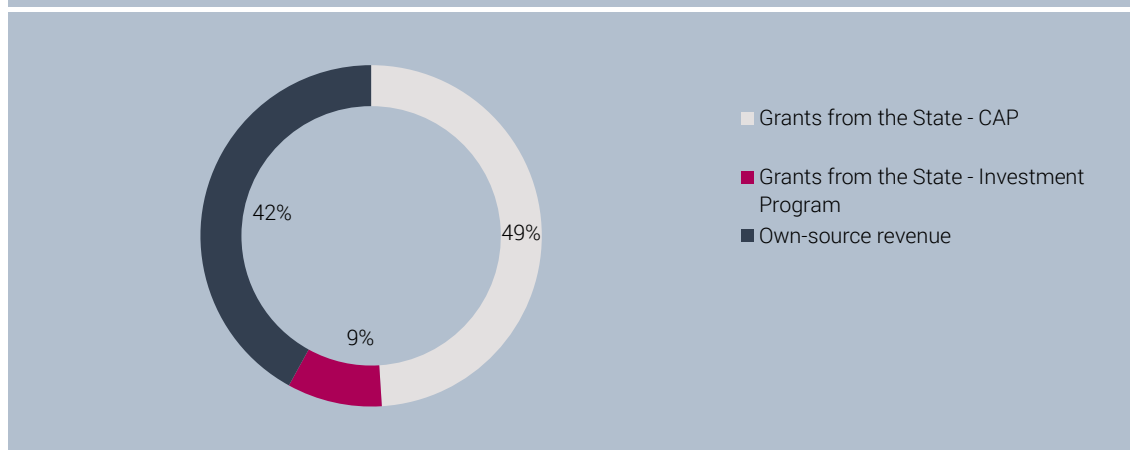
- Loans, donations, bequests and legacies
- Disposal, sale and use of assets
- Participation in business activities
- Extra-ordinary subsidies from public agencies
- Administrative fines and penalties
- Funding from the European Union or other international organisations
- Any other source

Transfers from the central government represent the primary share of regional revenue (regional tax revenues are negligible). They mainly come from the Central Autonomous Funds (CAF) granted annually to municipalities and regions. CAF funds for regions come from receipts from the Personal income tax and the Value added tax.

For the great majority of municipalities, revenues that cover ordinary expenditure come mainly from the CAF funds, that is, the share of revenues of the state budget (collected by state services). CAF funds for municipalities come from receipts from the Personal income tax, the Value added tax and tax on real estate.

For the year 2017, grants allocated from the State Budget constituted 57.6% of total municipal revenue (CAF 49%, grants from the public investment program 9%). In 2016 relevant percentages were: total grants 61.4% (CAF 51%, investment program 10%). Planned amount of own source municipal revenue for the year 2017 was 42% of total municipal budget revenue (37% for 2016).

Municipal budget revenue structure (2017)



## 2

# EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

External audits of local government in Greece are conducted by:

- The Hellenic Court of Audit (HCA)
- Private certified auditors-accountants

The control mechanism of local government in Greece is complex and multilevel. In addition to the abovementioned entities, which conduct audits, there are also institutions, exercising supervision, control and monitoring of local authorities, they are:

- General Directorate of fiscal audits – Ministry of Finance (GDFA)
- Observatory for Financial Autonomy of the Local Government Organizations
- Inspectors-Controllers Body for Public Administration (SEEDD)
- General Inspector of Public Administration
- Ministry of Internal Affairs

## The role of SAI

The Hellenic Court of Audit is the Supreme audit institution of Greece – main external auditor of all public expenditure and public revenues. There are 63 Commissioners' services of the Court, 10 located in Athens and 53 in the region across Greece, which are involved in the audit of municipalities, regions and related legal entities.

## The mandate

The Hellenic Court of Audit has the mandate to carry out financial, compliance and performance audits in municipalities, regions and their legal entities governed by public law, as well as public utilities, sewerage water companies and municipal public limited companies.

Concerning **financial audits**, the Hellenic Court of Audit is required by law to carry out regular audits on municipalities, regions and relevant enterprises, which are annual, conducted on a sampling

basis. Audits can also be extraordinary, general, special purpose or thematic audits either of legality or regularity of the financial management procedures. Municipal accounts are not consolidated on a national level and therefore not audited.

Regular financial audit (for municipalities and regions) shall verify in particular: (a) compliance with the principle of sound financial management; (b) proper use of the applicable accounting or management system; (c) proper use, classification and updating of the accounts in order to accurately reflect the financial operation of the entity; (d) the legal payment of the share of any participation of one or more municipalities in legal entities or programmatic contracts; (e) overview of loan agreements, the provision of guarantees and the observance of the terms of the relevant contracts, (f) the lawful management of movable and immovable property; and (g) timely and regular collection of revenues, fees, taxes, contributions etc. For the year 2016, the HCA has performed regular audits on 337 legal entities (municipalities and municipality owned enterprises).

Furthermore, the HCA has the competence to monitor the normal collection of local government's revenues and to exercise control over the collection of legally registered debts, penalties or fines to third parties. The scope of the revenues' audit, which is conducted in municipalities, includes reliability of the accounts of income and receivables and legality and regularity of transactions underlying the accounts of income and receivables. For the year 2016, the HCA has conducted financial and compliance audit on revenues for 60 municipalities.

The results of the audits are presented in an audit report submitted primarily to the auditees. When deficits are detected, the HCA can impose sanctions to the auditees. In some cases, recommendations are also addressed to ministries (Ministry of Finance and Ministry of Internal Affairs) and also to the Central Union of Municipalities of Greece (legal entity under private law, supervised by the Ministry of Interior, which consists of representatives of each municipality). Reports can be presented to relevant Committees of the Parliament.

In practice, **compliance audit** is performed simultaneously with financial audit. Main scope for compliance audit is the legality and regularity of the financial operations of the municipality/region. Audit report is submitted to auditees and relevant stakeholders.

The scope of **performance audit** covers all aspects of effectiveness, efficiency and economy of local government, except the expediency, which is prohibited by law. In practice, a performance audit has not yet been carried out on municipalities or regions.

The HCA may conduct also specific audits:

- A priori audit of payment orders of all expenses incurred by municipalities, regions and their legal entities (except the school committees), public utilities enterprises, municipal enterprises of water supply and sewerage, and the municipal limited companies regardless of their population. Expenses can be paid if they are approved by the relevant Commissioners' service. This audit pertains to legality and regularity of the payment.
- Pre contractual audit of the legality of public works/supplies/services contracts made by municipalities, whenever the cost exceeds a certain amount. This audit is performed either by Commissioners' services or by judicial units depending on the amount of the contract.

## Other functions and products

Judicial Sections of the Court are responsible for issuing judicial acts, rulings and minutes on the reports of commissioners in respect of the approval or non-approval of the payment orders of municipalities and related legal entities, trying appeals against acts or decisions issued by the administration and the commissioners of the Court relating to financial management.

Furthermore, the HCA can organize Conventions in cooperation with the relevant ministry or the Central Union of Municipalities of Greece, which is addressed to Mayors, deputy mayors, councilors, municipal employees, Judges, Commissioners, judicial employees.

## Relationship with other auditors

Several public administrative bodies have the same competencies relating to financial and compliance audits as the HCA, so in some cases a duplication of audit work and an overlap of responsibilities is possible. Since the HCA is a supreme court, reports and opinions expressed by the SAI are predominant. So far, the HCA has no cooperative activities with other auditors.

## The role of private auditors

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Municipalities and regions are required to be audited by private auditors annually. They carry out financial audits the scope of which is financial statements. The appointment of private auditors has the same prerequisites as any other service provided to the municipality by the third parties. The private auditors are paid from the municipal or regional funds. Municipality owned enterprises of private law are required to be audited by private auditors depending on their size. Additionally, municipalities may hire private auditors to conduct external financial audit of municipality owned enterprises if they decide it is necessary for specific reasons. The opinion and audit report of private auditors who conduct financial audits on local government units is submitted to the municipal council and to the Secretary General of the relevant Region.

## The role of other auditors

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A number of public bodies have competencies to exercise supervision over municipalities:

- General Directorate of fiscal audits – Ministry of Finance (GDFA)

The Mission of GDFA is to ensure the sound financial management of the State Budget and the budget of the public bodies. Among other things, GDFA exercises control over the management of the budget municipalities and their legal entities. It also exercises control over the management and control systems in order to ascertain their adequacy and takes or recommends appropriate measures to improve the management and control systems of the bodies, imposes the sanctions provided for by the law, etc.

- Observatory for Financial Autonomy of the Local Government Organizations (Observatory)

The main role of the Observatory is to ensure the preparation of realistic and balanced budgets by local authorities, in accordance with the applicable budgetary Law as well as the monthly monitoring of budget execution by local authorities and their legal entities included in the Register of General Government Entities. Moreover, the Observatory provides its opinion to the Ministers of Interior and Finance on the draft budgets, by drawing up proposals, which are taken

into consideration in the preparation of the consolidated local government budget that is reflected in the MTFS and the State Budget.

- General Inspector of Public Administration

The General Inspector of Public Administration is the Authority that according to its mission promotes the values of legality, integrity, transparency and accountability in Greek Public Administration.

- The Inspectors-Controllers Body for Public Administration, known by its Greek acronym SEEDD

The SEEDD exercises its powers in order to contribute to the efficient and effective operation of public administration and especially to step up the fight against corruption, maladministration, ineffectiveness, low productivity and low quality of the services rendered by the public organizations.

- The Ministry of Interior

Financial oversight of local authorities is conducted by the Ministry of Interior. Local authorities are obligated to monthly financial reporting and transmission of statistical data.



# HUNGARY

## 1 | LOCAL GOVERNMENT OF THE COUNTRY

There are two types of local authorities in Hungary: on municipal and county levels. Local municipalities are villages, towns and districts of the capital city Budapest, which have its local government. In addition, each county and the capital city Budapest represent a county municipality having a county-level self-government. In total, there are 3,168 local municipalities (23 capital city districts, 23 county-right towns, 265 ordinary towns and 2,857 villages) and 20 county-level self-governments (19 counties and the capital city Budapest).

### Competences of local authorities

Obligatory tasks of municipalities are defined by the law and depend on the size (number of inhabitants) of the municipality. Such tasks are related to health, social and children's care, settlement development, water supply and draining, maintenance of public roads and cemeteries, public transport, waste management, cultural and sport tasks. In addition, municipalities may undertake on voluntary basis any task serving public interest, provided it does not endanger obligatory tasks.

According to the Act on self-governments, county-level self-governments perform the following tasks: territorial and rural development, spatial planning and coordination.

## Structure and budget of local government

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Main governing and decision making body of the municipalities is the Body of local representatives led by the Mayor (both elected for five years by direct universal suffrage, presently mandated for 2014-2019). Each decision related to local public affairs is the competency of Body of representatives unless it expressly delegates competences (to the Mayor, a committee, the notary, etc.). There are issues defined in the legislation that may not be delegated at all. The work of the Body of representatives is supported by committees (no committees under 100 citizens, one committee is enough under 1,000 citizens, financial committee is obligatory over 2,000 citizens). Executive organization of the local municipality is the Mayor's office, led by the notary. The notary as head of the municipality's operative staff is appointed by the Body of local representatives. It is possible to organize joint executive offices for very small municipalities.

Local municipalities may establish public institutions, associations of several municipalities, and also municipality-owned enterprises.

County-level self-governments have the same structure as municipal local governments, except that their representative body is the county (capital city) Assembly, the president of which is elected by the members of the Assembly. Members of the county (capital city) Assembly are elected in the same way and at the same time as the members of the Body of local representatives. The Lord Mayor of the capital city is elected by the residents of Budapest directly.

The main sources of revenue of the local government are local taxes and grants from the state budget (the latter may be on normative basis related to the obligatory tasks and on occasional basis depending on public tendering).

## 2

## EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

External audits of local government in Hungary are conducted by:

- The State Audit Office of Hungary
- Government's (territorial) offices
- Hungarian State Treasury
- Private auditors

### The role of SAI

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#### The mandate

The State Audit Office of Hungary (SAO) has the mandate to carry out financial, compliance and performance audits of local government. It is entitled to audit any and all local government entities on municipality or county level (Body of local representatives, county Assembly, Mayor's offices, local governmental institutions, municipality associations, municipality-owned enterprises, etc.). In view of the large number of municipalities in Hungary, audits can only be performed on a risk-



based selection basis in respect of a small portion of the entities in a year (altogether 21 municipality, 14 municipality institutions and 76 municipality-owned enterprises in 2016).

Though SAO may carry out **financial audits** of local authorities, in practice they are not conducted. Financial statements of the municipalities are audited by the Hungarian State Treasury.

The scope of the **compliance** audits in any type of local authorities covers regularity of the internal control system, the financial management (i.e. budget execution, use and management of state grants, local governments' funds, assets and properties) and also regular and regulated operation (preparation of financial statements, internal regulations, processes, decision making and execution, due provision of public services, integrity, etc.). The SAO also provides quality control of private auditors as in case the audit reveals major deficiencies in respect of the work of appointed private auditors (mainly at the municipality-owned enterprises), it notifies the Hungarian Chamber of Auditors.

As a **performance** audit scope, evaluation of management performance is included into serial audits relating to municipality institutions or municipality-owned enterprises. Further performance audits are subject to individual planning on a case-by-case basis, extending to any county or municipality. SAO doesn't carry out performance audits regarding only one local authority. Performance audits are carried out at several municipalities in the frame of one horizontal audit.

The SAO of Hungary presents audit results in the audit reports, which are published on the SAO homepage. In addition, they are sent to the Parliament and to all responsible parties. After the audit SAO of Hungary can make proposals to any responsible party (i.e. municipalities, counties, any local governmental institution or municipality-owned enterprise, the Government's (territorial) offices, ministries, etc.).

## Other functions and products

The SAO of Hungary implements the following additional activities related to local authorities and not prescribed by law:

- Integrity surveys – questionnaires, integrity map, analytical surveys are prepared and addressed to the public;
- Self-tests – questionnaires for the self-assessment are prepared and sent to the municipalities.
- Seminars on good practice, conferences are organized for municipalities;
- Analyses of audit results are carried out and special analyses documents prepared for the public.

## Relationship with other auditors

Functions of different audit institutions are separated – control organizations have their mandatory audit tasks in a limited scope while the SAO has a wide mandate without specific audit obligation. There is no cooperation between SAO and other auditors.

## The role of private auditors

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Appointing a private auditor is a non-mandatory option for all types of local governments, it is up to their sole discretion. In case of municipality-owned enterprises, the Hungarian Accounting Law

sets the general criteria (revenue amount and staff number thresholds) for mandatory external audit of enterprises. The remuneration for private auditors is paid from the own budget of the audited entity. The scope of the audit performed by private auditor covers in all cases if hired correctness and reliability of the financial statements. Audit opinion on the financial statements is submitted to the supreme governing body of the mandating entity (Shareholder's meeting in case of enterprises, Body of local representatives in case of local governments). Generally, audit opinion does not contain recommendations, eventual recommendations are summarized in a Management Letter.

## The role of other auditors

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In Hungary, there are some institutions performing specific types of municipality audits:

- **Government's (territorial) offices (established one for each county plus the capital city)** – supervising and auditing the legality of operation and activities of the municipalities (e.g. conformity of decision making with the law, budgeting or executive processes). According to the Hungarian Act on Self-Governments, government's (territorial) offices are supervising the legality of the local governments. In such capacity they are entitled to perform on-site audits at the local governments.
- **Hungarian State Treasury** – auditing the fulfilment of regular data reporting obligations, the compliance with legal requirements on accounting, and financial statements of local authorities. Financial statements of municipalities are prepared on accrual basis and are reported to and consolidated at national level by the Hungarian State Treasury. While conducting financial audit, Hungarian State Treasury assesses whether yearly financial statements on the execution of municipal budget meet legal requirements.



# ISRAEL

## 1 | LOCAL GOVERNMENT OF THE COUNTRY

The law in Israel defines three types of local authorities, mainly in accordance with the size of their population: Municipalities, Local Councils and Regional Councils. In total there are 256 local authorities in Israel. The population of Israel is 8,764,600 (August 2017), total size – 20,770 km<sup>2</sup>.

Municipalities administer urban towns, generally with a population of over 20,000. In 2017 the number of such municipalities totalled 75. The three largest cities are Jerusalem, the capital (population of the city proper is 880,000), Tel Aviv (population 440,000) and Haifa (population 280,000). Smaller urban towns and large rural settlements are governed by Local Councils, with powers similar to those of a municipality. As of 2017 there were 128 such councils, including 2 "Industrial Councils". 53 Regional Councils are in fact two-tier local councils. They possess the powers of a local council.

For statistical purposes, the country has three metropolitan areas: Gush Dan-Tel Aviv (population 3,200,000), Jerusalem (1,000,000), Haifa (900,000) and Beersheba (population 550,000).

## Competences of local authorities

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Local authorities in Israel provide residents, businesses and institutions within their area of jurisdiction, with a wide range of services. As far as municipal services are concerned, the local authority:

- Develops its physical infrastructure, road system, water supply and sewage system, lighting, refuse collection and disposal system, and parks
- Is responsible for the cleanliness of public areas and the prevention of nuisances
- Regulates businesses and commercial activity
- Holds various powers in connection with land and urban planning

Moreover, the local authority in Israel also carries out non-municipal activities along with the relevant central government bodies responsible for the specified activity:

- Together with the Ministry of Education it is responsible for the education system - it builds nurseries, schools and sometimes even secondary education institutions and provides for their equipment and maintenance, although some of these facilities may be owned by non-profit organisations;
- Along with the Ministry of Social Services, the local authority provides social welfare services, with its social workers taking care of families in need, as well as special groups such as the elderly, retarded children, drug addicts and the like;
- Local authorities also promote and financially assist cultural and sports activities (libraries, museums, youth clubs, etc.) and some maintain orchestras, choirs, theatres and similar enterprises. These are usually supported by the Ministry of Culture and Sports;
- Most local authorities actively assist in the development and promotion of businesses and tourism, helped by the Ministry of the Economy and the Ministry of Tourism;
- Public health is another area where local authorities are active, with the direction and assistance of the Ministry of Health.

The above activities are carried out either directly by the local authorities or through municipality-owned enterprises.

Local authorities are also authorised to issue by-laws in every area in which they have jurisdiction. They have the power to enforce those by-laws as well as the laws and regulations applicable to their functions.

## Structure of local government

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As far as **Municipalities and Local Councils** are concerned, the structure is as follows:

- The Municipal Council – a representative institution of the municipality that possesses the rights and duties of local government. It is the main legislative and decision-making body. The Municipal Council consists of representatives of the municipal community; these are members of the Municipal Council (councilors) who have been democratically elected by direct suffrage for a 5 year term. Number of councilors in every municipality varies from 15 to 31, depending on the number of residents;

- The Mayor – head of municipality and the *de facto* executive branch, which is responsible for the municipal administration through the employment of a director-general, is elected by the residents of the municipality in direct suffrage for a period of 5 years. The mayor chairs Municipal Council meetings.

**Regional Councils** are two-tier local authorities. The upper tier is the regional municipal council, which includes candidates from each settlement in the Council's jurisdiction. It possesses the powers of a municipal council. The head of the executive branch is the head of the Regional Council, elected by direct universal suffrage for five years, similarly to a mayor. The lower tier is the settlements which are authorised to elect a local committee for providing municipal services.

The local authorities in Israel also include a Local Affairs Court – an independent judicial body which adjudicates matters of planning and building, business regulation, municipal by-laws, etc.

Municipalities may establish limited liability companies, public-benefit (not-for-profit) companies and charities.

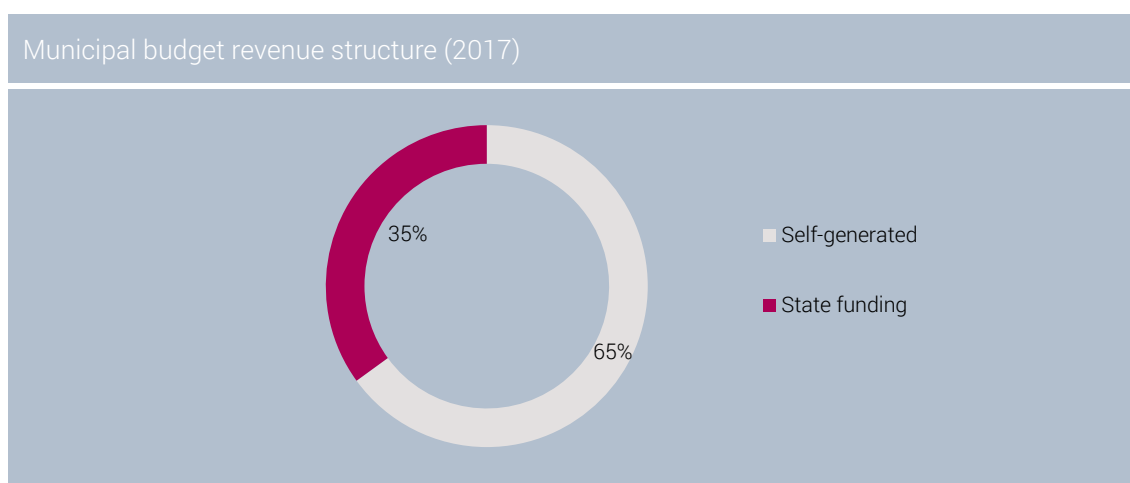
## Budget

Local authorities are empowered to levy local taxes, charges, imposts and fines, and collect various payments for services and concessions. In general, they have the powers and means to manage their finances, though government ministries usually provide a large share of their budget (between 30%-40% in the last decade) – local authorities receive special matching grants from the central government to implement non-municipal functions, development targeted grants for infrastructure and development programmes, and also the so-called "balancing-grants" whose purpose is to assist the local authorities in balancing their current accounts.

Matching and development targeted grants are regulated and monitored by the relevant ministries, which impose rules and regulations regarding their use and allocation.

The budget is prepared by the local authorities themselves but with regard to most of the municipalities – i.e. those not considered fully independent due to their financial stability – must be approved by the Ministry of the Interior whose aim is to uphold the local authorities in a regime of balanced budget.

For the year 2017, 65% of total revenue of all local authorities in Israel constituted self-generated revenue and 35% - State funding.



## EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

The SAI of Israel (The Office of the State Comptroller and Ombudsman) and the Ministry of the Interior engage in external audit with only the latter carrying out financial audit, although SAI Israel has the formal power to do so. For that purpose the Ministry of the Interior makes an intensive and wide-ranging use of private auditors.

### The role of SAI

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#### The mandate

The SAI of Israel has the mandate to carry out financial, compliance and performance audits in local authorities.

The State Comptroller Law of Israel (The Law) provides that every local authority shall be subject to the audit of SAI Israel. The law adds that every enterprise, institution, fund or other body in the management of which a local authority has a share; and every enterprise, institution, fund or other body supported, directly or indirectly, by a local authority - shall also be subject to the audit of SAI Israel. That means that every local authority, and every legal entity active through or financed by a local authority, are all considered audited bodies; which adds up to an extensive number of entities under the supervision of the Local Government Audit Division. So, all entities related to local government down to the last enterprise or body of any local authority are audited: SAI Israel performs audits in local authorities, municipality owned enterprises, land and urban planning and building committees, municipal federations, and other legal entities (public or private) to which the local authority has allocated funds or transferred property. This translates into almost 500 bodies of which about 50 are audited each year.

Concerning **financial audits**, SAI Israel does not audit the financial statements of local authorities, since that specific task is performed by the Ministry of Interior. It must be noted that various aspects of financial management are audited, such as the running of a development project's budget or the way a local authority manages its financial investments.

SAI Israel defines **compliance audit** broadly; namely, as a comprehensive review of local authorities' adherence to legal and regulatory guidelines not necessarily in the budget and funding sphere. This includes, among others, legality, moral integrity and orderly management.

**Performance audits** cover all aspects of economy, efficiency and effectiveness. The scope may encompass either one or more local authorities. Performance audits which comprise horizontal (or width) audit tasks, whereby a certain topic is investigated in a large number of audited bodies, are performed every year and constitute about a 1/3 of each year's audit reports. Pointed audit tasks whereby a specific body - a single municipality for instance - is being audited, consist about 2/3 of each year's reports. The local authorities are usually audited in a time-cycle determined by their size, activity or relevant information received whereof.

Audit reports are submitted to local authorities, the Ministry of the Interior, the Israeli Parliament (Knesset) and relevant government ministries. SAI Israel can propose recommendations to any audited body mentioned in its reports.

According to the Law, the State Comptroller enjoys a very broad discretion as to where and what to audit, monitor, investigate, examine and check. In addition to audits, SAI Israel holds short inquiries into a specific subject not included in the annual audit plan. Such an inquiry is held where information received - usually through a complaint or an application lodged by the public - requires immediate response by an initial investigation. The findings may serve as a basis for future, enlarged audit tasks. Sometimes, such inquiries findings are published in a special report or in the annual reports of the SAI.

## Relationship with other auditors

SAI Israel and all other forms of municipal control and audit services are not required by law to coordinate strategies with each other. However, aiming at saving taxpayers' money, SAI Israel provides the Ministry of the Interior with its annual workplan in order to prevent overlapping audits.

SAI Israel receives and analyses all the reports published by the Ministry of the Interior, some of which serve as a basis for the planning of our annual workplan. If a specific query arises, it may be referred to the Ministry for clarification but there isn't any correspondence with the private auditors.

As for internal auditors of each and every local authority, the SAI of Israel analyses their reports and sometimes contacts them for further knowledge about their authorities' main shortcomings and defects. In exceptional cases (mostly with the biggest localities) audit plans are coordinated to prevent the waste of public funds on similar audits.

## The role of private auditors

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The Ministry of the Interior hires private auditors through public procurement procedures. Private auditors are appointed to carry out the audit of the annual financial statements of local authorities as well as all other external audits required by the Ministry (some aspects of municipal budget execution, the use and management of municipal assets). Allocations from the Ministry of the Interior's own budget are used for auditors' remuneration. Private auditors are obliged to meet special requirements - criteria are set by the Ministry of the Interior and include, *inter alia*, minimal experience years, recommendations, quality of prior audit work, etc.

Whereas financial audit is conducted only in the local authorities themselves and is the main activity of the auditors, other types of audit - compliance, performance and special reports – may be carried out in municipality-owned enterprises. The auditors prepare an opinion on the financial statements of the local authority, which is submitted to the Ministry of the Interior. Recommendations are delivered to the local authority including any relevant municipal entity. Reports are circulated among Governmental Ministries and SAI.

A thorough audit report about the hiring and employment of private auditors by the Ministry of the Interior was published by the SAI Israel in 2015. Main findings concerned shortcomings and failings in the process of selecting and hiring those private auditors, payments they have received, monitoring their work and performance, which also touched, albeit shortly, the quality of the

reports they produced, and the defects rectification follow-up activity carried out by the Ministry's Division of Local Authorities Audit. The report dealt with that Division's management and operations' flaws too. The report also noted the positive shortening of audit timelines.





# ITALY

## 1 | LOCAL GOVERNMENT OF THE COUNTRY

By the Constitution, the Italian Republic is constituted of the Municipalities, Provinces, Metropolitan cities, Regions and State. There are 3 tiers of local authorities: first tier – 7,978 municipalities; second tier – 107 provinces (including 2 autonomous provinces of Trento and Bolzano and metropolitan cities); and the highest tier – 20 regions. The Municipalities, Provinces, Metropolitan cities and Regions are autonomous entities with their own statutes, powers and functions fixed by the Constitution. The regions have a legislative power shared with the State so are considered as regional entities. According to Italian law, Mountain Communities, Island Communities and Union of municipalities are also considered as local entities, along with the municipalities, provinces and metropolitan cities.

The population of Italy is 60,782,668 people, and the total territory is 302,073 km<sup>2</sup>.

### Competences of local authorities

**The Regions** are required to carry out several functions that can be summarized as follows:

- Have a politic power to choose the goals and objectives of their action
- Have a statutory power to self-organize, giving rise to organizational forms that are different from those that characterize the State

- Have a legislative power and contribute to form the state system
- Have administrative power to put in place actions with enforceability for the concrete care of interests considered relevant for the local community

The specific responsibilities of **the Provinces** are:

- Territorial planning and safeguard of environment
- Planning of transport services in provincial context
- Classification and management of provincial routes as well as regulation concerning the circulation of that routes
- Management of the secondary degree schools
- In coordination with the municipalities, the provinces improve and coordinate activities in economic, commercial, tourist, social, cultural and sport fields

**The metropolitan cities** are established only in the most important territories of the Country (for instance: Rome, Milan, Turin, Naples). They have competences derived both by regions and by provinces. The Metropolitan Cities have statutory, regulatory, organizational and administrative autonomy, as well as tax and financial autonomy in the context of their statutes and regulations and the laws of coordination of public finance. The metropolitan cities have all the functions and administrative tasks that affect the population and the metropolitan area, mainly in the organic sectors of personal services, territorial and urban planning and infrastructural networks, land use and utilization with particular reference to the location of services and of activities, mobility and viability, environmental, ecological and energy sustainability, management and organization of public services of general interest and of the economic and social scenario, unless it is explicitly attributed to other subjects by state or regional law, according to the respective skills.

**The municipalities** carry out administrative functions regarding citizens and municipal territory general interests, public services organization, territorial structure, economic development. Municipalities carry out also administrative functions for the State such as electoral and civil registry services.

## Structure of local government

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**The Regions** have the following bodies:

1. The Regional Council – legislative body, is elected by the citizens. It is composed of a variable number of counsellors (depending on the Statute of the Region);
2. The Regional Committee – the executive body of the Region, is composed of assessors appointed by the President of the Region;
3. The President – leads the executive power, is elected by the citizens, appoints and revokes the assessors (Regional Committee members), promulgates laws and issues regulations.

The main bodies of **Provinces** are the President, the Board and the Council. The provinces haven't legislative competence (except for the autonomous provinces of Trento and Bolzano). The main bodies of **Metropolitan cities** are established by the Statute. For instance the bodies of the Metropolitan City of Rome are the metropolitan mayor, the metropolitan council and the metropolitan Committee.

The main bodies of **Municipalities** are:

1. The Municipal Council is a collegial body with directive and political-administrative control functions, it is renewed every 5 years by public elections; it is composed by a minimum of 12 members up to a maximum of 60 members, depending on the size of the municipal population. Municipal council is not a legislative body, because on the territory only Regions have the legislative power;
2. The Municipal Committee – executive body. It consists of the mayor who presides over it, and the assessors (Committee Members) appointed by the same mayor. The number of assessors is established by the statute, within the limits set by law;
3. The mayor – is elected by citizens with universal suffrage and the mandate lasts for a period of 5 years. He is the head of the municipal administration. He represents the Municipality, supervises the functioning of municipal services and offices; supervises the execution of acts.

Municipalities may establish municipality owned enterprises or public entities.

## Budget

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Regions and local entities have financial autonomy and autonomous resources for the performance of their functions:

- They establish and apply their own taxes and income, in compliance with the Constitution and according to the principles of coordination of public finance and the tax system;
- The State law establishes an equalization fund for the territories with lower tax capacity per inhabitant.

## 2

## EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

In Italy the external audit system of local authorities is autonomous. External audits on local authorities are carried out only by the SAI (Regional Audit Chambers of the Corte dei Conti) according to the law.

### The role of SAI

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#### The mandate

Regional Audit Chambers of the Corte dei Conti has the mandate to carry out financial, compliance and performance audits in local authorities.

The audit subject-matter includes all the activity having financial and economic relevance (municipal (local) budget execution, financial statements, use and management of state grants, local governments' funds and assets etc.). Corte dei Conti may perform audits in all regions and municipalities including public owned enterprises and public entities.

**Financial and compliance audits** are annually carried out in all 20 regions, in the 2 autonomous provinces of Trento and Bolzano and in about 8,000 municipalities. The audits are carried out in municipalities having more than 15,000 citizens. The scope of audits includes all the activity having financial and economic relevance (budget execution, financial statements, use and management of state grants, local governments' funds and assets etc.).

The number of auditees in **performance audits** depends on the extent of audit – the audit might cover all, several local authorities or only one municipality. Corte dei Conti mostly carries out complex audits with both compliance and performance components. Audits involve the entire activity of public administrations including acts, operations, behavior to verify the compliance of the results with the objectives established by the law. The audit takes into consideration and evaluates costs, methods and times of the implementation of the administrative action. The audit concerns both legitimacy aspects and the efficiency, effectiveness and economic parameters of the administrative action. By the performance audit, the Corte dei Conti also ascertain the functioning of the internal controls.

For reporting the result of audits Corte dei Conti delivers deliberations that contain audit opinions. With the same deliberations Corte dei Conti approves the reports. The deliberations are sent to auditees, to Ministry of Economy and Finance, the Ministry of Interior and are published on the web-site.

After the audit, Corte dei Conti can propose recommendations to all auditees.

## Other functions and products

By law, Corte dei Conti implements the following additional functions related to local authorities:

- Advising local authorities on accounting matters
- Issuing guidelines for local governments

## Relationship with other auditors

Corte dei Conti has the relationship with internal auditors who audit local authorities. The relationship between the Corte dei Conti and internal auditors is established by law, but it is not reciprocal. In the process of the cooperation Corte dei Conti regulates the internal audit activities by giving guidelines and verifies the correct behavior of the internal auditors. Also, the Court has access to data of other institutions including municipalities and internal auditors.



# LATVIA

## 1 | LOCAL GOVERNMENT OF THE COUNTRY

The system of local authorities in Latvia consists of one tier municipalities. There are 119 local governments/municipalities – 9 cities and 110 novads municipalities. Population of Latvia is 1.95 million (as of 2017-01-01), total size – 64,589 km<sup>2</sup>. The population in municipalities varies from 704,476 (capital Riga) to 1,146.

### Competences of local authorities

According to the Law On Local Governments, functions of municipalities are divided into autonomous and delegated functions.

Municipalities are responsible for implementing the autonomous functions, which are financed from municipal budgets. They are exercised in the following main spheres:

- Provision of utilities (water, heating supply, waste management etc.)
- Public services and facilities
- Management of public forests and water
- Primary and secondary education
- Culture
- Health care
- Social assistance (social care)
- Housing
- Facilitating economic activity, reducing unemployment
- Issuing permits, licences
- Public order and civil protection
- Protection of rights and child interests
- Public transport
- Territorial planning
- Other

Legal acts may also assign additional functions to municipalities. However, if implementation of such additional functions involves increased expenditures, the relevant legal act must determine supplementary sources of financing.

In addition, municipalities can take voluntary initiatives (for example, provide grants for their residents who are studying), as long as such initiatives are not within the competence of another public entity and are not prohibited by law.

State institutions may authorise municipalities to perform certain state (delegated) functions (for example, resident registration), specifying the procedures for the performance of such functions and monitoring their implementation. Concurrently financial resources for implementation of such functions must be transferred to municipalities.

Municipalities may also perform functions of other municipalities on the basis of mutual agreement (for example, a municipality can delegate the task of establishing municipal police to another municipality).

## Structure of local government

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The representative body of local government is the **Council**, which is comprised of directly elected councillors for a tenure of four years. The council makes decisions about implementation of municipal functions and voluntary initiatives, approves municipal by-laws and municipal budget, establishes municipal institutions and municipally owned enterprises.

The **Chairperson of the Council**, elected by the members of the council by secret ballot from among the councillors by a simple majority, oversees its work, represents the local government in all capacities, signs agreements and other legal documents on behalf of the municipality. In fact, the chairperson of the council represents both decision making and executive power of local government.

**Executive Director**, who is appointed by the council on the recommendation of the chairperson of the council, is responsible for the activities of municipality's administration.

In order to implement their functions, municipalities may establish structural units and municipal institutions, for example, orphans' and custody courts, municipal police, schools, libraries.

## Budget

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In Latvia, local governments' budget revenue sources are shared state taxes and fees, local fees, state budget grants and earmarked grants (including the grants for implementation of EU funded projects), grants from the Local Government Finance Equalization Fund, transfers from local government budgets, service charges, revenues from profit (shares from local government companies, rent, sale), as well as other.

There is no one common definition on own local revenues in Latvia as there are no local taxes at all – all taxes are state taxes. Local governments get revenues from shared taxes. Share of tax revenues and such own revenues as local fees, service charges and other is close to 75%. The tax revenue forms 67% from total revenues of local governments (2016). Approximately 25% of total budget revenue of local authority comes from grants from the State budget.

## EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

External audits in municipalities are carried out by:

- The State Audit Office of Latvia
- Sworn auditors or commercial companies of sworn auditors

### The role of SAI

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#### The mandate

The State Audit Office Law specifies that the State Audit Office carries out financial, compliance and performance audits. The State Audit Office's Strategic plan for 2014-2017 set a goal: to carry out at least one audit (financial, compliance, performance) in each of 119 municipalities during the 3 year period. In the sphere of local government, the State Audit Office may audit:

- Municipalities, municipal institutions
- Municipally owned enterprises and enterprises where municipalities own part of shares or stocks
- Other enterprises, societies, foundations and natural persons if a) they have municipal resources at their disposal or in their keeping, b) their activities are financed from municipal resources or resources guaranteed by municipalities or c) they carry out municipal procurement
- Users of resources allocated by the European Union and other international organisations or institutions, which are included in municipal budgets

Concerning **financial audits**, the State Audit Office acts as the auditor for group financial statements – for the annual report of local governments' budgets. Municipal financial statements are consolidated at national level and audited by the State Audit Office. Additionally, every year financial statements of all municipalities are audited by sworn auditors. Therefore each year within the planning phase, the State Audit Office implements certain procedures of financial audit in selected local governments, then discusses the planned audit approach with sworn auditors, and for the report uses the work of sworn auditors.

During a financial audit, State Audit Office auditors evaluate:

- Whether the financial statements contain material errors or misstatements
- Whether the financial statement is prepared according to requirements of laws and regulations and accounting standards

The scope of a financial audit can also include certain compliance issues.

For financial audits in local governments the State Audit Office uses the following principle – each local government must be audited at least one time within 5 year period, but local governments with high materiality by value (there are 6 such municipalities) - each year. This means that annual



selection consists of 29-30 local governments. For example, in 2017, financial audits were carried out in 29 municipalities.

The results of the audit of the national financial statements are presented in the audit report and the opinion, which are submitted to the audited entity and to the Minister for Finance. The documents – opinion, reports – are published on the homepage of the State Audit Office. The State Audit Office also submits reports to the Parliament and the Cabinet of Ministers regarding financial audits in such audited entities for which a qualified opinion, an adverse opinion or a disclaimer of opinion has been issued.

Recommendations are proposed mainly to the Ministry of Finance, but could also be addressed to other ministries or state institutions. If, during discussions, the entity in question does not agree with recommendations, the State Audit Office addresses the recommendations to the Cabinet of Ministers, which forwards them to the institution or group of institutions. If the State Audit Office has decided to carry out additional audit procedures and prepare a report on a particular local government, then recommendations are addressed to that local government.

In the scope of **compliance audit**, the State Audit Office may evaluate:

- Revenues and expenditures of municipal budget resources, as well as revenues and expenditures of municipality-owned enterprises and enterprises where municipalities own shares or stocks
- Utilisation of the resources of the European Union and other international organisations or institutions, which have been included in municipal budgets
- Actions with state and municipal property, as well as actions with property of municipality-owned enterprises and enterprises where municipalities own part of shares or stocks

In 2017, compliance and compliance/performance reviews were carried out in 29 municipalities. At the conclusion of a compliance audit, the State Audit Office prepares an audit report, which is submitted to the audited entity, the relevant sector minister and to the Minister for Finance. The report is published on the homepage of the State Audit Office as well. The State Audit Office submits reports to the Parliament and the Cabinet of Ministers about especially important and significant findings.

The State Audit Office carries out horizontal **performance** and compliance/performance audits, including up to 11-12 municipalities in the audit scope. These audits have assessed, for example, utilisation of resources allocated for the management of municipal roads and streets, activities of municipalities in the sphere of culture, recreation and sport, utilisation of administrative resources and provision of services for residents. The State Audit Office also carries out audits which scope is limited to one local municipality, for example, by assessing whether a certain municipality-owned enterprise has used financial resources and property legally and effectively. In 2017, performance and compliance/performance audits were carried out in 31 municipalities.

At the conclusion of a performance audit, the State Audit Office prepares an audit report, which is submitted to the audited entity, the relevant sector minister and to the Minister for Finance. The State Audit Office submits reports to the Parliament and the Cabinet of Ministers about all performance audits.



Recommendations in both compliance and performance audits are issued to audited entities to rectify discovered deficiencies. Depending on the audit topic, recommendations can be proposed to municipalities, relevant ministries.

In 2014, the State Audit Office started the practice of operative “ad hoc” audits. The “ad hoc” audits are compliance audits, which evaluate whether certain transactions comply with the requirements of legal acts. These audits were introduced in order to react to current events and provide the society with answers to topical issues in a short period of time. The “ad hoc” audits are carried out according to the compliance audit methodology and ISSAIs; however, the time frame for completing the audit is shorter.

## Other functions and products

The State Audit Office, by its own initiative, is involved in the following functions:

- Preparation of proposals for discussion by summarizing audit results in areas where systematic and continuous shortcomings are prevalent, which is addressed to legislator, executive power, NGOs, academia, business, society
- Distribution of audit conclusions via lectures and seminars addressed to municipalities, executive power, society

## Relationship with other auditors

The State Audit Office cooperates with sworn auditors according to the requirements of ISA 600 and ISSAI 1600, but the work is not duplicated. The financial audit of the same local authority (municipality) may be carried out by the SAI and by the sworn auditors, but the State Audit Office does not carry out a complete audit and does not produce opinion about the statement of a particular municipality. During a financial audit in municipality, the State Audit Office requests the municipality's permission to cooperate with sworn auditors that the municipality has chosen for evaluating its financial statement. The State Audit Office acts as the auditor for group financial statement, coordinates its audit approach with sworn auditors, and for the report uses the work of sworn auditors. If the State Audit Office does not agree with a sworn auditor's audit approach or does not find it sufficient, the State Audit Office implements certain detailed audit procedures in the municipality and publishes a separate report about the municipality. This situation has impact on the State Audit Office's opinion about the annual report of the whole local government sector.

## The role of private auditors

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Sworn auditors who evaluate financial statements of municipalities are chosen in a public procurement procedure and remunerated by the municipality's budget. However, the law prescribes various exceptions for the procurement of these services – the procedure is simpler. Each year sworn auditors give opinions on whether financial statements of municipalities present a true and fair view regarding the financial situation, profit or losses, and cash flow in accordance with the relevant financial accounting principles (standards) and comply with laws and regulations. Financial audit performed by the sworn auditors is mandatory.

Sworn auditors issue an opinion on the financial statements of the respective municipality and a letter to management with recommendations.

## The role of other auditors

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The state owned joint stock company "Latvian State Roads", to whom the Ministry of Transportation has delegated management of the road network, may:

- Audit whether road works are carried out according to technical rules, standards, and legal acts governing road construction (technical audits)
- Audit whether earmarked grants for road maintenance have been used according to requirements of legal acts

In 2015, the State Audit Office of Latvia conducted the audit "Has the implemented state and municipality policy enhanced road and street development?". During the audit, the State Audit Office, inter alia, analysed findings of "Latvian State Roads" audits and interviewed representatives of the company.



# LITHUANIA

## 1 | LOCAL GOVERNMENT OF THE COUNTRY

In Lithuania, there is only one tier of local government – municipality. Lithuania's territory is divided into 60 municipalities (7 city municipalities and 53 district ones). Population of Lithuania is 2,847,904 (as of 2017-01-01), total size – 65,286 km<sup>2</sup>. The population in municipalities varies from 3,000 in district municipalities to 0.5 million residents in city municipalities.

### Competences of local authorities

According to discretion to take decisions, in national legislation the functions of municipalities are divided into independent and State (delegated by the State to municipalities) functions. Municipalities exercise their activities independently in the following main spheres:

- Municipal budget
- Local fees and charges
- Management of municipal property
- Organization of education (partly)
- Social services
- Culture
- Primary healthcare
- Territory planning
- Environment
- Transport, local roads
- Supply of heat and drinking water, waste management
- Development of business and tourism

Municipalities are also responsible for the following State functions:

- Civil, fire protection
- Organization of education (partly)
- Implementing labour market policy measures
- Organization of the secondary health care
- Calculation and payment of social benefits and compensations

Municipalities receive special grants from the State budget for implementation of the State functions and they are bound to use them in accordance to their purpose.

## Structure of local government

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Municipal institutions responsible for the implementation of the right to self-government are:

1. The Municipal Council – a representative institution of the municipality, the main legislative and decision-making body. The Municipal Council consists of representatives of the municipal community – members of the Municipal Council (councilors) who have been democratically elected by direct universal suffrage for a four-year term. Number of councilors in every municipality varies from 15 to 51, depending on the number of residents.
2. The Mayor – head of municipality, elected by residents of municipality in direct universal suffrage for a period of the powers of the municipal council. The mayor chairs Municipal Council meetings.
3. The Director of the municipal administration – an executive institution of the municipality, who possess the rights and duties of public administration. The Director of the municipal administration is appointed by the Municipal Council, subordinated to it, accountable to the Municipal Council and the mayor. He/she is directly and personally responsible for the implementation within the territory of the municipality of the laws, decisions of the Government and the Municipal Council.

For the implementation of their functions, municipalities establish:

- Municipality owned enterprises (joint stock companies, limited liability companies and partnerships limited by share)
- Public institutions (a non-profit organisations, established to serve public interest in performing social, educational, healthcare, scientific, cultural, sport or any other analogous activities)
- Budgetary institutions (public entities that perform municipal functions)

## Budget

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Legal acts of Lithuania set the following types of revenue for local authorities:

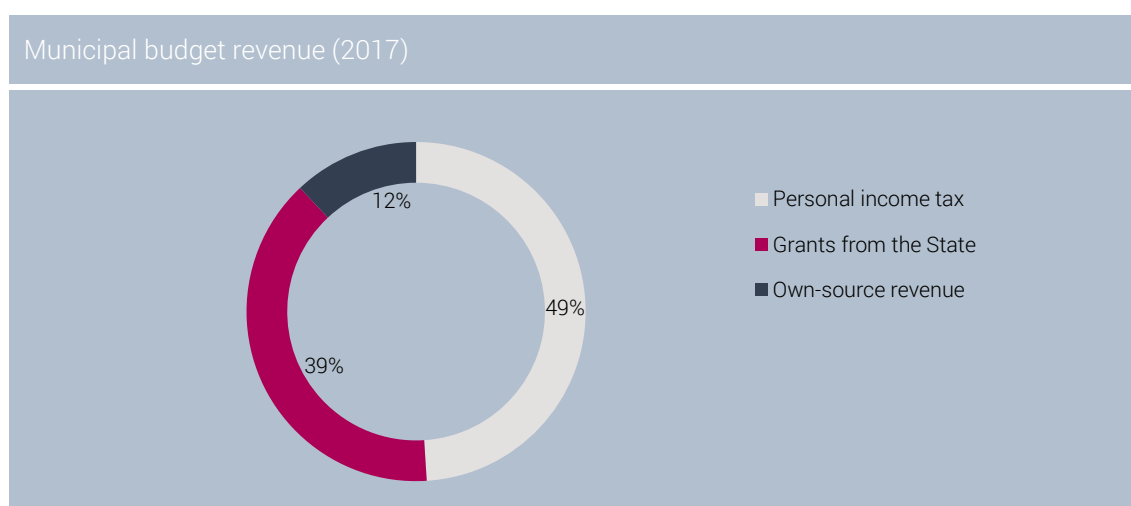
- Tax revenue comprised of taxes assigned to local authorities and a part of common taxes set by law (Personal income tax, land, property taxes)
- Non-tax revenue received from the property of a local authority, local charges, fines, and other non-tax sources
- Subsidies and grants of the state budget (for the implementation of the State functions)

Each municipality has its own independent budget, while the central government plays an important role in planning municipal revenue. First, it regulates planning and use of special targeted grants, secondly, it imposes rules regarding calculation and allocation of Personal income tax among municipalities (it regulates the amount of Personal income tax transferred to each municipality), it also compensates the decrease in municipal revenue and imposes borrowing limits.

Revenue from the Personal income tax constitutes the biggest part of revenue of all municipalities (49%). Municipalities have no freedom in imposing this tax, incomes from this tax are distributed between State and municipalities' budgets in proportions set by the law.

Grants from the state (39%) are allocated for implementation of the State functions.

Own source revenue (12%) includes various taxes, set (imposed) by municipalities or assigned to municipal budgets by law (e.g. land, property taxes, taxes for various services, local fees, etc.) and other non-tax municipal revenue (e.g. fines, rents, revenue of municipal budgetary establishments). The amount of this revenue depends mostly on the decisions of municipalities, that's why we can call them own-source revenue.



## 2

## EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

External audits of local government in Lithuania are conducted by:

- The National Audit Office of Lithuania
- 60 Municipal control and audit services (one for each municipality)
- Private auditors

## The role of SAI

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### The mandate

National Audit Office of Lithuania (NAOL) has the mandate to carry out financial, compliance and performance audits in local authorities. NAOL may perform audits in municipalities, municipal institutions, their monetary funds, municipality owned enterprises and other legal entities, to which the municipal institution has allocated funds or transferred property. Audits in these local government entities are performed in accordance with the scope of public audit set by the NAOL in the annual Audit plan.

Concerning **financial audits**, NAOL does not audit the financial statements of individual municipalities – municipal financial statements of each municipality are audited annually by the Municipal control and audit services. Financial statements of all 60 municipalities are consolidated into the set of National financial statements. Auditing the latter is the annual responsibility of NAOL, imposed by law.

The results of the audit of National financial statements are presented in the audit report and the opinion on the set of National financial statements is issued. NAOL does not submit a separate opinion on financial statements of a single municipality as it is the competence of Municipal control and audit services.

Recommendations are proposed to the Ministry of Finance, which is responsible for the set of National financial statements, also to municipalities and other central government institutions, whose financial statements are included in the set. Audit report and the opinion are submitted to the abovementioned institutions and to the National Parliament.

The law on National Audit Office does not distinguish **compliance** as a separate type of audit, however it states that NAOL supervises the lawfulness and effectiveness of the management and use of the state property and the use of state budget funds allocated to municipal budgets. NAOL may also audit municipal budget execution, local governments' funds and assets if this is established by the NAOL in the scope of public audit in the annual Audit plan. In the current practice, NAOL carries out compliance audit together with the financial audit of the consolidated state budget execution statements and evaluates the use of State grants allocated to municipalities. The opinion on compliance isn't provided. The report of financial audit of consolidated state budget execution statements, which includes results of the use of state grants, is submitted to the National Parliament.

The aspects of compliance are also evaluated in conducting performance audits.

The scope of **performance audit** depends on the topic, objectives and includes certain activities, processes in local authorities related to the use and management of municipal funds and assets, implementation of functions, provision of services etc. In fact, NAOL doesn't carry out performance audits regarding only one local authority. NAOL carries out audits that cover one topic in all local authorities of the country or in several of them (system audits). Such audits also include central government institutions, which are forming the policy in the certain area related to the audit topic.

NAOL presents performance audit results in the audit report, which is submitted to the audited entity and other institutions for which the conclusions were formulated and / or for which recommendations were submitted. The audit report is also submitted to the Audit Committee of

the Parliament. After the audit NAOL can propose recommendations to municipalities, their institutions and to other central government institutions, which are forming the policy in the certain area (e. g. ministries, the Government of the Republic of Lithuania).

## Other functions and products

By law, NAOL carries out annual external review of Municipal control and audit services' audit quality. This review includes an assessment of the quality control system developed by the Municipal control and audit service and the quality of the audits. The results of the external review and suggested recommendations are presented in the review report, which is submitted to the Municipal control and audit service.

NAOL also shares the good practice and provides the methodological support to the Municipal control and audit services.

## Relationship with other auditors

Relationship between NAOL and Municipal control and audit services is preconditioned by the similarities in the competencies in audit of local government.

Consolidated municipal financial statements of each municipality are audited by the Municipal control and audit services. However, these statements are consolidated at national level and constitute a part of National financial statements, auditing of which is the responsibility of the NAOL. Also, NAOL is in charge of auditing the State budget execution. State grants given to municipalities at the same time are the part of municipal budgets, which are audited by the Municipal control and audit services. Thus, similarities in the audit scope provide a room for cooperation.

NAOL cooperates with Municipal control and audit services mainly in the spheres of financial and compliance audits in order to avoid duplication of activities, to cover a wider scope simultaneously and to exploit resources more efficiently. If needed NAOL provides consultations, methodological help and exchange the information with Municipal control and audit services in other types of audits too.

Cooperation forms are: use of common methodology, exchange of risks, coordination of strategies and cooperation in particular audit.

The closest cooperation takes place in carrying out annual audit of set of National financial statements. Audit is organized according to ISA 600: NAOL and Municipal control and audit services coordinate group audit strategy, determine the type of work that will be performed by Municipal control and audit services as component auditor and NAOL, after completion of audit procedures, NAOL evaluates the sufficiency and appropriateness of audit evidence obtained by Municipal control and audit services and uses the results of their work.

Municipal control and audit services apply the same audit methodology that is prepared and used by the NAOL (Public Auditing Requirements, Financial Audit Manual, Performance Audit Manual).

NAOL initiated an agreement among 5 parties: NAOL, the Association of Municipal control and audit services, the Lithuanian chamber of auditors, the Association of internal auditors and the Ministry of Finance. Due to this agreement, the Guidelines on internal control for the public sector

have been developed. Implementing this agreement, annual meetings are organized and exchange of useful information is maintained.

## The role of municipal audit institution

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In Lithuania, there are 60 Municipal control and audit services – entities who supervise whether the municipal property and state property (held by municipalities on a fiduciary basis) is managed and used in a legal, effective, economical and efficient manner, as well as the implementation of a municipal budget and the use of other monetary resources.

Municipal control and audit services are budgetary institutions, established by the Municipal Council and accountable to it. The council sets in the municipal budget the amount of appropriations allocated for the Municipal control and audit service. The council also appoints the head – municipal controller (by competition in the manner prescribed by the Law on Civil Service), who employs staff. In most municipalities, Municipal control and audit services are rather small, with only 2-3 auditors (including municipal controller), in a few bigger city municipalities number of employed auditors varies between 7-15. Municipal control and audit service annually submits a report on its activities to the Municipal Council.

Since 1998 the Association of Municipal control and audit services has been established. This organization unites Municipal control and audit services of all 60 municipalities. Its aim is to properly represent their members and defend their interests, to seek the independence of municipal audit services, to enable members of the association to raise qualifications, to deepen knowledge and practical skills for the implementation of external audit functions in municipalities. It organizes trainings and seminars for municipal control and audit services, spreads the best practice and contributes to the improvement of audit quality in municipalities.

## The mandate

Municipal control and audit services have the mandate to carry out financial, compliance and performance audits in local authorities. They may perform audits in the municipal administration, entities administrated by the municipality, municipality owned enterprises and public institutions controlled by the municipality.

As to **financial audits**, annually, by 15 July, Municipal control and audit service is legally bound to prepare and submit to the Municipal Council an opinion on the set of consolidated statements of the municipality. Municipal control and audit services also carry out financial audit of the municipal budget execution statements.

In the Law **compliance audits** are not distinguished as a separate type of audits performed by Municipal control and audit services. However, the law states that Municipal control and audit services are obliged to supervise whether the municipal property and state property managed by the right of trust is managed and used in a legal manner. For this reason, Municipal control and audit services assess compliance issues, however mostly within the scope of financial or performance audits.

While conducting **performance audits**, Municipal control and audit services supervise management of municipal property and state property managed by the right of trust, use and management of state grants and other local government's funds.



For reporting the results of financial audits, Municipal control and audit services submit the opinion to the Municipal Council and auditees. In performance audits audit findings are presented in the audit report. In both cases, recommendations are submitted to the auditees.

## Other functions and products

By law, Municipal control and audit services also implement additional functions related to local authorities – prepare and submit to the Municipal Council the findings necessary to take decisions, regarding:

- The use by the municipality of bank credits, taking-out and granting of loans, provision of guarantees to creditors for loans taken out by municipality owned/controlled enterprises;
- The concession contracts;
- The economic and financial position of debtors and the debtors the fulfilment of whose commitments are guaranteed by the State, as well as regarding the funds borrowed in the name of the State, the granted loans and the provision of state guarantees, use of loans according to the target purpose, and the repayment of loans.

## The role of private auditors

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The role private auditors play in external audit of local government in Lithuania is rather small. Private auditors are hired by municipalities by public procurement procedures in order to carry out audit of annual financial statements of municipality owned enterprises. Mostly remuneration for auditors is paid from the funds of municipality owned enterprises. The opinion on financial statements of municipality owned enterprises is addressed to municipality and audited entity. Additionally, municipalities may appoint private auditors to conduct external performance audit of municipality owned enterprises if they decide it is necessary for some specific purposes.



# THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

## 1 | LOCAL GOVERNMENT OF THE COUNTRY

In the Former Yugoslav Republic of Macedonia, there is only one tier of local government – municipality. The territory of the country is divided into 80 municipalities and 1 city municipality (the City of Skopje). The population is 2,073,702 (according to last estimation as of December 2016), total size – 25,713 km<sup>2</sup>. Average population density is 80.6 people per km<sup>2</sup>.

### Competences of local authorities

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Municipalities exercise their activities according to the Law on Local Self-Government in the following main spheres:

- Municipal budget
- Local fees, taxes and charges
- Management of municipal property
- Organization of education (partly)
- Social welfare and child protection (partly)

- Urban and rural planning
- Protection of environment and nature
- Local economic development
- Public utilities (water supply, waste water management, public lighting, public hygiene, waste management, local roads, public transport, parking, parks and green areas, etc.)
- Culture (partly)
- Sports and recreation
- Firefighting activities

## Structure of local government

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Municipal institutions responsible for the implementation of the right to self-government are:

- The Municipal Council – a representative institution of the municipality that possesses the rights and duties of local government and public administration. It is the main legislative and decision-making body. The Municipal Council consists of representatives of the municipal community – members of the Municipal Council (councilors) who have been democratically elected for a four-year term by direct suffrage. Number of councilors in every municipality varies from 9 to 33, depending on the number of residents. The Municipal Council has Chairperson elected from among the Council members for a 4-year mandate.
- The Mayor – head of municipality, elected by residents of municipality in direct suffrage for a term of 4 years.

By law municipalities may establish:

- Public enterprises
- Public institutions (organizations to serve public interest activities)

## Budget

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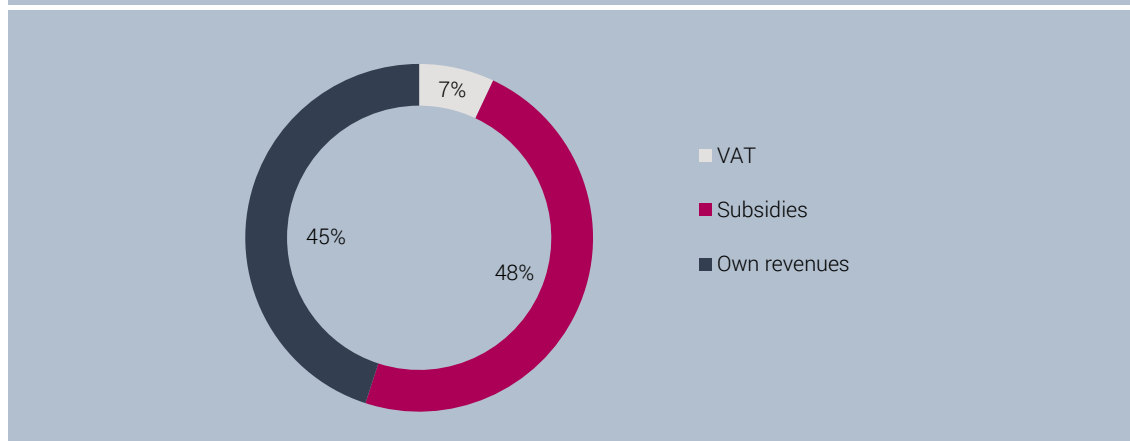
Legal acts of the country set the following types of revenue for local authorities:

- Tax revenue comprised of taxes assigned to local authorities, and part of taxes set by law (personal income tax, land, property taxes, local fees and charges);
- Non-tax revenue received from the property of a local authority, fines, and other non-tax sources;
- Capital revenue from sale of land, concessions, etc.;
- Subsidies and grants of the state budget (part of VAT set by law, block and capital subsidies and subsidies for delegated competences).

For the year 2016 grants from the State budget constituted 55% of total municipal revenue.

The amount of own-source municipal revenue for the year 2016 was 45% of total municipal budget revenue. This amount includes various taxes, set (imposed) by municipalities or assigned to municipal budgets by law (e. g. land, property taxes, charges for various services, local fees, etc.) and other non-tax municipal revenue (e. g. fines, rents, loans, etc.).

Total municipal budget revenue (2016)



## 2

### EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

External audit of local government is conducted by:

- State Audit Office of the Former Yugoslav Republic of Macedonia
- Private audit companies (only on the public enterprises)

#### The role of SAI

##### The mandate

The State Audit Office (SAO) has the mandate to carry out financial, compliance and performance audits in local authorities.

SAO performs audits in municipalities, public enterprises and users of municipality budget funds. SAO performs audits in these local government entities in accordance with the scope of SAO Annual Work Program.

Concerning **financial audits**, the scope is the financial statements of the municipalities. According the Law on State Audit Office, SAO is not obliged to audit all local authorities. Moreover, SAO does not have enough staff to conduct audit in every local authority annually. That's why when preparing the Annual work programme SAO takes into account the scope of public expenditure at local level, which means municipalities with big budget are audited more frequently than small/rural ones.

SAO carries out **compliance audits** separately or together with the audit on financial statements (regularity audit). When conducting compliance audit separately, SAO gives conclusion in the compliance audit report. When conducting regularity audit (financial and compliance audit), SAO gives 2 opinions in the audit report: opinion on the financial statements and opinion on the compliance with laws and regulations of financial transactions reflected in the financial statements. All municipality competences may be subject to compliance audit. For example, in 2017, SAO performed compliance audit on the topic "Taking on financial obligations and financial instability in municipalities" in the Ministry of Local Self Government, the Ministry of Finance and

12 municipalities, and the questionnaire on this subject was submitted to all municipalities and the City of Skopje.

The scope of **performance audit** depends on the topic, objectives and includes certain activities, processes in local authorities related to use and management of municipal funds and assets, implementation of functions, provision of services etc. SAO carries out audits that cover all local authorities of the country or several of them (horizontal audits) or may also conduct performance audit of one local authority (municipality). The general SAO practice is to use questionnaires and send them to all municipalities. In 2017 SAO conducted 2 performance audits on the following topics: "Public private partnership on local level" and "Local governments units effectiveness in annual planning and realization of annual public procurement plans". During both performance audits the questionnaires were sent to all municipalities and audit covered 18 municipalities and 2 entities at central level (Ministry of Economy and Public Procurement Bureau). In 2016 SAO conducted performance audit on the topic "Effectives of measures and activities for reducing traffic jam in the City of Skopje".

As a result of the audit, SAO prepares audit report with audit conclusion. In financial audit an opinion on financial statements is also issued. The audit report is submitted to the Mayor, the Municipal Council, the Parliament, the Ministry of Finance and the Ministry of Local Self Government. The final audit report is also published on SAO website and thus it is available to the general public. Depending on the audit findings, the audit report may be submitted to the Public Prosecution Office, State Commission for Preventing Corruption and the Financial Police. SAO can propose recommendations to the municipalities, the ministries and the government.

## The role of private auditors

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Public enterprises of municipalities are obliged by law to hire private auditors to audit enterprises' financial statements. Private auditors are selected with public procurement procedure by public enterprises and are remunerated from their budget. Private auditors prepare audit opinion on financial statements of municipality-owned enterprises, which is addressed to the governing board of the public enterprise. The recommendations are directed to the audited entity (public enterprise).



# MONTENEGRO

## 1 | LOCAL GOVERNMENT OF THE COUNTRY

Territorial organization of local self-government units of Montenegro is regulated by the Law on Territorial Organization and includes 25 local self-government units. In line with the Law, the territories of the local self-government units are defined as territorial units of: Municipalities (22), Capital city (1), municipalities within the Capital city (1) and Old Royal Capital (1). Population of Montenegro is 620,029 (census 2011), total size 13,812 km<sup>2</sup>. The population in municipalities varies from 185,937 to 2,070 residents.

### Competences of local authorities

The Municipality performs affairs from their primary jurisdiction, based on principles of voluntarism and solidarity, may freely co-operate and associate their resources in execution of tasks of their common interest and for the purpose of addressing the needs of the local population. The Municipality also performs affairs that are transferred to it by law or entrusted by means of a Government's regulation (transferred and entrusted affairs).

The Municipality, in accordance with the law and other regulation, has the competencies in the following spheres:

- Performance and development of communal affairs, maintenance of communal buildings and communal order
- Performance of construction, reconstruction, maintenance and protection of local and non-categorized roads, and streets in settlements

- Transport of passengers in line urban and suburban traffic, taxi transport and transport for own needs, traffic on its territory
- Conditions for construction and use of buildings, territorial planning
- Conditions for entrepreneurial development
- Local goods of common interest
- Other affairs in line with the needs and interests of local population

## Structure of local self government

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The main bodies of local government are the Municipal Assembly and the Mayor.

The Assembly consists of councillors elected by citizens in direct elections for a period of four years in accordance with the law. The number of councillors in the Assembly is determined by a special decision. 30 councillors and an additional councillor per every 5,000 voters are elected. The Assembly is representative body of the citizens from the Municipality and its work is regulated by Law on local self-government and Statute of each municipality.

The Mayor is executive body of the Municipality elected by the Assembly for a term of four years from among the councillors, at the proposal of 1/3 of councillors, by a majority vote of the total number of councillors. The work of the Mayor of the Municipality is regulated by the Law on Local Self-Government and the Statute. The Mayor represents and acts on behalf of the Municipality.

The Assembly and the Mayor are the main local bodies of the Capital city and the Old Royal Capital as well.

Local administration bodies (secretariats, offices, directorates, bureaus, etc.) are established to perform administrative affairs. The Mayor establishes the local self-government bodies. The Municipality establishes entities for special services (communal police, civil protection service, information centre and etc.) to perform specific affairs. For affairs that require specific expert and technical knowledge and autonomy in work, the Mayor may decide to establish agencies and directorates. For affairs of direct and common interest for the local population, the municipality establishes institutions and enterprises in line with the law.

## Budget

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The Municipality acquires funds from:

- **Its own resources:** real estate tax; surtax on personal income tax; local administrative charges; local communal charges; fee for utility equipment of constriction land; fees for the use of municipal roads; fee for environmental protection and improvement; resources from sale and rent of municipal property; income from capital; fines imposed in misdemeanour proceedings, as well as gain confiscated in that proceedings; revenues from concession fee for performing communal affairs and revenues from other concession activities that a municipality concludes in compliance with law; revenues collected by municipal bodies, services, and organizations through their own activities; revenues from grants and subsidies; and other revenues set by the law.

- **Revenues transferred by the law:** revenue from personal income tax; revenue from tax on real estate transfer; revenue from concessions and other fees for using natural resources awarded by the State; revenue from annual fees for the registration of motor vehicles, tractors and trailers; revenue from fees for use of motor vehicles and their trailers (eco-fee), which are paid upon the registration.
- **Equalization Fund:** personal income tax to the amount of 11% of revenues collected on that basis; tax on real estate transfer to the amount of 10% of revenues collected on that basis; tax for use of motor vehicles, crafts, aircrafts and aero jets to the amount of 100% of revenues collected on that basis; concession fees from games of chance in the amount of 40% of the revenues collected on that basis.
- **State Budget.** A municipality is entitled to use conditional grants from the State Budget for financing investment projects that are of special interest for one or several municipalities. The grants may be used for co-financing projects which shall be financed by donors. The right to use conditional grants has a municipality that has adopted multiannual capital investment plan for a period of five years. Municipality may be given, in form of conditional grants, a maximum 50% of the funds envisaged for realization of an investment project.

According to the budget of 2016, own revenues of municipalities represent 66% of total budget, transfers from budget 12% and the rest 22% refers to loans and revenues from the sale of property.

## 2

# EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

External audits of local government in Montenegro are conducted by:

- The State Audit Institution (SAI)
- Private auditors

Supervision over the work of local self-governments is carried out by the Government through the Ministry of Public Administration (Administrative Supervision) and the Ministry of Finance (financial supervision). The Ministry of Finance may control legality of use and earmarked use of budgetary funds of municipalities.

## The role of SAI

### The mandate

During audit process, the State audit institution:

- Performs examination of the documents, transactions, internal control and internal audit systems, accounting and financial procedures and other records of the audited entities with aim to ensure whether financial statements are true, objective and prepared in compliance with accepted accounting standards;
- Determines regularity of the financial and other activities of the audited entities with aim to evaluate compliance with applicable laws and other regulations;



- Determines performance of the level of the achievement of the set objectives of the operations or of a specific financial transaction, programmes, projects, usage of human, financial and other resources of the audited entities as well as the ratio between the planned and achieved effects of the objectives and results.

Thus, the State Audit Institution of Montenegro has the mandate to carry out financial, compliance and performance audits. Audits are conducted in all municipalities and enterprises and institutions which are founded by the municipality.

The objective of **financial audit** is to provide opinion on reliability and accuracy, as well as fairness and truthfulness of financial statements, and regularity of stated data in accordance with the Law and International accounting standards. The financial audit is performed together with **compliance audit**. The State Audit Institution does not perform an audit annually in all local authorities. On average, two audits of local self-government units are conducted annually, as well as one follow-up audit for the local self-government units in which the SAI gave adverse audit opinion during previous period.

The subject-matter of both financial and compliance audits is the final financial statement of budget accounts. The SAI analyses in details:

- Receipts of municipality
- Expenses of municipality
- Realization of capital projects
- Records of state property within the municipality
- Borrowings and issued guarantees
- Outstanding liabilities

The subject-matter also includes normative arrangement and organization of the municipality, public procurement system and internal financial control system. The subject-matter of audit also may be other aspects related to the operations of municipality, if the auditor assesses it as relevant during field work.

After the audit, the State audit institution prepares the Audit Report of the final financial statement of budget accounts of the municipality with the audit opinion, which is submitted to the audited entity. Depending on the audit findings (qualified and adverse audit opinion), the audit report is submitted to the competent parliamentary committees of Montenegro, as well as to the Government of Montenegro (competent ministries – Ministry of public administration and Ministry of finance). The audit report containing given adverse audit opinion is submitted to the State Prosecutor's Office.

The SAI proposes recommendations to the municipalities and competent ministries for areas in which the irregularities were identified.

Though the SAI may carry out **performance audit** in local authorities, so far the Sector V of the SAI, which is responsible for auditing local self-government units has not carried out performance audit at the local level.

## Relationship with other auditors

According to the Law on local self-government financing, the final financial statement of budget accounts of the municipality also contains external auditing report on financial reports carried out by private auditors, so the private audit companies carry out financial audit in local authorities as well as the SAI, which leads to the risk of overlapping and duplication of work.

During audit process, the report of external private audit firm is available to the state auditors of the SAI. The SAI gets acquainted with the content of this report, but the practice has shown that the SAI cannot rely on their reports. The SAI uses the findings of internal audit in cases when it is determined that the internal audit is relevant for conducting audit procedures. When it comes to the audit planning, the SAI uses the reports of internal and external private audit on prior conducted audits with the aim to understand the audited entity and its environment.

## The role of private auditors

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By law, financial reports of the municipality shall be annually audited by private auditors. The private auditors perform audit of the local self-government units and enterprises in which the municipality is a majority shareholder or holds a majority stake. The Mayor of Municipality elects a private auditor (certified auditor/audit company) after completed public procurement procedure. Private auditors may conduct not only financial, but also regularity audit, SWOT analysis or other analyses depending on the engagement stated in the contract. The subject-matter of financial audit conducted by the private auditors are final financial statement of the audited entity (Report on planned and realized receipts, Report on planned and realized expenses, Report on arrears, Report on budget debt) for a budgetary year which ends on 31<sup>st</sup> December. Private auditors prepare the Report on conducted audit which contains auditor's opinion and it is submitted to the audited entity. Recommendation are rarely submitted.



# POLAND

## 1 | LOCAL GOVERNMENT OF THE COUNTRY

The territorial division of Poland is a three-tier one. The state is divided into provinces, districts and municipalities. As of 1 January 2017, there were 16 provinces, 380 districts and 2,478 municipalities. Population of the country is 38,432,992, total size – 312,679 km<sup>2</sup>.

A municipality is the basic local government unit. According to the law citizens of municipalities constitute a local government community. A municipality performs public tasks on its own behalf. The Council of Ministers establishes municipalities and sets their boundaries by means of respective regulations. District is the second level of local government, covering several municipalities. At the provincial level, a regional community of local government is created in order to perform the tasks from the scope of the public administration.

### Competences of local authorities

**Municipalities** exercise their activities in the following spheres: maintenance of roads, streets and squares, the water supply and sewage system, energy supply, collective communication, network maintenance of primary schools and secondary schools, crèches and kindergartens, cultural institutions, social assistance, assurance of public order, organization of public works, territorial planning, etc.

The competences of the **districts** include: construction and maintenance of district roads, district safety, fire protection, the maintenance and construction of libraries, cultural centres and

museums, secondary schools, special and clinic psycho-pedagogical, district hospitals, district labour offices, payment of unemployment benefits, supervision of construction, social welfare houses and family support centres, the issuing of driving licences, vehicle registration, consumer protection, cooperation with non-governmental organisations.

Responsibilities of the **provinces** are: construction and road maintenance, maintenance of provincial libraries, provincial and regional theatres and museums, higher vocational schools and teacher training centres, specialized hospitals, health promotion, the provincial labour offices, spatial management plans, social assistance in the region, etc.

## Structure of local government

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**Municipalities** perform their tasks via:

- The municipal council – decision making and legislative body of the municipality, elected in course of universal, direct, equal and secret general elections for a five-year term of office. The vote in the elections to the Councils shall be carried out in fixed and separate voting circuits created in the area of the municipality. Councillors are elected in constituencies directly out of the reported candidates. The municipal council supervises the activity of the head of the municipality, municipal organisational units and municipal auxiliary units. The municipal council also adopts the statute of the municipality, sets the remuneration of the head of the municipality, accepts activity reports, appoints and dismisses the municipal treasurer, accepts the municipal budget, examines the budget execution reports, adopts resolutions in the spheres of its competence.
- The Head of municipality (mayor, town president) – executive body of the municipality, elected by universal suffrage, equal, direct, secret vote for the period of 5 years.

The main bodies of **districts** are:

- The District Council – regulatory and controlling authority of the District. Councillors are elected in direct elections for the 5 years term, counting from the date of the election. In order to carry out the election the district is divided into constituencies (constituency is one municipality).
- The District Board – the executive body of the District, implementing the decisions adopted by the Council. The District Board is the body of collegiate – it consists of 3-5 persons and is elected by the District Council in a secret ballot among the councillors or from the outside. The board comprises the head of a district, his/her deputy and other members.
- The Head of a District – organizes the work of the district board, manages the current affairs of the district and represents the district towards third parties. The Head of a District is elected for the 5 years term by the Council.

In **provinces**, the main local bodies are:

- The Province Council – legislative and inspection body of a province. The cadence of the province council lasts 5 years.
- The Province Board – executive body of a province. Its tasks comprise especially the execution of the province council's resolutions, executing the province budget, managing the province property as well as coordination and control of the activity of the province administrative units. The board consisting of 5 persons is elected from among the councillors or from outside the

council (except for the province marshal). The board comprises the province marshal as its chairperson, the deputy chairperson and other members.

- The province marshal – chairperson of the Province Board, elected by the Province council for a period of 5 years.

Local authorities may establish:

1. Budget units – public schools, kindergartens, housing enterprises, social welfare centers, social welfare homes, municipal sports and recreation centers, public transport managers and municipal guards.
2. Budgetary establishments – performing activities in the area of: housing, roads, streets, bridges, squares and traffic organization, water supply, sewerage, municipal wastewater removal and treatment, cleanliness and order maintenance, landfills and disposal of municipal waste, supplies, local transport collective, marketplaces and market halls, communal greenery, physical culture and sports, including maintenance of recreational areas and sports facilities, cemeteries.
3. Companies – similarly to self-government budgetary establishments, the activity in the public utility sphere may concern: housing management and business premises management, roads, streets, bridges, squares and traffic organization, water supply and water supply, sewage system, local public transport.
4. Self-government cultural institutions and independent public healthcare institutions.

## Budget

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There are 3 main types of revenue for local authorities: own revenue, targeted subsidies and general subsidies from the State budget. On average, own source revenue constitute a half of total revenue of local authority.

Own source revenue of **municipalities** includes:

- Tax revenue (property tax, farmer's tax, forestry tax, tax for a means of transport, Income tax from individuals, tax on civil law transactions)
- Proceeds from fees
- Income obtained by the municipal budgetary entities
- Income from the assets of the municipality
- Gifts, legacies and donations to municipalities
- Income from money fines
- 5% of the income of the State budget (for the tasks of public administration)

Own source revenue of **districts** comprises:

- Fees constituting district income
- The income obtained by the district budget unit
- Income from the assets of the district
- Legacies and donations to the district
- Income from financial penalties and fines specified in separate regulations

- 5% of the income of the State budget (for the tasks of public administration)
- Interest revenue (on loans granted by the district, defaulted transferred receivables, funds collected in bank accounts)
- Grants from the budgets of the other local government units

**Provinces' own source revenue:**

- Income derived by provincial budgetary entities and deposits from the provincial budget establishments
- Income from assets of the province
- Legacies, and donations to the State
- Income from financial penalties and fines
- 5% of revenues for the State budget in connection with the implementation of government tasks and other tasks by laws
- Interest revenue (on loans granted by the State; defaulted transferred receivables, funds collected in bank accounts)
- Grants from the budgets of the other local government units
- Other earnings of the province on the basis of separate provisions

## 2

## EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

External audits of local government in Poland are conducted by:

- The Supreme Audit Office of Poland (NIK)
- 16 Regional Accounting Offices (RIOs)
- Governors of provinces

NIK is the chief state audit body that audits the activity of local government units (municipalities, districts, provinces), municipal legal persons and other municipal organisational units with regard to legality, sound management and regularity. Governor of the province audits the execution of government administration tasks performed by the local government bodies (municipalities, districts, provinces) on the basis of legal acts or agreements, with regard to legality. RIOs supervise all local government units with regard to financial issues.

Local government units may appoint private auditors (certified accountants) to conduct financial, compliance or performance audits in accordance with the needs of the local authority, however such audit is not required by the Polish law and has no significant impact on the external audit system of local government.

## The role of SAI

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### The mandate

The Supreme Audit Office of Poland has the mandate to carry out financial, compliance and performance audits in all types of local authorities. It may audit the activity of local government bodies, local government legal persons and other local government organisational units at all levels (municipality, district, province), including also municipal companies, as well as inter-municipal, district-municipal unions, as well as other local government legal persons (for instance Independent Public Complexes of Health Care Facilities, etc.).

The **financial audit** of local government units encompasses the annual examination of the state budget execution, including subsidies granted to the local government from the state budget. It is also possible to examine other aspects of the financial activity of particular local government units, provided that, according to the risk analysis, irregularities in this area are possible to occur. The financial audit regarding the state budget execution is conducted annually on a selected sample of local government units, in compliance with the requirements set in the audit methodology, i.e. concerning the criteria for the selection of audited entities. The municipal, districts and provinces financial statements are consolidated at national level and audited by the NIK.

The subject field of **compliance audits** regarding the local government may encompass all activity areas of local government units.

The **performance audit** is conducted on the basis of a risk analysis, in the course of which entities most prone to the risk are selected. At NIK such analysis is conducted both in the general (planned audits), as well as detailed (ad-hoc audits) aspect. The performance audit is based on decisions made by the legislator or on objectives he has designated and may be carried out throughout the public sector. Performance audit is an independent study of the efficiency and effectiveness of projects, programs and public institutions, carried out with regard to savings and aimed at improving them. Such audit may concern both one subject in several local government units (most often in case of planned audits), as well as in one unit (in case of ad-hoc audits).

After every audit, each audited entity receives an audit report (the post-audit statement). On the basis of these statements the summary reports are prepared (information on audit results) to be submitted to other authorities (the Sejm – lower house of the Polish parliament, government bodies, etc.). Recommendations can be proposed to municipalities, districts, ministries etc.

### Relationship with other auditors

In Poland, the functions of audit authorities are not strictly separated – NIK has the widest competences, whereas the competences of other bodies authorized to review the activities of local government units are strictly defined. Therefore, it is possible to duplicate the work of NIK and other audit authorities in audits of municipalities, districts and provinces. For example, the financial audit of the same local authority (municipality) may be carried out by the SAI and by RIO or Province Governor.

Duplication may refer to any inspection (in the scope of financial, compliance and performance audit), which is conducted in accordance with the competences of audit institutions, for example



in the fields of public procurement, evaluation of reports, regularity of public expenditure, subsidies, etc.

NIK may commission audits to other audit, revision and inspection bodies, and may also request them to provide information on audit results. Moreover, NIK may conduct audits with other institutions as the leading partner. NIK may also negotiate control plans with other entities and exchange complaints. The NIK cooperates with internal audit teams and external auditors, using the results of audits carried out by these entities in local government. Audit results are used only for cognitive purposes. For NIK, they are not a source of assessment of the activities of local authorities.

## The role of regional audit institutions

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There are sixteen Regional Accounting Offices (RIOs) in Poland – one in every province. Regional Accounting Offices were established on the basis of the Polish Constitution as supervision bodies over local government units concerning financial matters. The audits performed by RIO encompass all local government units in the province.

The president of RIO is appointed by the Prime Minister at request of a particular minister after a competition procedure has been completed. Employees of RIO are employed by its president on the basis of employment contracts. RIOs are directly financed by the State budget. Regional Accounting Offices are independent and not accountable to any institutions, however are supervised by the minister responsible for the public administration (Minister of the Interior and Administration) with regard to the compliance with the law.

According to the law, the National Council of Regional Accounting Offices (KRRIO) is established. It is composed of representatives of RIOs and represents RIOs against chief and central state bodies, supervises audit plans and programmes, submits annual reports to the Sejm (lower house of the Polish parliament) and Senate (concerning the activity of RIOs and the budget execution by local government units).

## The mandate

RIOs have the mandate to audit financial management and public procurement. Audits are conducted in local government units (municipalities, districts, provinces), local government organisational units, local government legal persons (municipal companies), as well as metropolitan, inter-municipal, district-municipal and district unions, municipal and district associations, and also other entities, regarding their use of the subsidies granted from local government budgets.

According to the law comprehensive audits of each local government unit in a given province are conducted every four years. The audit encompasses all local government units in the province. Audits are conducted on the basis of the annual plan. In 2015 RIOs audited 1,281 local government units, including 724 comprehensive audits.

RIOs conduct the financial audit, including some aspects of compliance and performance (e.g. audit on performance of government administration tasks is carried out with regard to legality, purposefulness, regularity and sound management).



The audit encompasses the entire financial management of local government units. The financial audit is mainly aimed to check the compliance with the law and compliance of accounts with facts regarding such activity areas of the local government units as: organisational matters including rules and regulations and internal provisions, managerial audit, external audit, accounting (cash management, bank management, regularity of accounting books), preparation of financial statements and budgetary reports, stocktaking, budget execution (including planning, execution and amendments), audit regarding regularity of the collection and implementation of the municipal revenue (*i.e.* agricultural tax, real estate tax, transport tax and other local fees such as market fees, local fees), as well as audit regarding revenue from municipal assets.

An important part of the financial audit of local government units is the audit of current and asset expenditure of the municipality. The audit encompasses expenditure related to the everyday functioning of the municipal office, remuneration of employees, expenditure on business trips, subsidies granted from the local government budget to non-governmental organisations regarding culture, sport and social aid. RIOs also audit current expenditure related to public procurement (purchase of services, materials, renovations) and municipal investment tasks (construction and reconstruction of municipal infrastructure (roads, waterworks, sewage system, schools, playfields). The audit of the asset expenditure is aimed mainly to check whether investment processes are compliance with the relevant regulations in force. Furthermore, the financial audit encompasses debt and debt prevention of local government units, regularity of local assets management, regularity of the use of the state budget subsidies and the functioning of municipal organisation units such as social welfare centres, schools and other entities, for instance cultural institutions (libraries, museums, cultural centres).

Results of comprehensive, ad-hoc, problem-oriented and follow-up audits are presented in audit protocols. Such documents include information regarding the established facts, irregularities found, legal basis and persons responsible for the shortcomings. Sixty days after the audited entity have signed the audit protocol, the RIO president submits the post-audit statement to the auditee. The post-audit statement includes a description of irregularities, their consequences, persons responsible and recommendations, which actions should the auditee undertake in order to eliminate these shortcomings. The post-audit statement is submitted to the head of the audited entity and the decision making body of the local government unit. A summary report concerning all audits conducted by sixteen Regional Accounting Offices in a given year is submitted to the Sejm and Senate by the National Council of Regional Accounting Offices.

## The role of other auditors

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The supervision over the local government units is exercised also by the Prime Minister and province governors. The administrative audit is performed by government institutions, in particular the Province Offices (Province Governor), which represent the government administration in the province. The Province Governor audits the performance of government administration tasks by the local government bodies, executed by them on the basis of legal acts or agreements. Supervision bodies (province governor) are entitled to request information on the functioning and organisation of the local government. Local government bodies have to present their decisions to the supervision bodies, which may cancel these decisions, dismiss the local government body and establish a missionary municipal board.



# PORTUGAL

## 1 | LOCAL GOVERNMENT OF THE COUNTRY

The Portuguese administrative organization comprises: 2 Autonomous Regions (Azores and Madeira Islands) and 308 Municipalities (278 in Continental Portugal, 19 in Azores and 11 in Madeira), which are divided into 3,091 civil parishes.

The resident population in Portugal is 10,291,027 (reference to 2017), total size – 92,225.61 km<sup>2</sup>.

It should be pointed out that the whole legal framework on the competences and financing of local authorities is being reformulated, since a decentralization process is underway and in the process of discussion, which aims at transferring competences from the Central Administration to the local, which will change those competencies and the respective funding process.

Over the last few years, there is an ongoing process implying a greater transfer of powers of State/Central Administration bodies to local authorities (Municipalities and Parishes). The law allows municipalities to delegate some competencies in parishes and in inter-municipal entities (public associations of local authorities aiming at the joint pursuit of their respective competencies), through the settlement of program contracts and execution agreements.

## Competences of local authorities (municipalities and civil parishes)

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By their very nature and size, the municipalities and civil parishes are designed to perform tasks in close proximity and interaction with their citizens.

The main responsibilities of municipalities are set out by law and include, among others:

- Urban and rural infrastructure
- Education and professional qualification (partly)
- Civil protection and municipality police (including fire fighters)
- Housing (financing low income housing)
- Environment (water supply and treatment, waste treatment)
- Municipal Police
- Energy
- Territorial planning
- Leisure and sports
- Heritage and culture
- Basic healthcare
- Transport and municipal roads
- Development of business and tourism

The law sets the functional areas where the parishes can exercise their activities, such as rural and urban equipment, public supply, education, sports, primary healthcare, social welfare, emergency management, environment and economic development. Potentially, it is a broad set of competencies, but, in fact, the human, financial and technical resources of parish governments are very limited. Recognizing these limitations, the law establishes specific tasks that should be performed by the parish government, including management of children playgrounds and small sports facilities, conservation of public fountains, maintenance of signposts, pathways and sidewalks, maintenance of public transportations shelters and voter registration, among others.

In addition, agreements may be established between municipalities and parishes in order to delegate some tasks.

As for the Autonomous Regions of Azores and Madeira, their political, legislative, administrative, financial and patrimonial autonomy is exercised within the framework of the Portuguese Constitutional Law and the Statutes of the Autonomous Regions of Madeira and Azores.

Besides administrative powers, they also have political and legislative powers for reasons that stem from their insular position that requires a larger amount of political and legislative self-government, despite the respect to the unity of the Portuguese Republic.

## Structure of local government

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The representative organs of a municipality are:

- Municipality Assembly is the municipality's collegial deliberative body and is composed of members directly elected by universal suffrage of residents in the geographic area and the chairmen of the municipality's parish councils. The number of directly elected members shall be greater than that the one of the chairmen of parish councils;
- Municipality Council is the municipality's collegial executive organ and is composed of a President and councilmen who are directly elected in the same way.

The representative organs of a civil parish are:

- Parish Assembly is the deliberative body elected by universal suffrage of voters residing in the parish for the period of four-years;
- Parish Council is the executive body composed by members elected from the Parish Assembly in its first meeting. Its President is the top-ranked candidate in the most voted list to the parish assembly.

Local authorities may establish:

- Municipality owned enterprises (joint stock companies, limited liability companies)
- Local public associations, municipality's associations and public foundations
- Partnerships with private associations or private foundations established to serve public interests

The organization of the Autonomous Regions comprises its own organs, which are the Legislative Assembly, elected in the regional territory by direct universal suffrage of the Portuguese citizens who inhabit each region, and the Regional Government, which is the executive organ. Its President is appointed by the Representative of the Republic, considering the results of the elections and its members are equally appointed by the same Representative, following the proposal of the President of the Regional Government.

## Budget

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The entities that integrate the regional and local sectors benefit from various types of revenue under the law, as a corollary of several principles defined by law, in particular, the principle of fair distribution of public resources between the State and local authorities. The financing of these entities has the following framework:

- Tax revenues

The Autonomous Regions have their own tax power. The Government of the Republic must transfer to each Region the revenue of the Personal Income Tax due by the residents in the respective Region, as well as the revenue of the Corporate Income Tax due by legal persons with headquarters, permanent establishment, or direction effective in each Region, the Value-added Tax charged on operations carried out in the Region, and the revenue of the Special Gambling Tax.

Municipalities benefit from the revenue of Real Estate Municipal Tax regarding urban buildings (law defines the percentage of this tax's revenue that should be transferred to parishes), the Municipal Tax on Real Estate Transactions, and from percentages, set by law, of the revenue from the Tax on Motor Vehicles Circulation, as well as from a variable 5% participation in the revenue of Personal Income Tax of taxpayers resident in their area, relative to the previous year.

The parishes benefit from the revenue of the Real Estate Municipal Tax related to rural properties in their geographic area and a 1% stake in the revenue of the same Tax, regarding urban buildings.

- State transfers

The Regions are also entitled to State transfers in an amount to be defined annually in the State Budget Law, and to the Cohesion Fund for the outermost regions, among others.

The Municipalities also receive State transfers amounting to 19.5% of the simple arithmetic mean of the revenues of Personal Income Tax, Corporate Income Tax and Value-added Tax, as well as a variable participation of 5% in the revenue of the Personal Income Tax of the taxpayers resident in their territory. Besides these transfers, others can be granted in cases of specific delegations of competencies from the State.

The Parishes are entitled to a tax share of 2% of the simple arithmetic mean of the revenues of Personal Income Tax, Corporate Income Tax and Value-added Tax.

- Grants and Subsidies

The state cannot grant subsidies to municipalities and parishes. However, exceptionally, subsidies can be granted, in specific situations defined by law, namely in order to finance projects of special interest for local development, in cases where municipalities or parishes don't have sufficient resources of their own, in situations of public calamity, and implementation of new municipalities or parishes, among others.

- Other revenues

All these entities are beneficiaries of the product resulting from the collection of fees, prices, fines, income from own assets and profits of companies in which they participate and from loans that they can contract, among others.

## 2

## EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

External audits of local government in Portugal are conducted by:

- Portuguese Court of Auditors (PCA)
- Private auditors
- State General Inspector

The external control of the Autonomous Regions follows the same pattern, although in what regards it, the Court of Auditors acts primarily through two regional chambers, one in Madeira and the other one in Azores.

### The role of SAI

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In view of the recent approval of a new Budget Framework Law (Law 151/2015, September 11th) and the implementation of the new Accounting Rules for all Public Sector (Decree-Law 192/2015, September 11th), in force in 2018, it is most likely that the PCA's organization and procedures law will be subject to important amendments.

### The mandate

Portuguese Court of Auditors has the mandate to carry out financial, compliance and performance audits in local authorities. It may perform audits in municipalities, civil parishes, municipality owned enterprises, local public associations or any other public institutions controlled by the municipality or private entities that manage or use public money.

Concerning **financial audits**, PCA carries out financial audits only in selected local authorities. Due to the financial and economic crisis in these last few years, the PCA has conducted financial audits mainly in the scope of local indebtedness level, total debt, budget execution, public procurement and financial liabilities. However, PCA has the mandate to audit financial statements of local authorities too.

The scope of **compliance audit** involves budget execution, public-procurement, programs established by law, etc.

**Performance audits**, may as well be performed by the PCA, aiming at assessing whether budget and assets management or specific programs comply with the principles of economy, effectiveness and efficiency.

Audits may be carried out in one local authority or in several of them (horizontal audits). Until the year 2017 preference was given to financial and compliance audits. In 2016 and 2017 only one municipality was subject to performance audit. In 2018 two more performance audits on a horizontal basis are included in the court's annual Working Plan, one, regarding the financing of the firefighters (both municipal and private) by municipalities and the other regarding forest protection plans set by local authorities.

The PCA presents audits' results in the audit reports, which are notified to the auditees, Parliament, members of the Government and Public Prosecution Service. Mandatory recommendations may be issued to all public entities (or private entities that manage or use public money) related with the audit.

## Relationship with other auditors

The control of public financial activity in local authorities is also exercised by other State bodies, such as the State General Inspector. The legal framework separates competences of auditors strictly.

The Organizational and Procedure Law of the Court of Auditors establishes a framework for relating with internal control bodies, whose essential aspects are as follows:

- Informing the PCA of their annual and multi-annual activity programs and their activity reports
- Sending reports on their control actions when these contain matters of interest to the performance of the PCA
- Carrying out actions upon the PCA's request

Additionally, the Local Finance Law requires that municipal accounts are audited and certified by private certified auditors.

PCA and other State control bodies and private auditors are legally obliged to a special cooperation and collaboration principle.

## The role of private auditors

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According to Local Financial Law annual accounts of municipalities, municipality owned enterprises and municipality local associations must be audited and certified by private auditors. For this reason, municipalities and municipality owned enterprises appoint private certified auditors to certify their financial statements. The opinion is addressed to the audited entities.

Remuneration for auditors is paid from the budget of municipality or municipality owned enterprises.

## The role of other auditors

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Under the Organic Law of the Ministry of Finance, the General State Inspector is a service of the Ministry of Finance integrated into the direct administration of the State, with administrative autonomy, directly accountable to the Minister of Finance, responsible for ensuring the strategic control of the state financial management, whose mandate includes performing compliance, financial and performance audits.

Its intervention covers all entities of the public administrative and business sector, including local authorities, as well as the private and cooperative sectors, in this case, when they are subject to financial or tax relations with the State or the European Union or when it proves indispensable to the indirect control of any entities covered by its action.





# ROMANIA

## 1 | LOCAL GOVERNMENT OF THE COUNTRY

In Romania, there are two tiers of local government: counties and towns/communes. In total, there are:

- 41 counties plus the Municipality of Bucharest (which contains 6 sectors)
- 103 big towns (capitals of the counties and other big towns), 217 small towns and 2,861 communes

Population of Romania is 22,241,717 (as of 2017-07-01) – 12,546,212 in towns and 9,695,505 in communes. Total area: 238,397 km<sup>2</sup>.

### Competences of local authorities

**Towns and communes** have competences in the following main spheres:

- Socio-economic development, territorial planning of the town/commune
- Local budget
- Public services of local interest
- Housing
- Transport infrastructure
- Investments
- Education
- Health
- Culture
- Youth and sports
- Public order; fire and civil protection
- Scientific, cultural, artistic, sports and leisure activities
- Protection and rehabilitation of the environment, protection of heritage
- Social assistance
- Water supply and sewage



- Waste management

**Counties** have the following competences:

- |  |  |
|--|--|
| ▪ Regional development   | ▪ Transport infrastructure and public transport services |
| ▪ Coordination of the activity of the local councils of the communes and towns | ▪ Education  |
| ▪ Budget of the county   | ▪ Social protection and assistance                       |
| ▪ Public services of county interest   | ▪ Health   |
| ▪ Territorial planning of the county, general urban development of the county  | ▪ Water supply, sewage                                   |
| ▪ Culture and sport  | ▪ Waste management                                       |

## Structure of local government

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In Romania, the local authority represents the right and effective capacity of the local public administration authorities to solve and to manage, in the name and in the interest of local collectivities that they represent, the public matters, under the terms of the law. This right is exercised by the local councils and mayors, as well as by county councils that are local public administration.

The public administration authorities through which the local autonomy is achieved in communes and towns are the local councils of the communes and towns, as deliberative authorities, and the mayors, as executive authorities.

A county council is constituted in each county, as the authority of the local public administration, for the coordination of the activity of the communal and town councils, aimed at the carrying out of public services of county interest.

The local councils, county councils and the mayors are elected under the terms stipulated in the Law on local elections. Their mandate is of 4 years. The election is universal, equal, direct, secret and freely expressed by secret vote, under the terms established by the Law on local election.

The national government appoints a prefect in each county and in Bucharest Municipality. The prefect is the representative of the Government at local level and manages the decentralized public services of the ministries and of the other central bodies in the territorial-administrative units.

Local authorities can establish the following entities:

- Public subordinated entities of county interest (hospitals, schools, health and social institutes, theaters, museums, tax collection offices etc.) financed partially and integrally from county budget
- Municipality owned companies with profitable purpose (water distribution, waste management and sewage, civil protection, constructions etc.)

## Budget

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Sources of revenue for local government are comprised of:

- Tax revenue comprised of taxes assigned to local authorities and a part of common taxes set by law (income tax, land, property taxes)
- EU funds and investments
- Subsidies and grants of the state budget (for the implementation of the State functions)
- Other revenues: donations and sponsorships, parking fees, fines, city taxes, renting the property of local authority

The Ministry of Finance gathers each year the proposals and estimates for next years' budget and drafts a budget from national level to local/municipality (communes, small towns, towns and counties) level. Each municipality has its own independent budget, but the Ministry of Finance issues each year the rules to execute the budget.

Total amount of revenue in all municipalities of Romania for the year 2016 represented 30.5% of consolidated national budget, from which 5.07% for the 41 counties and 25.43% for communes, small cities, cities.

For 2016, 50.02% of total revenue in all municipalities (65% for counties and 46% for communes, small cities and cities) came from subsidies (State budget and other budgets) and from redistributed VAT collected in the State budget. 46.8% of total revenue in all municipalities came from the own-source.

## 2

## EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

The external audit of local government is carried out only by the Romanian Court of Accounts (the SAI) through its 42 county offices.

### The role of SAI

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#### The mandate

The Romanian Court of Accounts has the mandate to carry out financial, compliance and performance audits in all types of territorial administrative units (counties, towns and communes).

The Court of Accounts may conduct **financial audit** of the following implementation accounts:

- The local budgets and that of Bucharest Municipality, the budgets of counties, of Bucharest Municipality sectors, of the municipalities of towns and communes' annual implementation accounts
- The accounts relating to the implementation of public institutions annual budgets, financed integrally or partially from the local budgets
- The consolidated financial statements that include local government units

SAI is autonomously deciding on its activity program. Annually a number of municipalities are audited, following the rule that counties and big towns are audited yearly and small local administrative units like communes, are audited at least once every 3 years. In 2017 a number of 1,084 financial audit has been carried out in municipalities.

Financial statements of all municipalities are consolidated into the set of national financial statements. By law, SAI is responsible for auditing the set of national financial statements including municipality financial statements. The Court of Accounts shall submit to the Parliament, on an annual basis, a report on the national public budget management accounts, including a special chapter on audit activities carried out within the territorial and administrative units, covering the budgets of the general centralized budget of the administrative and territorial units (local budget of villages, towns, counties; budgets of public institutions and activities wholly or partly funded from own revenues; budgets from external and internal loans, contracted by local government authorities; budget from external grants). Furthermore, an audit report which comprises the audit opinion, relevant findings and measures to be applied, is submitted to the auditees after each financial audit.

The SAI can conduct the control (**compliance audit**) of the establishment, management and use of state and public sector financial resources, subsequently providing the Parliament and the administrative and territorial units a report on their use and management, in keeping with the principles of legality, regularity. Control report containing relevant findings and a decision with measures to be applied are submitted to the auditees. In 2017 a number of 121 compliance audit has been carried out in municipalities.

The SAI can conduct the **performance audit** of the public sector financial resources use, as an independent examination of the economy, effectiveness and efficiency of the use by a public entity, a program, a project, a process or an activity of the public resources allotted to fulfill the set objectives. It may be carried out both at the end and during the unfolding of projects, programs, processes and activities. The performance audit activities are carried out in keeping with the own performance audit methodology, adopted based on the INTOSAI audit standards and on the best practice in the domain and shall be concluded by the establishment of an audit report. The scope of performance audit may cover either several local authorities (horizontal audit) or one of them. In 2017 a number of 48 performance audits has been carried out in municipalities. As a result of the audit, performance audit report and letter with recommendations is prepared. The documents are submitted the each audited entity.

Finally, the Romanian Court of Accounts performs follow-up missions on the implementation of measures sent through decisions (after financial audits and control) and the implementation of recommendations after performance audits.



# SERBIA

## 1 | LOCAL GOVERNMENT OF THE COUNTRY

There are two tiers of local governments in Serbia:

- At local level: City of Belgrade – capital, 119 municipalities, 25 cities and 25 city municipalities.
- On regional level: 2 autonomous provinces. One of them is the Kosovo-Metohija, under temporary administration of the United Nations, the other – Vojvodina.

Altogether there are 172 local authorities and 30 local authorities at the territory of Kosovo and Metohija.

The population of Serbia is 8,873,000 people (2016), out of which the Republic of Serbia, without Kosovo and Metohija has population of 7,057,000 inhabitants, total size is 88,361 km<sup>2</sup>, out of which territory of the Republic of Serbia, without Kosovo and Metohija, is 77,474 km<sup>2</sup>, and territory of Kosovo and Metohija is 10,887 km<sup>2</sup>.

### Competences of local authorities

Municipality and City, through its bodies, and in compliance with the Constitution and the law, performs the following functions:

- Adopts development programs
- Adopts urban plans

- Adopts the budget and final statement of accounts
- Determines the rates of own revenues of the Municipality, as well as the manner and measures for setting amount of local charges and fees
- Determines and provides renovation and development of communal activities
- Adopts programs for land construction development
- Ensures environmental protection
- Establishes institutions and organizations in the area of primary education, culture, primary health care, physical education, sport, children health care, tourism and monitors and ensures their functioning
- Manages assets of the Municipality and uses funds owned by the state and ensures their maintenance and growth

Competences of Autonomous Province:

- |  |   |
|--|---|
| ▪ Spatial planning, regional development and construction of objects | ▪ Tourism, hotel industry, spa and sanatorium |
| ▪ Agriculture  | ▪ Environmental protection                    |
| ▪ Waterways  | ▪ Industry and craftsmanship                  |
| ▪ Forestry   | ▪ Road, river and railway traffic             |
| ▪ Hunting and fishing  | ▪ Sport, culture, health etc.                 |

## Structure of local government

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Municipality or city has the following bodies:

1. Assembly of municipality/city – legislative body – consists of councilors, elected by citizens in direct elections, by means of secret voting for the period of 4 years. Number of councilors in the assembly is determined by Statute, whereby it may not be less than 19 or more than 75. City assembly is composed of councilors, number of which is determined by the city statute, whereby it may not be less than 19 or more than 90. Assembly of municipality/city has a President and Deputy President who are elected among councilors, for the period of 4 years, by means of secret voting, by majority of total number of councilors of the assembly of municipality/city.
2. President of Assembly of municipality/city (Mayor) – executive body – is elected by the Assembly of municipality/city from councilors for the period of 4 years, by means of secret voting, by majority of total number of councilors of the assembly of municipality. Candidate for the President of municipality/city proposes candidate for the deputy President of municipality/city from council members, who is elected by the municipal assembly in the same way as the President of municipality.
3. Municipal/City council – executive body – is elected by the assembly of municipality/city, and is composed by President of municipality/Mayor, deputy President of the Municipality/Mayor, and members of the municipal/city council, number of which is determined by the statute of municipality/city and may not be more than 11. Members are elected by the assembly of municipality/city, for the period of 4 years, by means of secret voting, by majority of total number of councilors. Candidates for members of municipal/city council are proposed by the

candidate for the President of municipality/city. President of municipality/city is the President of municipal/city council. Deputy President of municipality/city is the member of municipal/city council.

Bodies of the Autonomous Province of Vojvodina are:

1. Assembly of the Autonomous Province – The Assembly has 120 member provinces, elected in direct elections, by secret voting. The duration of term is four years.
2. Provincial Government – the executive body of the Autonomous Province. Work of the Autonomous Province is directed by the Assembly, and Provincial Government is accountable to the Assembly for its work. Provincial Government consists of the President, one or more Vice-Presidents and members of the Provincial Government. Provincial Government is elected by the Assembly of the Autonomous Province and its term in office lasts until the expiry of the term of the Assembly.
3. Provincial Administration – is autonomous and conducts activities, stemming from its competences, in compliance with the Constitution, Law, Statute and Assembly Decision of the Province, while it is accountable to the Provincial Government and Assembly for its work. Provincial Administration activities are conducted by the Provincial Secretariats and Provincial Administrative organizations. Provincial Secretariat is managed by the member of the Provincial Government, while Provincial special administrative organizations are managed by the Director, appointed by the Provincial Government.

Local authorities may establish enterprises, institutions and other organizations for the purpose of exercise of its rights and duties and for satisfying needs of local population, in compliance with the law and statute.

## Budget

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The sources of revenue of Municipalities and Cities are:

1. Own revenues
2. Delegated revenues
3. Transfers from Republic
4. Receipts acquired from borrowing
5. Other revenues and receipts determined by the law

Own revenues are revenues realized at the territory of local government, namely:

- Property tax, except transfer of rights tax and inheritance and gift tax
- Local charges (administrative, communal, concession and other charges)
- Tourist tax
- Revenue from fines
- Revenues from leasing, and/or using real estate and assets
- Revenues on sale of services of local budget beneficiaries
- Interest income on assets of the budget of local government unit

- Revenues on donations to local government unit
- Voluntary tax revenues

Municipalities and Cities have the right on the following taxes collected at its territory:

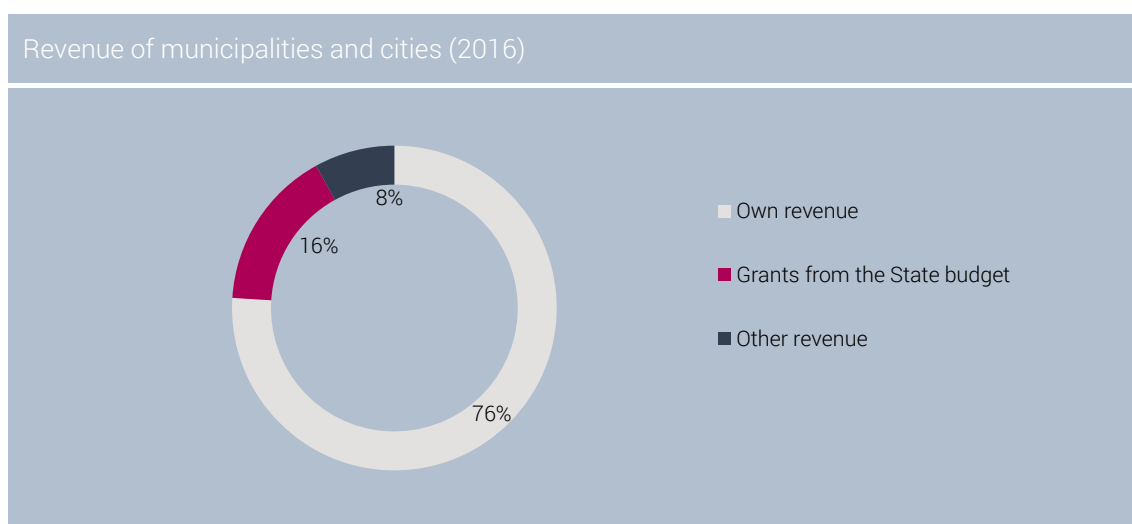
1. Personal income tax, on income from:
  - agriculture and fisheries
  - independent activities
  - leasing movable assets
  - insurance of persons
  - 74% of income tax paid according to the employee's place of residence (except for cities, who receive 77%, and/or City of Belgrade who receives 66% of income tax)
  - other revenues in compliance with the law
2. Inheritance and gift tax
3. Transfer of rights tax

Average participation of own revenues and other revenues in total revenues of all local self-governments amount to 76.38% in 2016, namely:

- Municipalities (59.64% on average) – ranging from 20.24% to 78.61% of total revenue of particular municipality;
- Cities (72.78%) – ranging from 51.45% to 92.89% of total revenue of particular city.

Average participation of special purpose and non-special purpose transfers from the state Budget in total revenue of all local self-governments amount to 16.08% in 2016, namely:

- Municipalities (36.50% on average) – ranging from 3.94% to 78.61% of total revenue of particular municipality;
- Cities (14.20%) – ranging from 4.59 % to 34.92 %, of total revenue of particular city.



Information regarding revenues of the local governments does not include information on the Autonomous Province. Structure of the recorded revenues of the Autonomous Province of Vojvodina in 2017 is as follows:

## EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

External audits of local government in Serbia are conducted by:

- The State Audit Institution of Serbia
- Private auditors

External audit of final statement of accounts of local governments' budgets is implemented by the State Audit Institution, in compliance with the law regulating competence of the State Audit Institution. Notwithstanding, with consent of the State Audit Institution and based on the decision of the local government's assembly, external audit of a local government's budget may be implemented by a person which meets the conditions for performing activities of audit of financial statements, prescribed by the law regulating accounting and auditing (private auditor).

### The role of SAI

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#### The mandate

State Audit Institution (SAI) conducts audit based on Annual Audit Program, which the Institution is obliged to adopt before the end of the year for the next calendar year. Each year, Audit Program mandatory includes appropriate number of local government units and defines what kind of audits will be performed. In compliance with law, the State Audit Institution may audit all direct and indirect budget fund beneficiaries, territorial autonomies and local authorities, in accordance with regulations governing budget system and public revenues and expenditure system. In 2016, the State Audit Institution conducted audits of 26 local government units and included total of 1,048 budget beneficiaries (122 direct budget beneficiaries and 926 indirect budget beneficiaries).

The SAI has the mandate to carry out financial, compliance and performance audits in local authorities. The financial audit is conducted together with compliance audit at the same time.

The scope of **financial and compliance audit** is financial statements and the execution of the budget. Audit subject matters are consolidated financial statements of municipalities, cities, and/or City of Belgrade, and they constitute final statement of accounts of the budget of the municipality, city, and/or City of Belgrade, and final statements of accounts of budgets of city municipalities within the city, which are prepared by the authority competent for financial affairs of municipality, city, and/or City of Belgrade and is submitted to the Treasury.

Audit Program 2018 stipulated that in 2018 SAI performs audit of 32 consolidated financial statements of local governments, namely:

- Transfers from other levels of government (58.30%)
- Revenues from the Budget (28.55%)
- Unused funds from previous years (8.71%)
- Receipts on domestic borrowing (3.20%)
- Other financing sources (1.24%)



- 20 consolidated financial statements of local governments – financial statement audit and compliance audit, which includes at least 480 budget beneficiaries and
- 12 consolidated financial statements of local governments – only compliance audit, including at least 300 budget beneficiaries.

The scope of **performance audit** depends on the topic. So far, the State Audit Institution has included local government units only within one performance audit (that covered the public sector). Subject matter of that audit was "Justification for establishing committees and other permanents and temporary working bodies in the public sector".

As a result of audits, State Audit Institution prepares audit reports, integral part of which is also Opinion, and if necessary, Management Letter over the course of audit process. State Audit Institution has the authority to issue recommendations to audited entity (cities, municipalities, autonomous provinces). In compliance with the Law on State Audit Institution, the audit report is submitted to:

- Audited entity
- Responsible person of the audited entity in the reference period for the completed audit
- Parliament
- Other bodies assessed by the Council of SAI that they should be informed about audit findings

## Other functions and products

Additionally to audit function, the SAI of Serbia organizes annual lectures for municipal and city administration, heads of finances and budgets, internal auditors and managers of financial units. During the lectures the SAI shares current experiences gathered in the process of auditing local government units.

## Relationship with other auditors

The SAI cooperates only with internal auditors of local authorities. Regarding reliance on the work of internal auditors SAI determines whether and for which areas and to what extent it may use work of the internal audit, as well as provide direct assistance to internal audit.

## The role of private auditors

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External audit of a local government's budget may be implemented by the private auditor with consent of the State Audit Institution, based on the decision of local authorities' assembly. Local government unit sends SAI a request for providing the consent. If the local government unit in question is included into Annual Audit Program of SAI, financial statement audit is conducted by SAI. However, if such local government unit is not included in the Audit Program, then SAI issues consent to the local government and local authority hires private auditor.

Private auditors perform financial audit of consolidated financial statements of city/municipality and may audit all direct and indirect beneficiaries whose financial statements are included into consolidation. For payment of auditors, funds of local self-government are used, while appointment of auditors is done in accordance with the Law on Public Procurement. Private

auditors prepare the audit report of the independent certified auditor on completed external audit and issue recommendations to the audited entity.



# SLOVAKIA

## 1 | LOCAL GOVERNMENT OF THE COUNTRY

In Slovakia there is 2 tier local government system: 2,890 municipalities (140 towns and 2750 villages) and 8 higher territorial units (HTU) or self-governing regions. Population of Slovakia is 5,435,343 (as of 2016-12-31), total size – 49,035 km<sup>2</sup>. In 2016, the smallest village had 11 inhabitants, while the biggest city – 425,923 inhabitants.

### Competences of local authorities

Municipalities are responsible mainly for:

- Local planning
- Economic development
- Investments and asset management
- Administration of local taxes and fees
- Education (children at age of 3-15 years) and sport
- Roads and local public transport
- Water and waste management
- Lightning
- Public areas and public green
- Social services
- Housing
- Culture and tourism
- Police and civil defence
- Fire service

The scope of performance of these responsibilities depends on the size and financial basis of the municipality.

Higher territorial units are, in their regions, responsible for:

- Regional development

- Investments and asset management
- Education (children at age of 15-18 years) and sport
- Roads and transport
- Social services
- Health care
- Culture and tourism
- Others (protection of the environment, inter municipal cooperation etc.)

## Structure of local government

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Municipal institutions responsible for the implementation of the right to self-government are:

- The Mayor – statutory and main executive body, elected in the direct elections by the inhabitants of the municipality for the period of four years.
- The Municipal Council – main legislative body, composed of the deputies elected in the direct elections by the inhabitants of the municipality for the term of four years. Municipal Council decides on the basic questions of the life of the municipality. It is empowered to constitute also Commissions as its temporary or permanent, initiative and controlling bodies. The Municipal Council can establish Municipal Board. It is made up of Municipal Council members elected by the Municipal Council for the full term of office. The Municipal Board is the initiative, executive and supervisory body of the Municipal Council. It fulfils its tasks according to the decision of the Municipal Council. At the same time, it serves as the Mayor's advisory body.

The structure of the higher territory units is composed of:

- The President – statutory and main executive body, elected in the direct elections by the inhabitants of the region for four years.
- The Regional Parliament – representative and main legislative body, composed of the representatives elected in direct elections by the inhabitants of the region for four years. Its primary function is to decide about cardinal tasks of HTU. It is empowered to constitute also Commissions as its temporary or permanent, initiative and controlling bodies.

Municipalities and HTU are entitled to establish the budgetary and contributory organizations and set up business companies.

## Budget

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Municipalities and HTU have own revenue and other revenue sources.

The own sources of municipalities and HTU are as follows:

1. Non-tax incomes from possession and from possession transferring of the municipality's and HTU property and from activities of the municipality and HTU and its budgetary organizations
2. Returns from financial means of the municipality and HTU
3. Sanctions for breach a financial discipline stated by the municipality and HTU
4. Gifts and incomes from voluntary collections on behalf of the municipality and HTU

5. Shares on taxes in state administration according to a particular regulation
6. Returns from local taxes and fees according to a particular regulation (only municipalities)

Other municipal and HTU sources:

1. Grants from the state budget for repayment of costs of the transferred performance of civil service in accordance with the act of state budget for the corresponding budget year and grants from state funds
2. Further grants from the state budget in accordance with the act of state budget for the corresponding budget year
3. Grants for the particular purpose from the budget of a higher territorial unit or from the budget of other municipality for the realization of contracts according to a particular regulation
4. Means of the European Union and other means from abroad provided for a particular purpose
5. Other incomes established by particular regulations

The municipality and HTU may use for the fulfilment of its tasks also:

- Means of extra-budgetary financial funds
- Profit from entrepreneurial activity
- Reimbursable sources of financing
- Joint means

The revenue of local authorities for the year 2016:

1. That comes from the grants of the State:
  - 24.1% for municipalities
  - 2.2% for HTU
2. Own revenue (including shares on personal income taxes in state administration, to which municipalities and HTU are entitled from state budget):
  - 63.5% for municipalities
  - 59.3% for HTU
3. Own revenue (excluding shares on taxes in state administration) – only local taxes, local fees etc.:
  - 25.45% for municipalities
  - 7.6% for HTU

## 2

## EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

The external audit of local authorities is carried out by:

- The Supreme Audit Office of the Slovak Republic
- Private auditors
- Office for Governmental Audit

- Audit departments of ministries

## The role of SAI

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### The mandate

The Supreme Audit Office of the Slovak Republic (SAO SR) has the mandate to carry out financial, compliance and performance audits in local authorities. SAO SR may audit (according to the law):

- Municipalities
- Legal entities with the participation of municipalities
- Legal entities established by municipalities (e. g. budgetary and contributory organizations like schools, municipal service enterprises)
- Other legal entities (public or private) to which the municipality has allocated funds or has entrusted property to the administration

Audits in these local government entities are performed in accordance with the annual Audit plan.

Concerning **financial audits**, they are mostly performed as combined audits: financial and compliance audits. The financial audits are carried out according to annual audit plan and only in selected local authorities. Average number of audited entities per year is 43 (as of 2012 – 2016).

The scope of almost all financial audits in municipalities is:

- Local budget execution
- Financial statements
- Final account, state and debt development of the municipality
- Use of local governments' funds and assets
- Use of state grants

SAO of SR audits financial statements of municipality, but does not submit an opinion. SAO assesses/evaluates the summary of errors in relation to materiality and their impact on the financial statements as a whole. Audit results are presented in audit report.

The scope of **compliance audits** depends on the audited topic - compliance with the applicable law on the subject. The scope in audited municipality is:

- Local budget execution (reimbursement of revenue and expenditure, budget changes, budget process)
- Financial statement
- Final account, state and debt development of the municipality
- Use of local governments' funds and assets
- Disclosure of mandatory information

**Performance audits** are mostly performed as combined audits: performance and compliance audits. Depending on the theme (topic), one to all of the three components (economy, effectiveness, efficiency) is examined:

- Use of local budget for a particular purpose

- Use of local governments' funds and assets
- Activities, development programs, concepts

Almost all performance audits cover one topic in several chosen municipalities (e.g. Efficiency of the public funds spent for communal services (2016), e-Government and information systems of municipalities (2017)). Performance Audits of one local government have not been done in recent years.

SAO of Slovak Republic presents audit results in the audit report/summary audit report. Audit report is submitted to the municipality. Summary audit report (from several audited entities) is submitted to the other institutions for which the conclusions were formulated and for which recommendations were submitted.

SAI can propose recommendations to the relevant audited entity – municipality or its institution (in audit report). In summary audit report from several audited municipalities, recommendations can be proposed to other central government institutions (e.g. to the relevant Committee of the Parliament of Slovak Republic, to the relevant ministry or to the Government - this is valid for all types of audit).

## Other functions and products

- Press releases – according to the law, the President of SAO SR or his Vice-president is required publish information for the purpose of informing the public at least every three months.
- Briefings – this “product” was used in several audits in large number of municipalities to provide complex information to the representatives of audited municipalities, professional public, interest groups. Preparation of such documents is not mandatory.
- Printed publications – In 2010 was issued publication “Audit activities of Supreme Audit Office of SR in municipal sphere in years 2006 – 2009” and in 2014 was issued publication “Audit activities of Supreme Audit Office of SR in municipal sphere in years 2010 – 2013”. Purpose of these was to enable the lay and professional public to know the process of the audit activities of SAO SR and its findings, recommendations and proposals for improvement in municipalities. Not prescribed by law.

## Relationship with other auditors

SAO SR has signed Cooperation Agreement with Chamber of auditors (private auditors) – cooperation mostly relates to the exchange of information and passing common learning activities.

SAO SR and Office for Governmental Audit cooperate in the area of coordinating audit plan - the cooperation consists mainly of organization of working meetings:

- At the planning stage of the audit activity – in order to avoid duplication of audit in the municipalities;
- In the phase of acquaintance with the audit results – in order to use the results.

## The role of private auditors

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Financial statements of all municipalities are subject matter of private auditors' audits every year. When auditing the financial statements, the private auditors also verify compliance of defined obligations of the Act on the Budgetary Rules. Private auditors may also audit municipality owned enterprises after fulfilment criteria stated in law.

Private auditors are appointed by Mayor usually after Municipal Council approval. The bigger municipalities (those with more than 50 000 inhabitants and with consolidated property more than 100 000 000 euros) are obliged to establish the authority responsible for proposal of the private auditor for approval for Municipal Council. The remuneration is paid from the budget of municipality. After an audit, the audit report with his/her opinion is prepared and submitted to municipal authorities. Audit report is published in register together with financial statements.

## The role of other auditors

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Other audit institutions conducting external municipality audits are:

- Office for Governmental Audit – audits management and use of state budget funds and EU funds according to its plans (mainly compliance audit). The Office for Governmental Audit with jurisdiction over the whole territory of the Slovak Republic was established by Act. It is a budgetary organization with its revenues and expenditures included in the budget of the Ministry of Finance. The Office for Governmental Audit is managed by Director, which is appointed and dismissed by the Minister of Finance of the Slovak Republic.
- Ministries with their audit departments – audit management and use of respective state budget funds and EU funds according to their plans (mainly compliance audit).





# SLOVENIA

## 1 | LOCAL GOVERNMENT OF THE COUNTRY

In Slovenia, there is only one tier of local government – municipality. Slovenia's territory is divided into 212 municipalities including 11 urban municipalities. A town may acquire the status of an urban municipality if it has at least 20,000 inhabitants and at least 15,000 jobs, and if it is the geographic, economic and cultural centre of its gravitational area. The Constitution enables two-tier local self-government. Regions could be established as wider self-government local communities at the level between the state and the municipalities. So far, they have not been established.

The population of Slovenia is 2,066,161, total size – 20,273 km<sup>2</sup>. The size of municipalities varies significantly. Whereas the largest municipality covers the area of 555 km<sup>2</sup>, the surface of the smallest one is only 7 km<sup>2</sup>. The municipality with the highest number of inhabitants is Ljubljana with the population of 282,741. The smallest municipality has only 362 inhabitants.

### Competences of local authorities

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According to the law on local self-government the local matters of public interest (original duties) shall be independently performed by the municipality.

In order to satisfy the needs of its inhabitants, a municipality shall primarily perform the following duties and functions (so-called original duties of a municipality):

- Spatial planning
- Providing for activities related to local public environmental protection (protection of air, soil and water sources, protection against noise and collection and disposal of waste)
- Providing for childcare
- Providing for primary education
- Providing for primary healthcare
- Providing for services for socially threatened, disabled and elderly people
- Promoting sports and cultural activities
- Constructing, maintaining and regulating local public roads and other public areas, regulating traffic in the municipality
- Maintaining water supply and power supply facilities
- Providing for fire safety
- Organising the performance of funeral and burial services
- Organising municipal administration

The state can delegate the performance of some tasks to the municipality as long as it also provides funds for their implementation. In practice, no such tasks have been delegated to municipalities.

## Structure of local government

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Municipal institutions responsible for the implementation of the right to self-government are:

1. The Municipal Council – the highest decision-making body on all matters concerning the rights and duties of the municipality. It may have 7 to 45 members. The Municipal Council is elected by direct and secret ballot. Members of a municipal council shall be elected for a four-year term.
2. The Mayor – represents the municipality and acts on its behalf. The mayor shall be elected by direct and secret ballot by voters having a permanent residence in the municipality. The term of office of the mayor shall be four years.
3. The Supervisory Committee – the highest body of supervision of public expenditure in a municipality. Members of the Supervisory Committee are appointed by the municipal council. They shall perform their duties on a non-professional basis. Members of the Supervisory Committee are appointed for the period until the expiry of the term of office of the Municipal Council members. Within the framework of its competency the supervisory committee:
  - performs supervision of the municipal property disposal;
  - supervises the use of budgetary funds according to the intended purpose and value for money;
  - supervises financial operations of the users of budgetary funds.

Municipalities may establish:

- Municipality owned enterprises;

- Public institutions – non-profit organizations, public funds and agencies, established to serve public interest in performing social, educational, healthcare, cultural, sport or any other similar activities.

## Budget

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According to Financing of Municipalities Act local matters of public interest are being financed through:

- Own resources of the municipality
- State budget
- Debts

Own resources of the municipality are:

- Taxes (property tax, inheritance and gift taxes, tax on profit from gambling, sales tax on immovable property, other taxes stipulated by law)
- Income deriving from the assets/property of the municipality (rents, securities etc.)
- Concession fees, fines etc.

Other taxes may also belong to the municipality, if this is provided by a law. Revenues from personal income tax also belong to the municipality for financing local matters of public interest.

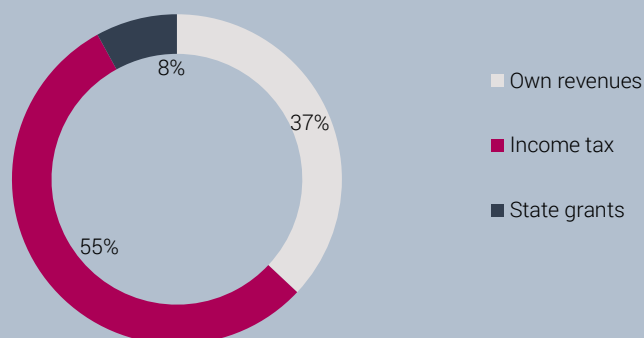
Where revenues of a municipality are insufficient to cover its eligible expenditure in a particular fiscal year, it shall be allocated compensation from the state budget. The calculation is made taking into account the area, population and the length of roads.

In addition, the municipality may also receive funds from the state budget for investments and for projects funded from European funds. The percentage of these funds varies from year to year.

In the year 2016 8% (in 2015 – 24%) of total budget revenue of local authorities came from state grants (including state funds funded by the EU). The decrease in 2016 was mainly due to lower amount of funds for EU funded projects.

Revenue from the income tax constituted 55 % of the total local revenue for 2016. Although the national legislation defines the income tax as an own source, the municipalities have no freedom in imposing this tax, as incomes from this tax are distributed between state and municipalities' budgets in proportions set by the law. The remaining part of revenues (37%) mainly included other taxes (16.3%), non-tax incomes (16.8%) and incomes from sales of capital assets (2.6%).

Local authority budget revenue (2016)



## 2

# EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

External audits of local government in Slovenia are conducted by:

- The Court of Audit
- The Budget Supervision Office (Administrative Body within the Ministry of Finance)
- Private auditors

## The role of SAI

### The mandate

The Court of Audit has the mandate to carry out financial, compliance and performance audits in local authorities.

According to the Court of Audit Act, SAI may audit the business operation of users of public funds, which are defined as:

1. Any legal entity of public law or a unit thereof;
2. Any legal entity of private law provided that one of the following applies:
  - it has received financial support from the budget of the European Union, state budget or local community budget;
  - it performs public services or provides public goods on concession basis;
  - it is a commercial company, bank or insurance company in which the state or a local community holds the majority share;
3. Any physical person provided that one of the following applies:
  - he/she has received financial support from the budget of the European Union, state budget or local community budget;
  - he/she performs public services or provides public goods on concession basis.

SAI may audit (all) business operations of local authorities:

- It may carry out regularity and performance audits;
- It may audit any act on past operations as well as any act on planned business operation of any user of public funds.

Concerning **financial audits**, SAI has the mandate, but in practice such audits as separate audits, with an issued opinion on financial statements of the municipality, have not been performed for quite some time (last such audits were performed in 2006). The financial statements might be examined within performing compliance audits but no separate opinion on financial statements is given.

The Court of Audit may carry out **compliance audits** in local governments. The scope is not limited. When performing compliance audits also the financial statements are audited in parallel in order to ensure that if irregularities in data recording are noticed, important findings are addressed in the audit reports and if necessary pointed out also to the ministry as a systemic issue. The number of audited entities varies from year to year, for example, in 2016 18 audit reports were issued to municipalities as auditees and 7 to municipality-owned enterprises; in 2015 – 12 to municipalities and 5 to municipality-owned enterprises.

The scope of **performance audits** is not limited and includes effectiveness, efficiency and economy of using local governments' funds and assets. SAI carries out performance audits that cover several local authorities (e. g., audit of construction of kindergarten facilities, publishing of local media etc.) and audits of one local authority (for example public private partnership projects in one municipality). Also, the SAI may conduct audits that cover both local authorities and central government institutions, which are forming the policies in certain areas (e. g. ministries, the government). In 2016 12 performance audit reports were issued to 38 municipalities as auditees and 3 to municipality-owned enterprises; in 2015 none of the performance audits of municipalities were concluded with an issued audit report and 3 audit reports were issued to municipality-owned enterprises.

Process of audit is completed by issuing an audit report, in which SAI also provides an opinion on the business operation of the auditee. The audit report is delivered to the auditee, the auditee's officer who was responsible in the period covered by the audit, the National Assembly, other authorities which, in the opinion of the President of the Court of Audit, should be informed of the audit disclosures.

In the audit report, SAI can propose recommendations to the auditee. But in general SAI can, as a part of its consultation role, consult all users of public funds and can provide recommendations to them. The Court of Audit Act states that SAI shall consult the users of public funds as follows:

- It shall provide recommendations at the time of performing the audit and in the report;
- It may make comments on working drafts of laws and other regulations;
- It may participate in meetings and seminars on public finance issues;
- It shall put forward proposals in the report;
- It may express opinions on public finance issues.

## Other functions and products

SAI does not have additional functions and does not prepare documents, connected to audit. However, the law states that the Court of Audit may consult the users of public funds and, among other tasks, participate in meetings and seminars on public finance issues; express opinions on public finance issues. Opinions are addressed to users of public funds including municipalities and other entities established by municipalities.

## Relationship with other auditors

The functions of audit institutions are not strictly separated and there is a possible overlap of competencies. The cooperation with other audit institutions is not officially and generally foreseen, but in single cases SAI cooperates with other audit institutions, for example with Budget Supervision Office on audit of the use of European funds.

## The role of private auditors

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Private auditors are hired by municipality owned enterprises or public institutions by public procurement procedures. Private auditors may be appointed to audit municipality owned enterprises or institutions, public funds and agencies. For some of these enterprises/institutions these audits are compulsory and for some not (depending on the size of enterprises and the type of organisation). Private auditors mostly are appointed to carry out audit of annual financial statements of municipality owned enterprises/public institutions and to prepare an opinion. Additionally, municipalities may hire private auditors to conduct external/internal audit of its own performance. Remuneration for auditors is paid from the funds of municipality owned enterprises. Recommendations can be directed to municipality, municipality owned enterprises or public institutions.

## The role of other auditors

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Another form of external municipality audit is done by the Ministry of Finance Budget Supervision Office.

The main tasks of this Office are in the field of spending of the EU funds (e.g. it performs pre-accreditation reviews, certifies declarations of expenditures, performs independent controls, reports to the European Commission on irregularities regarding the use of EU funds) and it is also a central body of the public internal financial control system (responsible for development, harmonization and supervision of the financial management and internal control as well as internal audit system of direct and indirect budget spending centers on the central and local level). An important part of its activities is also budgetary inspection, where among other, it also performs inspections of the use of state budget funds allocated to municipalities.



# SPAIN

## 1 | LOCAL GOVERNMENT OF THE COUNTRY

The territorial organization of Spain is composed of 3 levels: autonomous communities (19), provinces (52) and municipalities (8,124). The population is 46,528,966 (as of 2017-01-01) and the total area is 505,944 km².

AUTONOMOUS COMMUNITIES	No. OF PROVINCES	No. OF MUNICIPALITIES
ANDALUSIA	8	778
ARAGON	3	730
BALEARIC ISLANDS	1	67
BASQUE COUNTRY	3	251
CANARY ISLANDS	2	88
CANTABRIA	1	102
CASTILE-LA MANCHA	5	919
CASTILE-LEON	9	2,248
CATALONIA	4	947
CEUTA (AUTONOMOUS CITY)	1	1
COMMUNITY OF MADRID	1	179
COMMUNITY OF VALENCIA	3	542
EXTREMADURA	2	388
COMMUNITY OF NAVARRE	1	272
GALICIA	4	314
LA RIOJA	1	174
MELILLA (AUTONOMOUS CITY)	1	1



AUTONOMOUS COMMUNITIES	No. OF PROVINCES	No. OF MUNICIPALITIES
PRINCIPALITY OF ASTURIAS	1	78
REGION OF MURCIA	1	45
<b>TOTAL</b>	<b>52</b>	<b>8,124</b>

The Autonomous Community is the first and the largest level of political and administrative division. These units have a high level of autonomy and have historical origin. There are 17 Autonomous Communities and 2 Autonomous cities in Spain.

Autonomous Communities are divided into 52 local authorities – Provinces. Out of them, 2 have the status of Autonomous Cities, 3 provinces are covering the territory of 11 islands in the Balearic and Canary archipelagos. The Balearic Islands comprise four islands, and the Canary Islands include seven. The government of each Balearic Island is called Consejo Insular and the government of each Canary Island is called Cabildo Insular. Both, Consejo Insular and Cabildo Insular have the same range of competences as the Provinces.

The lowest and basic tier of local government are municipalities. Each municipality forms part of a province. Each municipality has independent legal personality, exercise its own powers given by law or delegated from the State and/or the Autonomous Communities. Municipalities may form joint local entities:

- Commonwealths – associative local entities voluntarily established to perform jointly certain municipal works and services (carry out joint projects, provide common services). They have a legal personality and can be set for an indefinite period. They are entities created by the municipalities which made up the commonwealth. There are 979 commonwealths.
- Districts (comarcas) – made up by municipalities with common characteristics and interests for which they deem appropriate their own management. They have a legal personality and may be set up by the Autonomous Community if the municipalities agree. The comarcas usually have a social and historic origin. In total, there are 82 comarcas in the country.

## Competences of local authorities

The competences that can be assumed by the Autonomous Communities in their Statute of Autonomy are set out in the Constitution. Autonomous Communities exercise their functions in the most important spheres such as healthcare, education, social services etc.

The main functions of the Provinces are as follows:

- Guaranteeing compliance with the solidarity and balance principles among the Municipalities they are comprised of
- Ensuring the provision of municipal services
- Assistance and legal, economic and technical cooperation with the Municipalities
- Being involved in the coordination of local government with the Autonomous Communities and the State

Municipalities or municipality associations provide series of basic services depending on their population:



- All municipalities are responsible for public lighting, cemetery, refuse collection, street cleaning, drinking water supply, sewerage system, access to urban areas, and road surfacing.
- Municipalities with more than 5,000 inhabitants have additional responsibilities in the spheres of public library, public parks and waste treatment.
- Municipalities with more than 20,000 inhabitants – are also responsible for civil protection, social assistance and fire prevention and extinction.
- Municipalities with more than 50,000 inhabitants additionally exercise their functions in urban passenger transport and environment protection.

## Structure of local government

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Autonomous Communities have 3 branches of government:

1. Legislative – there is a Legislative Assembly with a different number of members depending on the Autonomous Community and on its Statute of Autonomy, which is the main law in every Community. The people who live in every autonomous community vote for the members of the Assembly every 4 years. The legislative assembly can adopt laws within its competence.
2. Executive – exercised by the Government, with a President and some ministers. They are elected by the Legislative Assembly for 4 years.
3. Judicial – belongs to the judicial system of Spain.

Main bodies of Municipalities, Autonomous Cities, Provinces, Cabildos and Consejos Insulares are:

1. The Council – body responsible for the municipal government and local administration. It is composed of the Councilors, who have the powers delegated by the Mayor. The number of municipal Councilors depends on the population size, it varies from 3 (up to 100 inhabitants) to 25 (up to 100,000 inhabitants) and one more for each additional 100,000 or fraction, one more is also added if the total result is an even number. The Councilors are elected directly by popular vote in a secret ballot on the basis of universal suffrage for a period of 4 years. In the Provinces, the difference is that the members (deputies) of the provincial Council are elected among and by the councilors of the Municipalities located in the province, so it's an indirect election.
2. The Mayor – president of the City Council, elected directly among and by the Councilors for the period of 4 years. The Mayor represents the Council, calls and chairs the plenary sessions. In provinces, the provincial deputies elect the President of the Province.
3. The Municipal Plenary – a body formed by all the elected Councilors for the term of 4 years, with a broad range of competencies, as to pass the municipal budget, pass the municipal bylaws, pass the general plans of urban development, and many other regulations, in areas such as taxes, urban policy, etc.
4. Governing board – composed of the Mayor and the Councilors appointed by the Mayor in municipalities with population over 5,000 inhabitants and in the ones that have population under 5,000, if the Municipal Plenary approves it or according to their own regulation on organization and functioning.

In the biggest municipalities, there is a special structure in relation to their organization and their functioning, as well as their financial management, allowing them to create districts (as a territorial division) and specific management and budgeting bodies.

Local authorities may establish, regardless of their size:

- Municipality/province owned enterprises
- Autonomous bodies
- Public business entities
- Consortiums and foundations

## Budget

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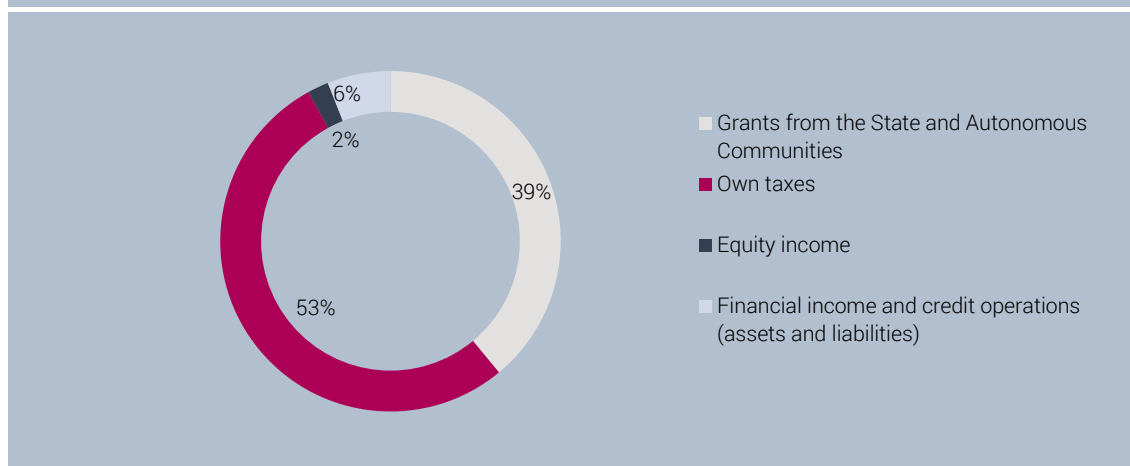
The Spanish Constitution lays down two basic principles with regard to local economies: financial autonomy and financial self-sufficiency. The first one means that municipalities, provinces and islands can take their own decisions on resources and how to spend them. The second one is aimed at guaranteeing that all municipalities have the necessary resources to exercise their competences. In order to be self-sufficient, the local resources are:

- |   |                             |
|---|-----------------------------|
| ▪ Incomes from self-owned assets  | ▪ Subsidies                 |
| ▪ Local taxes (fees, special contributions, duties)                       | ▪ Public fares              |
| ▪ Surcharges on the Autonomous Communities or other local entities' taxes | ▪ Credit transactions       |
|   | ▪ Fines and other sanctions |

The most important sources of Autonomous Communities are taxes and some funds which are redistributed among them by the State. The taxes are divided into ceded taxes (for example inheritance tax), State taxes and own taxes (for example rate of water). Regarding the participation in the State taxes, the Autonomous Communities receive 50% of the income tax collected in their territory, and 50% of the VAT collected in their territory, among others, but the income tax and the VAT are the most relevant taxes.

The particular percentage of revenue is determined every year in the State General Budget Law. On average, the largest amount of municipal and provincial revenue comes from own-source revenue – taxes. Grants from the State and the Autonomous Communities constitute the second biggest source. The percentage of the grants from the State is higher in municipalities with more than 500,000 inhabitants (on average the distribution is 76% from the State and 24% from the Autonomous Communities, but if the municipality is larger, the grants from the State represent 90% of the whole amount of grants).

Average revenue distribution (of municipalities and provinces)



## 2

# EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

External audits of local government in Spain are conducted by:

- The Court of Audit
- 12 regional audit institutions

In some situations private auditors may be also involved in the audit related to local government, however their role is rather small as they are mainly hired to carry out financial audit of enterprises and foundations established by local authorities in cases prescribed by law.

## The role of SAI

### The mandate

The Court of Audit is the supreme body in charge of auditing State accounts and financial management, as well as those of the public sector, including Autonomous Communities and local public sector. The members of the Court of Audit have the same independence and tenure and are the subject to the same incompatibilities as judges. There are 7 departments in the Spanish Court of Audit, 5 of them carry out audits on state public sector, 1 of them on Autonomous Communities and another one carries out audits on local public sector. In addition, there are 3 departments responsible of the accounting prosecution.

The Court of Audit has the mandate to carry out financial, compliance and performance audits in all local authorities. Usually the scope of a certain audit is wide, not limited only to one audit type – the audits may include financial, performance and compliance aspects at the same time. All audits are carried out only in selected local authorities. The exact number depends on the annual audit programme of the Court. Usually the horizontal audits are carried out (a certain topic is analysed at the same time in many local entities).

During the **financial audit** the financial statements are audited and an opinion on whether entities' financial statements are correct and complete is issued. In the year 2017 financial audits were

conducted in 49 entities (38 provincial councils, 10 island councils and 1 city council). All of these audits were financial, performance and compliance audits.

The **compliance** audits encompass checking the entity's management system and procedures and a comprehensive review of an organization's adherence to regulatory guidelines (contracts, grants, agreements, management delegations etc.). During 2017 the Court of Audit carried out compliance audits in 314 entities (38 provincial councils, 10 island councils and 266 municipalities). All of these audits were compliance and performance audits, some of them – also financial audits.

In **performance** audits, the methods and processes used by an organization are examined with regard to effectiveness, efficiency and economy. During 2017 the Court of Audit conducted performance audits in 314 entities (38 provincial councils, 10 island councils and 266 municipalities). All of these audits were horizontal audits and 72 entities were included in more than one audit. In addition, every year the Court of Audit prepares a report (including analysis) about the whole local public sector regarding the accountability of the local entities.

The results of all audits are presented in the audit reports. The audit report is approved by the Plenum of the Court of Audit, agreeing to send it to the Spanish Parliament and to the Legislative Assemblies of the Autonomous Regions or the plenary sessions of the local authorities, as appropriate. After the audit the Court of Audit can propose recommendations to the local authorities (provinces, municipalities, enterprises etc.) as well as to the Spanish Parliament or to the Legislative Assemblies of the Autonomous Regions depending on the matters of their competence.

## Other functions and products

The Court of Audit also implements additional functions related to local authorities.

Prescribed by law:

- **Limited Advisory Function.** The Court of Audit, as organ of constitutional relevance and Supreme Audit Institution of the accounts and the economic management of the State and the public sector, has to be consulted before the adoption of any provision affecting its legal status or the exercise of its functions. The report of the Court of Auditors in the exercise of this limited advisory function is defined as mandatory, but non-binding, addressed to the Spanish Parliament.
- **Accounting prosecution.** The role of accounting prosecution, as the Court of Auditors inherent jurisdiction, is being performed related to the accountability to those collecting, arranging, managing, having custody, handling or using public properties, funds or effects (including local authorities), by the requirement of accounting liability that might have been incurred.

Not prescribed by law:

- **Accountability platform.** The Court of Audit has developed a computer system that helps to easily transfer the data on the accountability of the municipalities General Account directly to the Court of Audit or through the regional audit institutions.
- **Dissemination activities.** The Court of Audit participates in discussion forums and seminars to divulgate the activities performed or new developments of the accountability platform.

- Coordination activities with the Ministry of Finance in relation to the use of the accounting platform or requesting the information that the local entities have to submit to them and also coordination with the regional audit institutions for the performance of the audits.
- Elaboration of procedure instructions. The Plenum of the Court sometimes approves instructions in order to determine how to implement certain proceedings, such as the submission of the contracts/agreements concluded by telematics means.

## Relationship with other auditors

According to the Law on the Court of Audit, while exercising audit function, the coordination measures between the Court and regional audit institutions may be applied.

Each regional audit institution audits the municipalities of their autonomous community. The Court has a mandate to audit these entities as well, so the information is exchanged with the Court, the common criteria and audit techniques are established in order to ensure greater efficiency in the results and to avoid duplication in audit proceedings. The Court of Audit and the regional audit institutions hold two meetings a year in order to coordinate the activities.

The regional audit institutions transmit to the Court of Audit the individualized results of the examination and audit of the accounts of the autonomous public sector bodies. This documentation must be accompanied by the necessary background, the Court of Auditors being able, at its discretion, to perform the additional verifications it deems appropriate, and incorporate its own conclusions to the reports approved, for the purpose of their referral to the Spanish Parliament and, where appropriate, to the Legislative Assemblies of the Autonomous Regions. Until now, the information and reports sent by regional audit institutions were approved by the Court and no new conclusions have been incorporated to the reports.

Additionally, the Plenum of the Court of Audit may request specific audit actions, referred both to regional and state public sector, from the regional audit institutions.

## The role of regional audit institutions

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Most Autonomous Communities (12 out of 17), in accordance with their Statutes of Autonomy, or as provided by law, have created their own external audit bodies, that carry out audits on activities on the Administration of the respective Regional Administration and of that of Local Authorities of their territory without prejudice to the exercise by the Court of Audit in its function over the entire public sector, at state, regional and local level. The mandate, functions, type of such regional institutions vary depending on the Law of the autonomous community where such institution is established. In practice, the differences among them are few.



# TURKEY

## 1 | LOCAL GOVERNMENT OF THE COUNTRY

The territory of Turkey is divided into 81 provinces. Constitution of Turkey enumerates 3 types of local governments: special provincial administrations (51), municipalities (1,397) and villages (18,336).

In 30 provinces, there is a two-tier municipal system:

- 1<sup>st</sup> tier – metropolitan municipalities (30)
- 2<sup>nd</sup> tier – district municipalities (519)

In 51 special provinces, a single-tier municipal system exists, where in urban areas local services are usually delivered by municipalities (provincial, district or other) and in rural areas – by special provincial administrations. There are also the smallest settlements – villages.

The population is 77,695,904 inhabitants (2015), the total territory is 783,562 km<sup>2</sup>.

Types of local government in provinces	
30 provinces (Metropolitan system)	51 provinces
2-tier municipal system	1-tier municipal system
30 metropolitan municipalities (each for one province)	51 Special provincial administrations
Within the territory of every metropolitan municipality, micro services are entrusted to district municipalities (total number 519)	51 Provincial municipalities
	400 District municipalities
	397 Other municipalities
	18,336 Villages

## Competences of local authorities

By law, **municipalities** shall provide or cause to provide services in the following areas:

- Urban infrastructure facilities such as land development planning and control, water supply, sewer and transport
- Geographic and urban information systems
- Environment and environmental health, sanitation and solid waste
- Municipal police, fire fighting, emergency aid, rescue and ambulance services
- Urban traffic
- Burial services and cemeteries
- Tree planting, parks and green areas
- Housing
- Culture and art, tourism and promotion, youth and sports
- Social services and social aid
- Weddings
- Vocational and skills training
- Economic and commercial development
- Shelters for women and children (metropolitan municipalities and municipalities with a population of more than 50,000)

Additionally, municipalities may provide or cause to provide services in the following areas:

- Building and maintenance of schools
- Open and operate health care facilities
- Conservation, maintenance and repairs of cultural and natural assets of areas and functions that have historical significance to the town
- Giving materials to students, amateur sports clubs, providing the necessary support, organizing sports games, awarding sportsmen/sportswomen
- Food banking

The order of priority in the provision of services shall be determined in the light of the municipality's financial situation and the urgency of the service.

The municipality's duties, responsibilities and powers shall cover the area within the municipal boundaries. Municipal services may also be provided to the adjacent areas by a resolution of the municipal council.

Since metropolitan and district municipalities operate in the same jurisdiction and their services are complementary in nature, metropolitan and district municipalities need to work in close cooperation and coordination. Otherwise, gaps or overlaps may occur in municipal services, or even conflicts of functions or powers. The metropolitan municipality is tasked with ensuring coordination and resolving disputes among municipalities in the metropolitan area.

The law establishes a relation of tutelage between metropolitan and district municipalities:

- A hierarchy is established to ensure the integrity of land development administration, entrusting the power of making higher scale plans to the metropolitan municipality and the implementation plans to district municipalities.
- Implementation plans of district municipalities are subject to approval by the metropolitan council.
- Budgets of district municipalities are subject to approval by the metropolitan council.
- Where there is a dispute between a district municipality and the metropolitan municipality or between district municipalities, the metropolitan council has the power to pass a directive and regulative resolution.

Some of the metropolitan municipal functions may be delegated by a resolution of the metropolitan council upon the consent of district municipalities such as passenger and freight terminals, parking spaces, burial services etc.

**Special provincial administrations** are operating in a sense as municipalities for rural areas and discharge the following functions across the province:

- Construct, maintain and repair primary and secondary schools and cultural centres
- Develop preventive health services, social services, industry and trade, infrastructure for amateur sports
- Develop agriculture
- Execute the central government's investments for which appropriations are transferred

The following are the functions that special provincial administrations discharge only in and for villages:

- Make land development plans
- Supervise and license buildings
- License businesses
- Construct, maintain and repair village roads
- Collect, store and dispose of waste
- Protect and develop environment and soil
- Reduce poverty



Some functions of the special provincial administrations are complementary to those of the central government. For example, the Ministry of Food, Agriculture and Livestock defines the national agricultural policies and supports the producers. Special provincial administrations implement projects that support agricultural infrastructure not to be contrary to the said policies.

**Villages** are the smallest local governments with population lower than 2,000. Villages as rural local governments have longer history than municipalities. Village governance is critical for democracy though it has limited financial resources and budget. Village, as a public legal personality, has full administrative and financial autonomy.

## Structure of local government

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The main bodies of **municipalities** are:

1. **Municipal Council** – the decision-making body of the municipality, elected directly by people. Nation-wide local elections are held every five years, on the basis of free, equal, secret ballot, direct, universal vote, open counting and listing under the administration and supervision of the judiciary. For elections for municipal councils each district is an electoral district. Proportional representation is the basis of elections for municipal councils. Except for metropolitan municipalities, the municipal council has minimum 9 to maximum 55 seats for councillors depending on the population size of the city. No separate election is held for the metropolitan council. One fifth of district municipal councillors (highest voted) also become councillors in the metropolitan council. Further, district mayors are also natural members in the metropolitan council. The metropolitan mayor is also the speaker of the metropolitan council. The number of seats in the metropolitan council varies by the number and sizes of districts.
2. **Municipal Executive Committee** – a commission that implements the resolutions of the council. The municipal executive committee is comprised of the mayor and 10 other persons in metropolitan municipalities, 6 in municipalities with population of 100,000 or above, and 4 in other municipalities. The mayor is also the chairperson of the municipal executive committee. It is a mixed commission with one half of the members of being councillors elected by the municipal council, the other half municipal administrators selected by the mayor (one must be the fiscal administrator of the municipality).
3. **Mayor** – elected by direct popular vote by people for five years. Elections are held on the basis of free, equal, secret ballot, direct, universal vote, open counting and listing under the administration and supervision of the judiciary. The mayor is a politically strong person because s/he is elected by direct popular vote and the mayor's party of affiliation holds the majority in municipal council. The mayor controls the municipal budget and manages the staff, has the power to appoint and remove all municipal administrators and employees (except in the case of the secretary-general and directors-general of affiliated entities where these positions exist in metropolitan municipalities and incumbents are appointed by the Minister of Interior upon a proposal from the respective mayor). Since the mayor is the speaker of the council and the chairperson of the executive committee, s/he has the power to set the agenda and steer the debate in those bodies. The office is so strong that even incumbent parliamentary deputies compete for it; for example, in the last nation-wide local elections 6 incumbent parliamentary deputies were elected metropolitan mayors.

Municipalities may establish:

- Municipality affiliated entities (the agencies under the administration of municipality)
- Municipality enterprises
- Municipal corporations
- Shareholdings owned by the municipality
- Municipality associations.

The main bodies of **special provincial administrations** are:

1. General Provincial Council – the decision-making body of the provincial administration and comprise members elected. Elections are held on the basis of free, equal, secret ballot, direct, universal vote, open counting and listing under the administration and supervision of the judiciary. For elections for general provincial councils, each district is an electoral district. Proportional representation is the basis of elections for general provincial councils.
2. Provincial Executive Committee is chaired by the governor, consists of five members elected by the general provincial council every year from among its own members by balloting for a period of one year, and five members are selected by the governor every year from among the heads of units one of whom shall be the head of the fiscal services unit. The secretary general shall chair the executive committee meeting which the governor is unable to attend. The governor may invite the relevant heads of units to meetings of the executive committee for consultation, without voting rights, on items on the agenda.
3. Governor – the head of the special provincial administration and the representative of its legal entity.

**Village** administration consists of a mukhtar, an executive committee and a village association. Mukhtar is the representative of the village and is elected by village voters for the period of five years. An executive committee operates as the decision-making body and assists the mukhtar in village administration. Village voters elect an executive committee of 8 to 12 persons depending on the village population.

## Budget

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Municipal revenues consist of own revenues collected by municipalities themselves and the apportionments from the central government tax revenues.

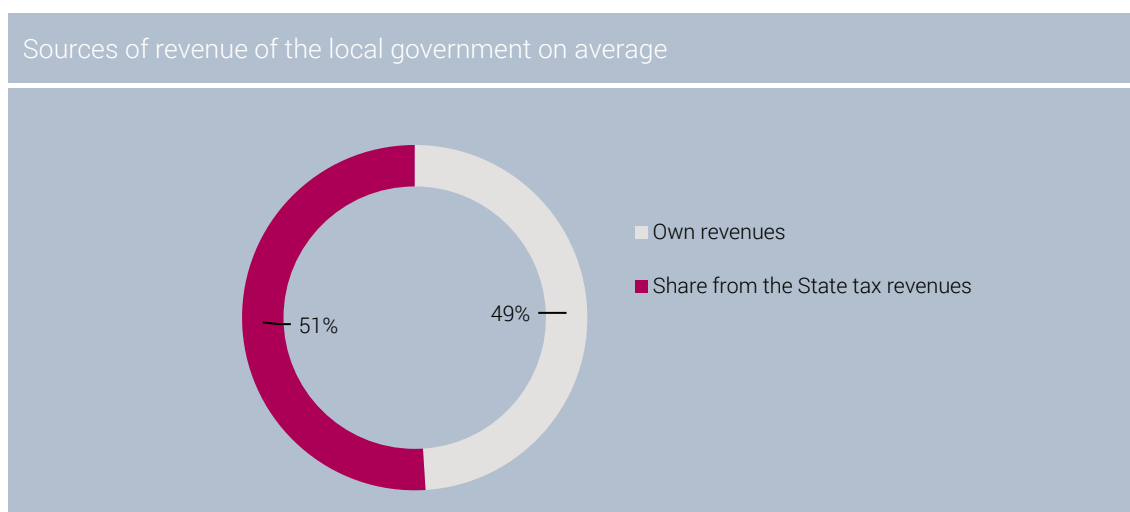
Own revenues constitute on average 48.8% of the municipal budget and have the following sources:

- Taxes – property tax, sanitation tax, announcement and advertisement tax, electricity and coal gas consumption tax, communication tax, entertainment tax.
- Charges – building construction charge, business license charge, various development charges, occupation charge, spring water charges. The lower and upper rates of charges are set by the law.
- Contribution to investment expenditures – municipalities charge property owners not to exceed 0.2% of the value of their respective property as a contribution to investment

expenditures incurred by municipalities for construction of roads, water and sewer etc. infrastructure.

- Fees – charged for services provided by the municipality upon the request of the buyer, not a subject-matter of any taxes, charges or contributions. The fee schedules shall be set by the municipal council, for example potable water fees and public transport fees, pesticide application to residence or work place, water tank cleaning, chimney shaft cleaning, car parking etc.
- Enterprise revenues – enterprise and property revenues, more important for municipalities than tax revenues.

Local governments are not authorized to collect taxes on revenues and expenditures. Only the state (i.e. central government) collects such types of taxes and distributes shares to local governments. The rates of such shares were increased slightly in 2008, then again in 2012 to redistribute the tax revenue shares to local governments in proportion to their functions and responsibilities. Approximately 12% of the state tax revenues are allocated to municipalities, accounting for 51.2% of municipal revenues on average.



## 2

## EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

External audit of local government is carried out only by the SAI (Turkish Court of Accounts).

Since municipalities disburse public funds, they are subject to audit by the Court of Accounts which audits on behalf of the Turkish Grand National Assembly (the national parliament). Turkey has no specific court of accounts for local governments. The Court of Accounts regularly (annually) reviews whether municipal revenues and expenditures comply with laws, whether municipal assets are protected.

## The role of SAI

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### The mandate

The Court of Accounts has the mandate to carry out financial, compliance and performance (but not value for money) audits.

Local governments (special provincial administrations, municipalities) and all types of administrations, organizations, institutions, associations, enterprises and companies affiliated to, or founded by the local governments (where the public share is more than half of the total share) may be audited by Turkish Court of Accounts.

**Financial audit** is carried out annually in all local authorities as part of regularity audit, which combines financial and compliance audits. Financial audit is the audit on reliability and accuracy of financial reports and statements in accordance with results of the assessment of accounts and transactions of public administrations as well as their financial activities, financial management and control systems. The budget execution is also audited. The **compliance** part of this audit is related to determining whether revenues, expenditures and assets of public administrations, as well as accounts and transactions pertaining to those are in compliance with laws and other legal arrangements.

If it is found out during an audit that the public resources incurred a loss, a recovery decision is returned. The recovery decision of the Court of Accounts has the effect of a court order and not subject to appeal. If public loss is identified during the audit of the accounts and transactions of local governments, the Judicial Report is prepared for Trial of account which means taking final decision by judicial procedure on whether the accounts and transactions of those responsible specified in laws are in compliance with the legislation, and the legal remedies related to this.

Turkish Court of Accounts carries out **performance audits** in local governments and municipality affiliated entities. But they are not value for money audits. Performance audit shall be carried out through measuring the activity results related to the objectives and indicators determined by administrations within the framework of accountability. Performance audits performed by Turkish Court of Accounts shall not result in financial and legal responsibility by law.

As a limitation Turkish Court of Accounts shall not undertake propriety audit and shall not render decisions that limit or remove the discretionary powers of administrations.

Turkish Court of Accounts prepares Audit Report (which includes also audit opinions) for the result of audits. As the Court of Accounts audits on behalf of the Turkish Grand National Assembly (the national parliament) audit reports are submitted to Turkish Grand National Assembly for the institutions within the scope of the central government budget. Audit reports are also submitted to municipal councils. Turkish Court of Accounts can propose recommendations to all entities after the audit.



# UKRAINE

## 1 | LOCAL GOVERNMENT OF THE COUNTRY

There are 2 tiers of local government in Ukraine. Primary level – village, town and city councils (respectively 9,304, 772 and 463 councils as of 2018-02-01). The second level – oblast and rayon councils (respectively 24 and 488). In addition, according to the law there are united territorial communities that arise in the process of voluntary association of territorial communities of adjacent villages, settlements, cities, as well as voluntary joining to united territorial communities.

The population of Ukraine is 44,939,090 people and the total territory is 603,628 km<sup>2</sup>.

### Competence of local authorities

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Local authorities' competence covers the following spheres:

- Socio-economic and cultural development, planning and accounting
- Budget, finance and prices
- Communal property management
- Housing and communal services, public services, trade services, public catering, transport and communications
- Building industry
- Education, health care, culture, physical education and sports

- Regulation of land relations and protection of the environment
- Social protection of population
- International economic activity
- Defense issues
- Issues concerning administrative and-territorial system
- Registration of the place of residence of individuals
- Law enforcement, protection of the human rights, freedoms and legal interests of citizens
- Others

Local self-government bodies may be granted by law certain powers of state executive authorities. Exercising of these powers is financed by the state fully from the State Budget of Ukraine or through the allocation of certain national taxes to the local budget, by the procedure established by law, transfers the relevant objects of state property to bodies of local self-government.

In part of exercising the powers of executive authorities, local self-governments are subordinated to the relevant executive authorities.

## Structure of local government

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According to the Law on Local Self-Government, the system of local self-government in Ukraine includes:

- Territorial community
- Village, settlement and city councils
- Village, settlement and city heads
- Executive bodies of the village, settlement and city councils
- Prefects
- Rayon and oblast councils representing the common interests of territorial communities of villages, settlements, cities
- Bodies of self-organization of the population

**The village, town and city councils** – local self-government bodies that represent respective territorial communities, act on behalf and in the name of such communities and are defined by the Constitution of Ukraine and laws. **Oblast and rayon councils** - represent the common interests of territorial communities of villages, settlements, cities, within the limits of powers defined by the Constitution of Ukraine, this and other laws, as well as powers transferred to them by village, settlement or city councils. The village, town, city, oblast and rayon councils include deputies elected by residents of the village, settlement, city, rayon, oblast on the basis of universal, equal, direct suffrage by secret ballot. The term of office of the village, settlement, city, rayon and oblast councils, whose deputies were elected at the scheduled elections, is five years. The end of term of the village, settlement, rayon or oblast council means termination of powers of deputies of the relevant council.

A village, settlement or city council, located in the administrative center of the united territorial community, is the successor of the rights and responsibilities of all legal entities – village, town,

city councils, elected by territorial communities that joined together, from the date of receiving the powers by village, settlement or city council, elected by the united territorial community.

**The mayors of village, town and city** are elected on the basis of universal, equal and direct suffrage by secret ballot by territorial communities. Mayors act as the heads of executive body of the council and preside at the meetings. The term of office of the village, town and city mayors, which were elected at the scheduled election, is five years.

**The head of rayon council, oblast council or district council in city** (in case of its establishment) is elected by the relevant council among its deputies by secret ballot for the term of office of the council. In his activity, the head of the council is accountable to the council and may be dismissed from his position by the council by secret ballot.

Local authorities in Ukraine are by law allowed to establish municipal enterprises, institutions and organizations of communal property.

## Budget

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According to the Constitution of Ukraine, material and financial basis of local self-government consist of movable and immovable property, revenues of local budgets, other funds, land, natural resources that are in the possession of territorial communities of villages, settlements, cities, rayon in oblast, as well as the objects of their joint property, which are under control of rayon and oblast councils.

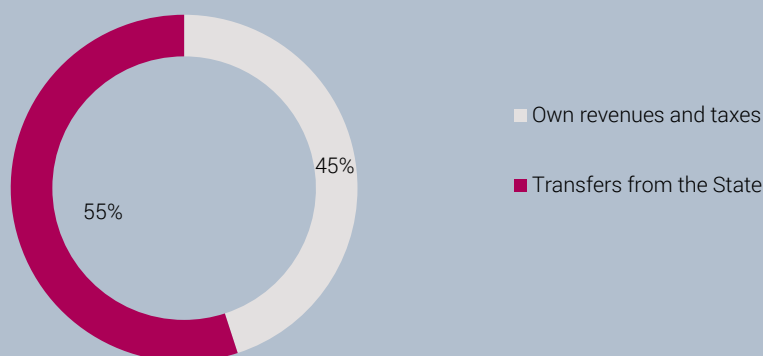
Territorial communities of villages, settlements and cities on a contractual basis can unite communal property objects, budget funds for joint projects, or for co-financing (maintenance) of communal enterprises, organizations and institutions, as well as to create appropriate bodies and services for this purpose.

The State participates in income generation of local self-government budgets and financially supports local self-government. Expenditures of local self-government bodies, that arise as the result of decisions made by the state authorities, shall be compensated by the state.

For the year 2017, transfers from the state budget amounted 55% of the revenue part of local budgets.

45% of the revenues of local budgets were derived from tax and non-tax revenues, income from capital operations and trust funds. The personal income tax and land payment are the main budget sources for local budgets.

## Revenues of local budgets



## 2

# EXTERNAL AUDIT SYSTEM OF LOCAL GOVERNMENT

The external audits on local authorities are carried out by:

- Accounting Chamber of Ukraine (the SAI)
- State Audit Service of Ukraine

The mandate of the Accounting Chamber in local authorities covers State budget funds and transfers from the State budget to local government, whereas State Audit Service has also access to the local budget funds.

## The role of SAI

### The mandate

In relation to the local executive authorities, the Accounting Chamber carries out external audits. By law, the state external financial control (audit) is provided by the Accounting Chamber through conducting financial audit, performance audit, expert review, analysis and other control measures.

At the request of local governments, the Accounting Chamber carries out the state external financial control (audit) over the funds of the relevant local budgets (within the limits of using the state budget funds at the local level, transfers from the state to local budgets, as well as funds from the State Fund for Regional Development). The Accounting Chamber has no legislative right to conduct the audit of local budget expenditures and can audit only state funds transferred to local authorities.

The Law of Ukraine "On the Accounting Chamber" defines that the objects of control of the Accounting Chamber while exercising its powers are state bodies, local self-government bodies, other budgetary institutions, economic entities, public or other organizations and other financial institutions that receive and use funds of the state budget as well as transfers from the state budget to local budgets (subsidies and subventions). According to the Law, in order to ensure the



fulfillment of powers assigned to the Accounting Chamber, there are 6 regional departments of the Accounting Chamber, which carry out state external financial control (audit) at the local level.

The Law provides that the Accounting Chamber carries out its activities in accordance with the working plans approved at the meeting of the Accounting Chamber. Requests of the Verkhovna Rada of Ukraine, its committees and other bodies, deputy's appeals and inquiries, appeals of the President of Ukraine, the Cabinet of Ministers of Ukraine with proposals on exercising by the Accounting Chamber the measures of state external financial control (audit) are considered at the meeting of the Accounting Chamber to decide on their inclusion in the working plans.

The Law of Ukraine "On the Accounting Chamber" does not provide obligation to conduct annual **financial audit** in all local authorities, therefore an opinion (report) on financial statements of local government is not submitted by the SAI. In the working plan of the Accounting Chamber for 2017, financial audit was not included.

The law does not determine **compliance audit** as a separate type of audit, it is conducted as a part of the financial and performance audit.

Concerning **performance audit**, the Accounting Chamber conducts measures of the state external financial control (audit) regarding the correctness of the determination, distribution, timeliness and completeness of transfers between the state budget and local budgets, as well as the legality and efficiency of the use of such transfers by the administrators and beneficiaries of budget funds for expenditures of local budgets. The Accounting Chamber conducts performance audit on using the state budget funds on-site, transfers from the state to the local budgets, the State Fund of Regional Development. Approximately 10-20 entities are being covered in one audit. Audits may cover all local authorities of the country/region or several of them.

As a result of the state external financial control (audit) the report is compiled. This report includes act (if applicable), conclusions and recommendations (proposals). The Accounting Chamber can make recommendation to auditees, to the Cabinet of Ministers of Ukraine, ministries, others state bodies and local self-government bodies. The decisions of the Accounting Chamber and the results of their consideration by the control object are published on the official website of the Accounting Chamber, except for restricted information.

The Accounting Chamber analyzes the implementation of its recommendations (proposals) with the aim of evaluating their effectiveness. The Law establishes that a decision taken by the discussion of the report is to be considered by the auditee. The auditee informs the Accounting Chamber about the results of the decision, planned and taken measures accordingly to decision within one month. If the auditee has not informed the Accounting Chamber about results of consideration of its decision or the Accounting Chamber declared the measures planned and taken by the auditee in relation to its decision inadequate, the Accounting Chamber shall inform about it the relevant authorities and the public through the media.

## Relationship with other auditors

By law, Accounting Chamber shall interact with the state financial control body (The State Audit Service of Ukraine) in accordance with the laws of Ukraine and other normative legal acts adopted for their implementation. It may provide methodical, methodological and advisory assistance to the public financial control body. In practice, almost systematic cooperation between the Accounting Chamber and the State Audit Office of Ukraine is in the mutual use of materials. In

some cases, the Accounting Chamber may, if necessary, apply to the State Audit Service of Ukraine for obtaining materials, based on the results of its public financial control activities, in particular, the state financial audit. According to the results of appeals of legal entities and individuals submitted to the Accounting Chamber in some cases, applications are forwarded belonging to the State Audit Service of Ukraine for the purpose of conducting control measures in accordance with its authority, with the request to inform on the results of the appeal to its author and the Accounting Chamber.

In accordance with the legislation, the Accounting Chamber has the powers and functions that are also endowed with the State Audit Service of Ukraine and the State Fiscal Service of Ukraine (central executive body that implements state tax and customs policy). However, the Accounting Chamber does not carry out joint audit activities with these services.

## The role of other auditors in external municipality audit

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External audit of local authorities is also carried out by the State Audit Service of Ukraine. By law, the State Audit Service of Ukraine is a central executive body whose activities are directed and coordinated by the Cabinet of Ministers of Ukraine. It ensures the formation and implementation of the state policy in the field of state financial control by conducting state financial audit, control over public procurement, inspection (revision), monitoring. This institution, in accordance with the tasks entrusted to it and according to the regulation, monitors compliance with the legislation at all stages of the budget process concerning state and local budgets.

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FROM LOCAL TO GLOBAL