



DISTINGUISHING FEATURES OF MUNICIPALITY AUDIT AND EXPECTED ADDED VALUE FROM TASK FORCE ON MUNICIPALITY AUDIT

The public administration directly or indirectly, the municipalities individually or mutually can establish principles and approaches for organization and implementation of regional policy in such a way that each citizen would benefit. Most people live in an area under the governance of municipality and also the state simultaneously. However, local government is the closest government unit to people, therefore, its policies and activities impact general public on a daily basis. Successful development of countries depends on effective, efficient public administration, which includes good and wise local government and the efficient service delivery at local level. Consequently, in order to make a difference to the lives of citizens, local government audit plays a significant role in the national audit system.

Various models of local government audit systems exist in different countries. External audit of local government can be conducted by supreme audit institutions (SAIs), regional offices, private auditors; furthermore, all of them have different mandates, varying scope, conduct different types of audits, such as performance, financial or compliance. Besides, the internal audit at local government level also exists.

Depending on the mandate, the SAIs may have an important role in the system of local government audit: as institution, that is partly responsible for the progress of all processes at national level, it should initiate and observe the improvements of the whole system in order to get the highest added value from the audits conducted. The SAIs have to work in the name of interests of their citizens by providing them with independent, fully-fledged and objective information on whether the existing regional policy scope can help to improve their living conditions.

Despite the traditions, individual specifics and actions prevalent in each country, SAIs are obliged to offer their citizens objective information on the purposeful and efficient use of public resources and systems (incl. those which are under the competency of municipalities).

The process of audit of municipalities does not differ considerably from audits of other public entities, but there is significant difference in essence, scope and value of audits at national and local levels. SAIs use the same auditing standards in planning and conducting audits of municipalities as are used in other audits. Also, depending on the mandate the SAI has and the audit scope, the same types of audits defined in the INTOSAI framework: financial, compliance and performance are being conducted. Still municipality audit is distinct in its **complexity, specificity, openness** as well as **accountability and use of data**.

We distinguished these four main aspects, which determine municipality audit to be different from other audits and which makes it more challenging, but, on the other hand, bringing added value for auditors as well as for the whole local government system.

Complexity

The complexity of municipality audit is determined by a big number of municipalities in every country, a wide range of services delivered to citizens as well as plenty municipal functions, which very often overlap with governmental functions.

This multidimensionality makes municipality audit more complicated and from auditors who conduct audits of municipalities require to have wide and specific knowledge, moreover, to be able to manage a large amount of information in many different spheres. It is challenging and very important to select relevant audit topics, to define the audit scope as well as to obtain sufficient and appropriate audit evidence reflecting the whole view.

Municipalities might see themselves obliged, first and foremost, to their residents and local constituents rather than the national interest – what might be termed "local-national discrepancy". Therefore, selecting relevant audit topics is significant for SAIs as institutions which are responsible for audits at national level: results of audits have to have impact for local government, at the same time ensuring the progress at national level and achieving national goals. In this regard, complexity can determine the huge added value of municipality audits: if you manage to choose the relevant audit topics and to look into the most significant problems, audit results will be exact and reflecting the whole, despite its multidimensionality and complexity. Moreover, as prime service providers, municipalities face an ongoing and intensive interaction with their residents. These structural characteristics of local government lead to a greater risk of misconduct and even corruption on part of municipal officials and add to the complexity of both the topics selected for audit and the audit work itself. Municipality audit in this way will reveal the reality, existing problems, which are relevant to people and other issues which directly affect citizens.

Specificity

The specificity of municipality audit is determined by big number of municipality audit system units, such as SAIs, external and internal auditors of municipality, private auditors, and dissimilarities of these units, such as different audit mandates, goals, functions etc.

In the system of municipality audit there are many different and quite independent units with their own specificity: different goals, functions etc. However, they all have to constantly cooperate with each other. Looking at the global level, there are even more dissimilarities and specificities, such as different mandates for audits of municipalities, different methods of communication and so on. As the Survey on Municipality Audit conducted by the National Audit Office of Lithuania revealed, there are many units in the systems of municipality audit: SAIs, municipality external and internal auditors, private auditors as well as audit institutions and supervisors on the province level, depending on the federal structure of countries etc. These specificities at international level means the variety of experiences and this variety makes the knowledge sharing and professional cooperation more valuable.

More units mean more complicated communication between them, consequently, resulting in the higher risk to double each other's work. There is some kind of trade-off between the workload from communication and coordination efforts on the one hand, and the risk of

doubling one's work (and, consequently, unnecessarily increasing the auditing burden for the respective municipalities) on the other hand. However, this specificity gives us possibilities to search for the best practice for appropriate communication and coordination. Properly functioning system of municipality audit, clear functions and fluent operation of every link would give us the results we expect. The appropriate communication and coordination of the strategies within the municipality audit system is highly important. We are obliged to share significant information, identified risks as well as insights, also, there has to be a high degree of mutual trust – all those links of the system have to match with each other. Different methodologies used by different units of municipality audit system can give inhomogeneous results and this leads to additional difficulties in using each other's work. However, varying experience of different audit system participants can bring more effective audit results, together those different links can spread the coverage of audit scale. Also, as it was mentioned before, SAIs with different practices, should share their professional experience, consequently, increasing the knowledge and competence of all the members of EUROSAI Task Force on Municipality Audit (TFMA). Hereby, the existing differences can bring more benefits than similarities could.

Openness

The openness of the local government and municipality audit is determined by desire and ability of their units to fling open, share significant information as well as to deal with problems integrally at all the levels – from local to global.

Considering the nature and complexity of local government, the high importance of openness for every municipality and unit of the municipality audit system is stressed. Municipalities on their own do not have the possibilities of evaluating all the national problems, consequently, they cannot see the whole view from above.

Each municipality aim to tackle the existing problems at local level. Strategic planning in municipalities (also in provinces, if they exist depending on the federal structure of the country), which ideally should be harmonized and integral from local to national levels, is also prepared separately from others, considering only local needs and limited information without searching for possibilities to broaden the horizons. The greater the lack of openness, the higher the risk for the system gaps which were not covered by any unit to appear. Despite the attitude that every participant has its own functions to be conducted, we cannot close our eyes to the problems in others' field.

Municipalities are not able to cover all the national problems, however, solving problems at local level is also not enough – there is a necessity to see bird's eye view and to solve them at the national level. Often, the local problems are local for many peculiarities: different economic, geographic, social characteristics due to consolidated different situations. Therefore, it should be underlined the need to perceive these peculiarities and if it is possible to indicate the solution. The problems which look minor in separate municipalities together as a whole can become serious and massive in the whole country. Consequently, such issues in separate countries can become relevant to Europe etc. This is the reason why we have to fling open and seek for common points. We have to eliminate the lack of openness in municipal audit system in order to enable ourselves to take a look from above, and to use multidimensional structure

of the system and to solve local problems at global level or at least problems can be solved at local level but solutions shall be spread at global level as well.

Accountability and use of data

Accountability and use of data is determined as a need to create a culture of accountability and the use of data from local accounts and financial statements, which can be encouraged by audits of municipalities.

Municipalities form considerable part of government statements. Governmental sustainability depends on the sustainability of municipalities to a large extent, governmental financial situation (e.g. government debt and government budget deficit) appertains to municipal situation. All financial indicators that have impact on these government financial indicators have to be precise and trustworthy. There is usually a large number of municipalities and many of them are small, with few inhabitants and few resources, which leads to greater risks of misstatements, therefore it's very important to strengthen their accountability.

SAIs should be able to maximize the use of the vast amount of information and data for obtaining statistical data, risk identification and choose relevant audit topics. At the same time, accountability is expected to become easy and offer access to the overall local accounts, in order to provide added value to local government, other stakeholders and citizens in general.

SAIs should also contribute to improving the accountability process, encourage municipalities to provide precise, trustworthy as well as user-friendly data. Herewith, SAIs will improve their abilities to use and operate those data in new innovative ways. As a result, municipal audits will help to reach the accuracy and reliability of data at both municipal and governmental levels.

To summarize, when implementing various EUROSAI TFMA activities, such as knowledge sharing and professional cooperation, we will have in mind four aspects of local government audit system: **complexity, specificity, openness** as well as **accountability and use of data**. We believe that EUROSAI TFMA, when seeking its strategic goals, will bring the added value to SAIs in planning and conducting audits in local government as well as in looking for relevant improvements to the municipality audit systems in different EUROSAI countries. Consequently, we expect to get improvements to life quality and direct benefit to citizens of municipalities and in this way reaching the progress at local level and equally at the global one.