



# The Audit of Legality and Regularity of Financial Statements of Local Authorities

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Regional Court of Audit Tyrol

# Contents

- The Regional Court of Audit of Tyrol (RCA Tyrol)
- The Local Government Audit at the RCA Tyrol
- The Audit of Financial Statements of Local Authorities
  - Legal Framework
  - Audit Objectives
  - Audit Process
  - Challenges



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# The Regional Court of Audit of Tyrol I



## The Federate State of Tyrol FACT BOX

- 716,000 inhabitants
  - 8 % of the Austrian population
- 12,700 km<sup>2</sup> state area
  - Third largest federate state of Austria
  - 12 % of the area serve as permanent settlement area
- GDP: EUR 26 bn.
  - 9 % of the Austrian GDP



Source: Federal State of Tyrol

# The Regional Court of Audit of Tyrol II

- Since 1<sup>st</sup> March 2003: Regional Court of Audit of Tyrol (formerly „Regional Audit Authority“)
  - Team incl. Director: 13,5 employees
  - 11 auditors organise the audits in interdisciplinary teams
- Financial statements of regional and local governments in the audit work of the RCA Tyrol
  - Audits of the financial management of the Federate State Tyrol
    - Financial statements of the Federate State Tyrol
    - Companies in which the Federate State participates as a shareholder, foundations, funds, institutions
  - Local government audits



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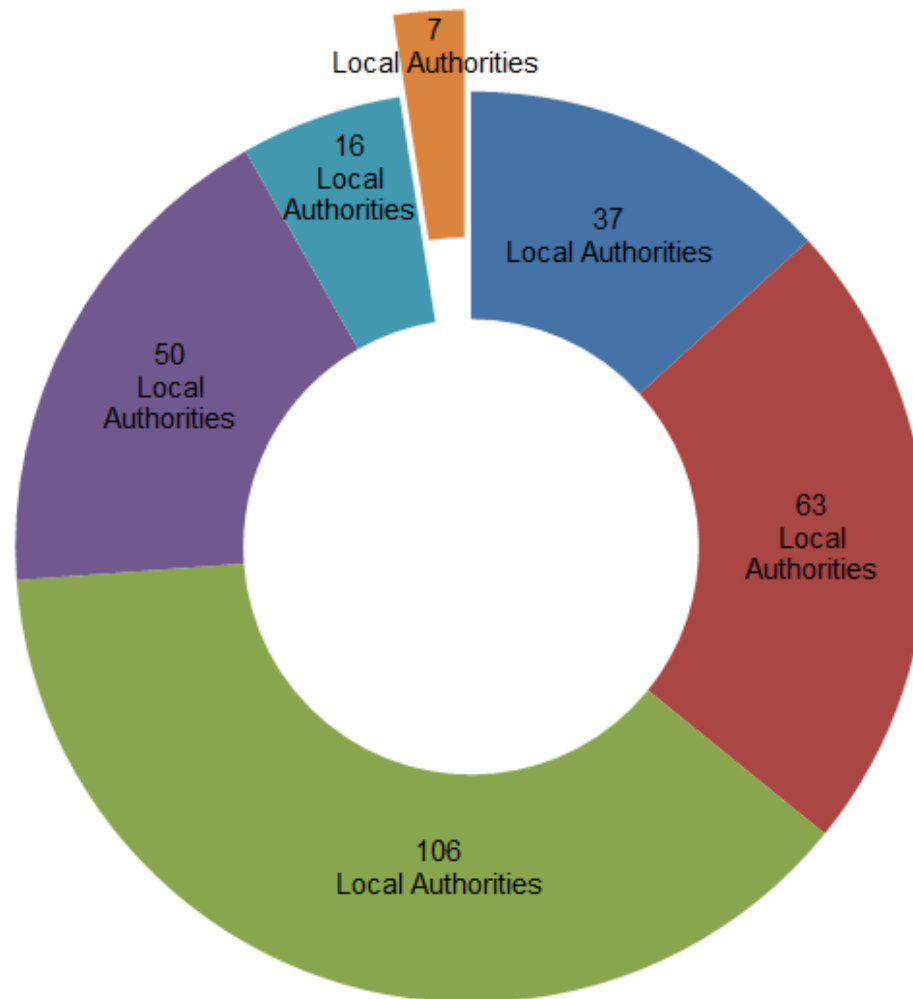
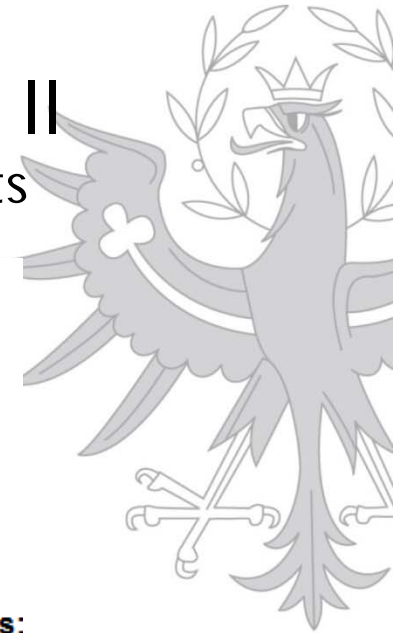
# The Local Government Audit at the RCA Tyrol I



- New Audit Competence based on
  - Art. 67 Tyrolean Constitution
  - Act of the Tyrolean Court of Audit (since 24<sup>th</sup> May 2013)
- What's new according to this new audit competence?
  - Auditing the financial management local authorities with less than 10,000 inhabitants (272 out of 279 Tyrolean local authorities) → installation of an audit team (approx. 3 local government audits/year)
  - Auditing of foundations, funds and public institutions in which local authorities participate as shareholder
  - Auditing of companies in which local authorities participate as shareholder (min. 50 % participation)

# Local Government Audits at the RCA Tyrol II

## Tyrolean local authorities grouped by number of inhabitants



Local authorities according to size categories:

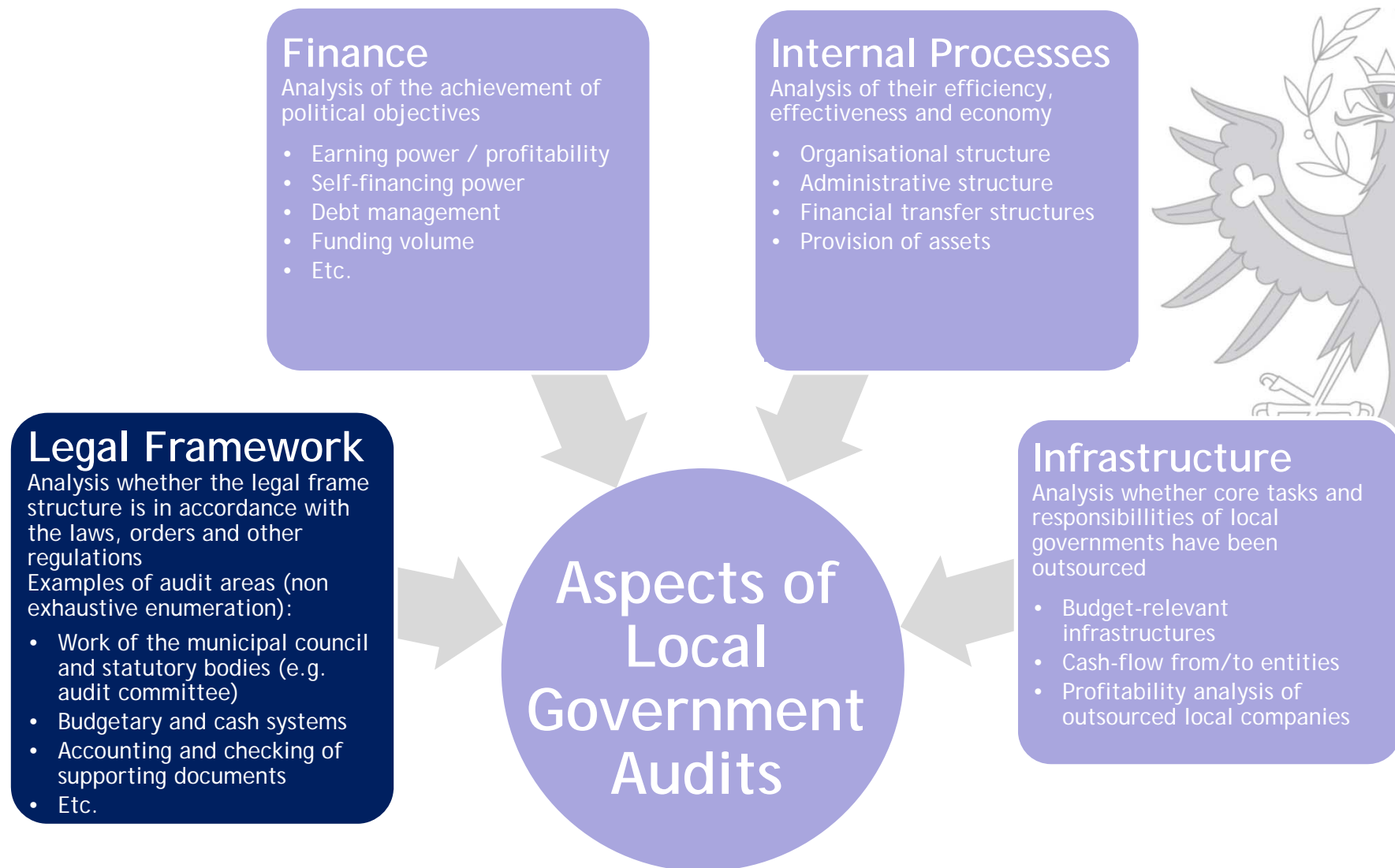
- less than 500
- 501 - 1,000
- 1,001 - 2,500
- 2,501 - 5,000
- 5,001 - 10,000
- more than 10,000

Audit Competence of the Regional Court of Audit

Audit Competence of the Federal Court of Audit

Data based on the Population Census of 31/10/2012.  
Source: Statistics Austria



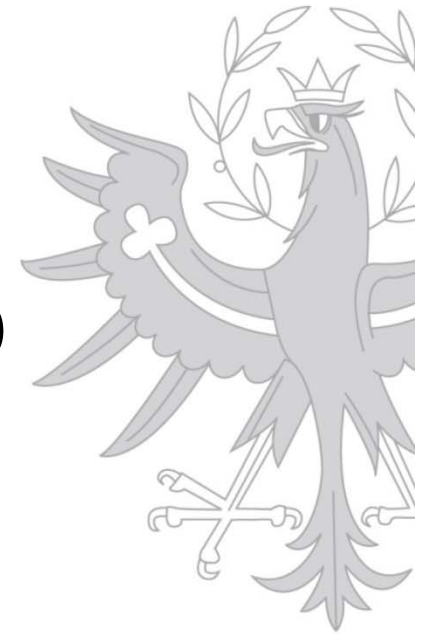


*Note:*

When the formal review (contents of the dark box) is conducted by the local government supervision (which is part of the regional government authority), the RCA Tyrol limits its audit specifically on substantive tests (contents of the bright boxes) taking into account the knowledge gained from the work performed by the local government supervision .

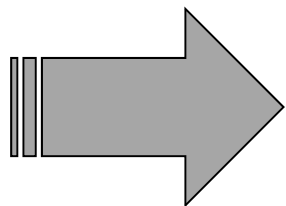
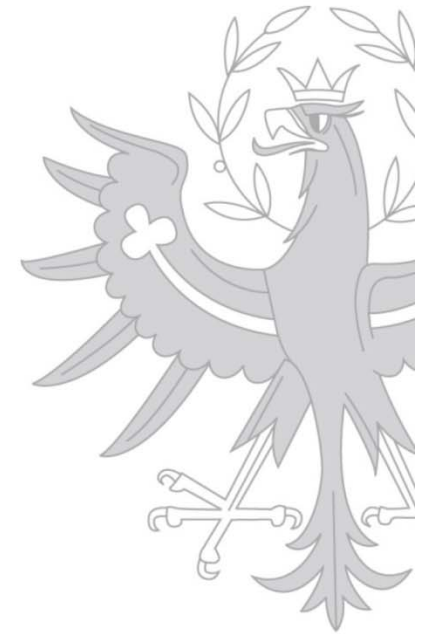
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# Legal Framework

- Act of the Federate State of Tyrol
  - 2001 Municipal Code of Tyrol (TGO)
  - 2012 Municipal Budget Code (GHV)
- Federal law
  - 1997 Regulations concerning draft estimates and financial statements (VRV)
- Further laws and guidance documents of the Federate State of Tyrol concerning specific subjects (e.g. representation expenses, appropriations set aside etc.), supreme court decisions etc.



Establishing a regulatory framework  
for the audit work

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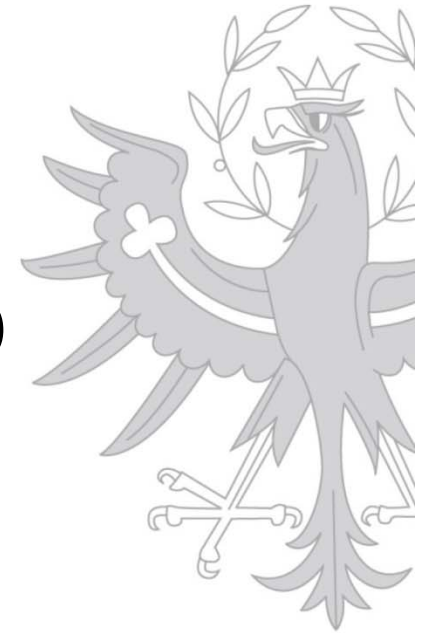
# Audit Objectives

Regularity of the Financial Statements	Legality of the Financial Statements
<ul style="list-style-type: none"> <li>Does the contents of the financial statement provide a true and fair view on the local government?</li> <li>Is the information provided by the financial statements reliable?</li> </ul>	<ul style="list-style-type: none"> <li>Are the financial statements in accordance with applicable laws and regulations?</li> </ul>
Effectiveness of the Internal Control System	
<ul style="list-style-type: none"> <li>Are the controls appropriate in what concerns regularity and legality?</li> <li>Evaluation of controls</li> </ul>	
<p>Additional output of the audit: Suggestions and recommendations to rectify deficiencies</p>	

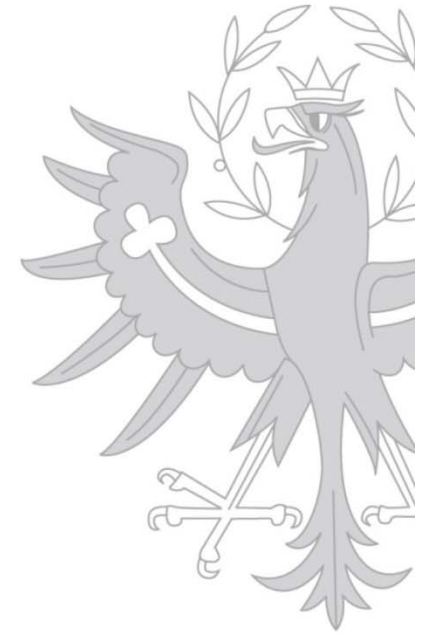


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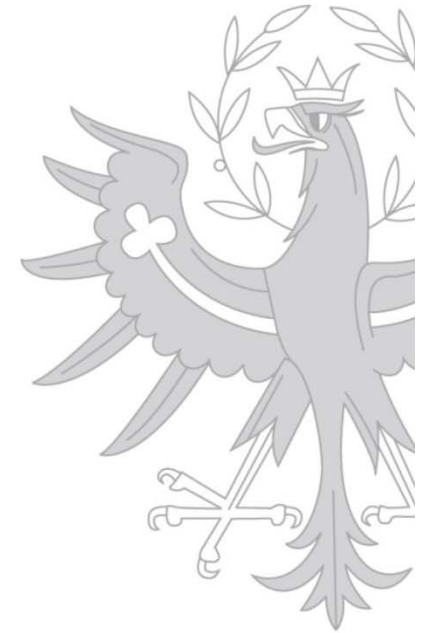


# Audit Process



# Audit Planning I

- Risk-based audit approach
  - Audit focus on identified risks
  - Enables efficient and effective audit procedures
  - Audit extent is defined by the entity's control situation and risk assessment
  - Allows that not every financial statement position has to be examined in an audit





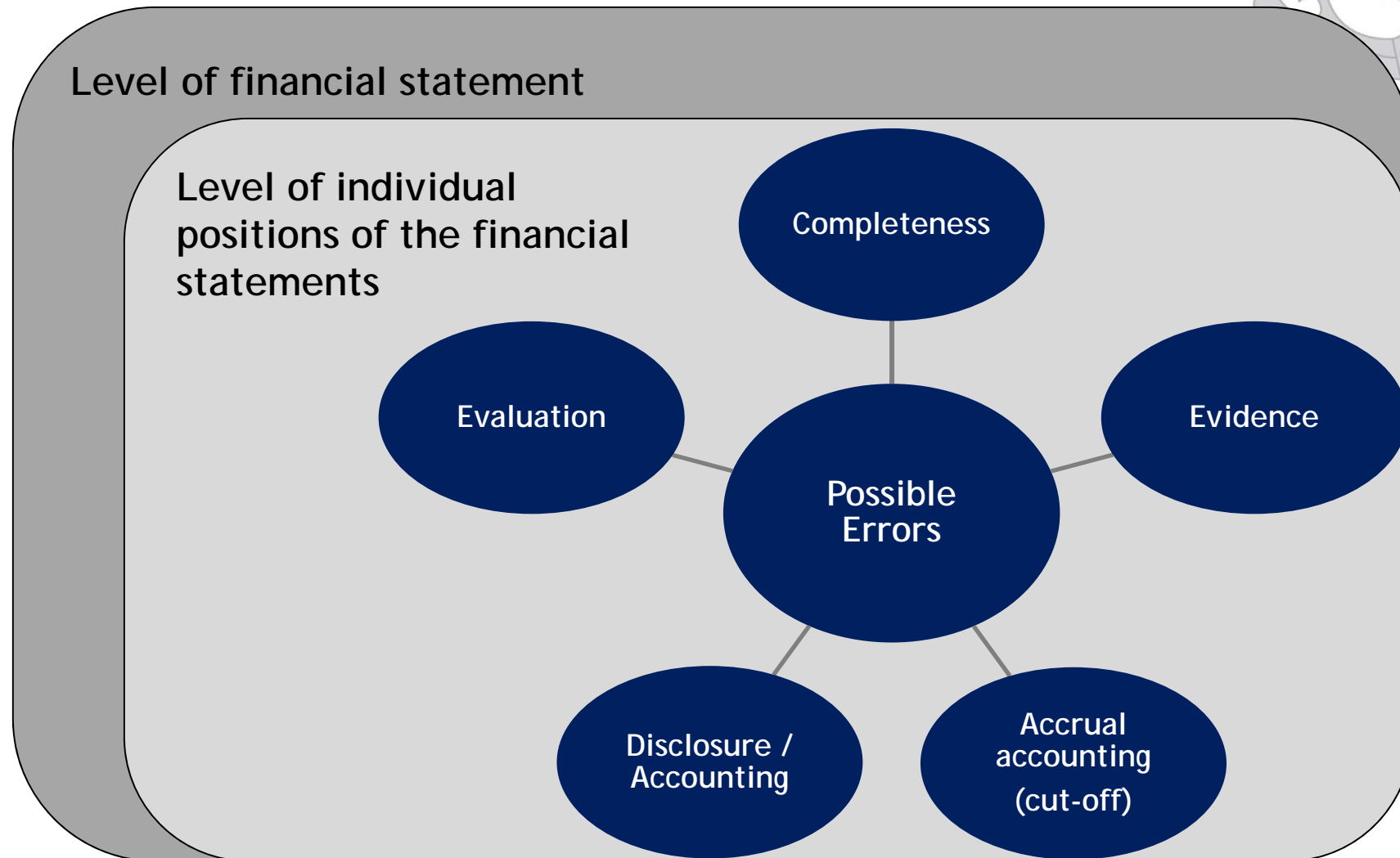
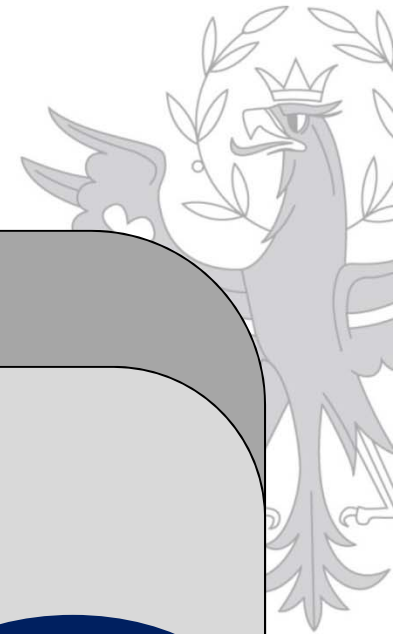
# Audit Planning II

Identification of risks and audit areas



# Audit Procedure I

## Audit of financial statements



# Audit Procedures II

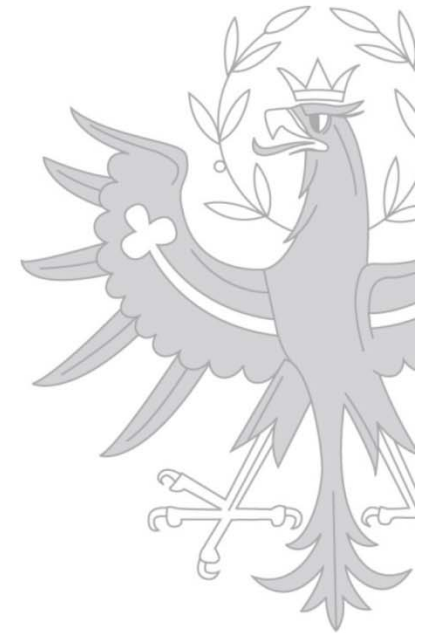
## Audit of the Internal Control System (ICS)

- ICS represents an essential element to ensure legality and regularity of financial statements
- ICS-analysis supports the understanding of an entity (local government) and fosters the risk assessment
- 2 levels of ICS
  - Processes: accounting, purchase/supply, personnel etc.
  - Statutory bodies of the local government: audit committee (cash and voucher auditing, annual audit of financial statements etc.)
- Note: continuous control through external bodies (local government supervision) as part of the regional government authority

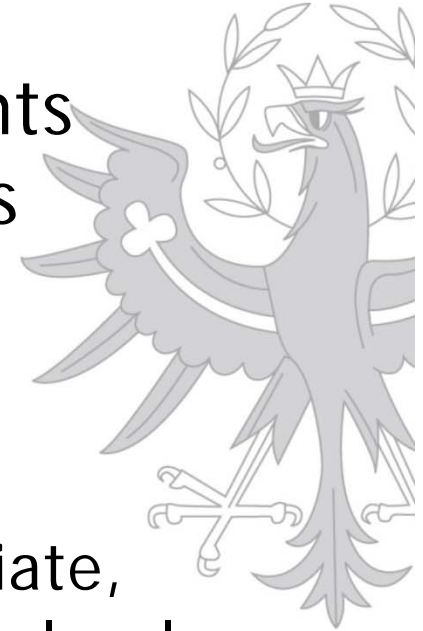


# Audit Results

- No audit opinion → no legal basis
- Conclusions are documented in audit reports, which are published on the website of the RAC Tyrol (<https://www.Tyrol.gv.at/landtag/landesrechnungshof/berichte/>)
- Purpose of an audit report
  - Description of the situation found during the audit
  - Description of deficiencies and their causes
  - Description of potential improvements and proposed solutions
  - Documentation of conducted audit procedures
- Accompanying internal quality assurance procedures



# Comparison: Audits of Financial Statements of the Federal State and Local Authorities



## Federate State

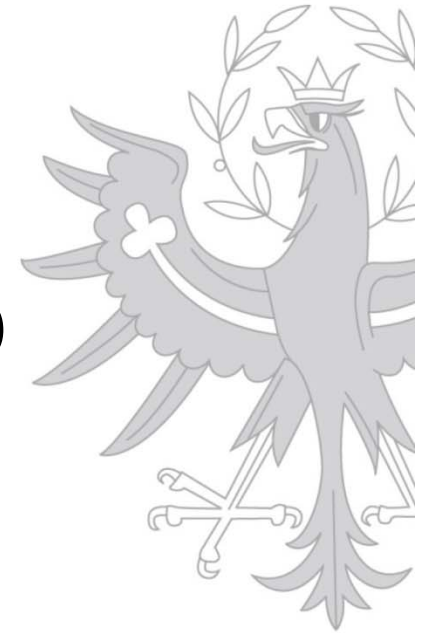
- Statutory obligation (two-month period)
- Many years of experience
- Audit team of 7 auditors
- Financial Statements 2012: 493 pages
- Budgetary volume: EUR 3.2 bn.
- Audit Report 2012: 107 pages

## Local Authority

- New statutory obligation
- Where appropriate, pre-audit of the local government supervision
- Audit team of 2 auditors
- Financial Statement: 140 pages – 200 pages
- Budgetary volume: EUR 0.3 m. – EUR 34 m.
- Audit Report: 148 pages

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# Challenges

- New statutory audit competence for the Austrian RCAs
  - Few experiences to draw on
  - Important: exchange of experiences, networking, working groups
- Setting-up of a working group of the Austrian RCAs for the development of standards for the audits of financial statements of federate states
  - Objective: regulatory framework for this kind of audits
  - Common quality standard
  - Comparability
  - External stakeholders gain confidence in the work of RCAs → reliability of audits performed by RCAs is strengthened



