



# **Audit of the municipal budget by the Regional Court of Audit of Upper Austria**



# Upper Austria – Basic Data

- Population: 1.4 million
- Area: 12,000 km<sup>2</sup>
- 444 municipalities



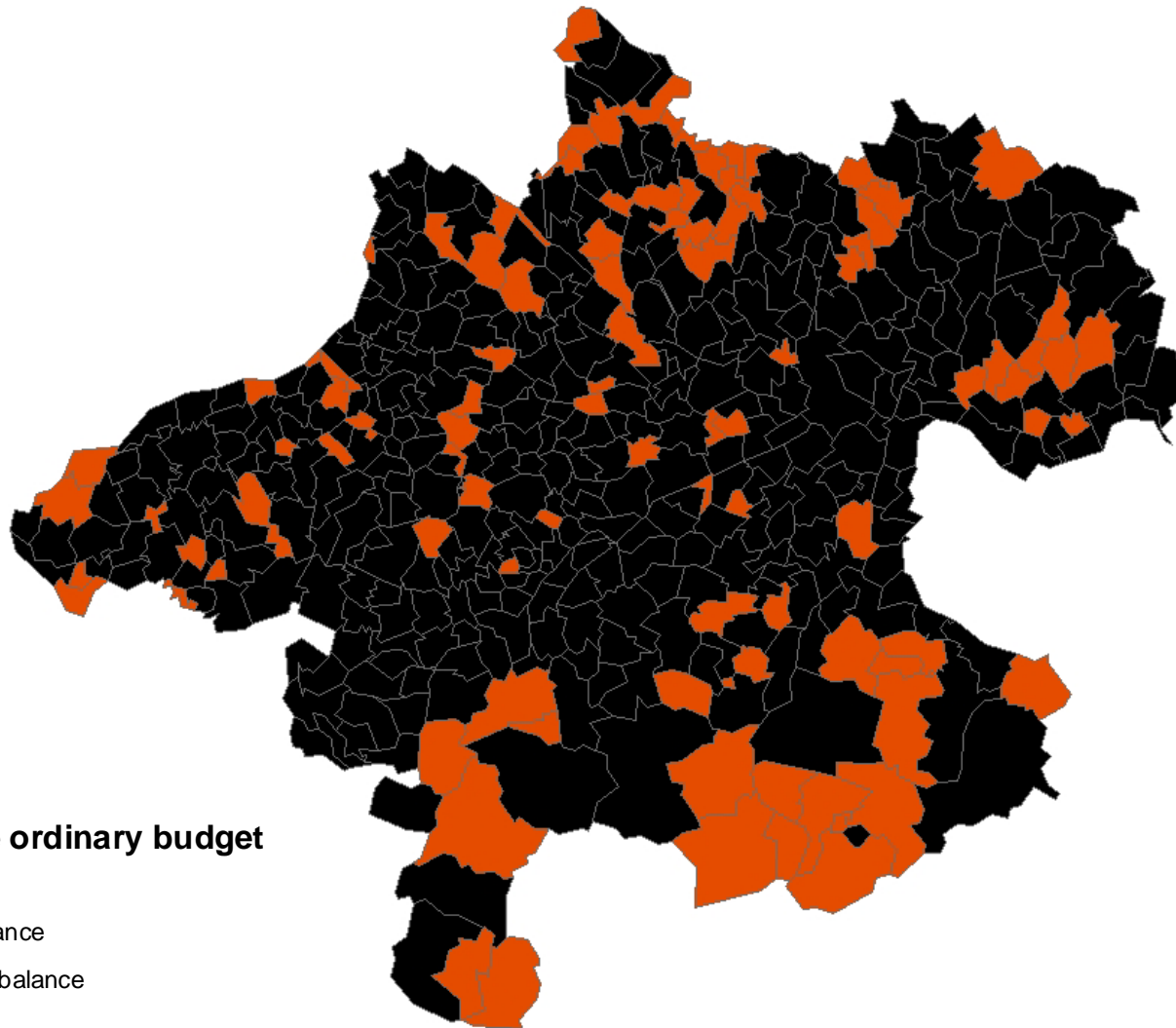
# Presentation of the audit of municipalities in Upper Austria

- **audit committee of the local council** (obligatory)
- **Provincial Government of Upper Austria within the local council**
- **independent financial control**
  - Court of Audit of Austria for big municipalities, starting from 10,000 inhabitants
  - Regional Court of Audit of Upper Austria – only if the Provincial Government of Upper Austria authorizes the Regional Court of Audit of Upper Austria

**Municipalities with less than 10,000 inhabitants are not subject to an independent public financial control - although the provinces of Austria have the right of initiative to authorize the Regional Courts of Audit to do audits of municipalities since 1.1.2011.**

**→ therefore, the Regional Court of Audit of Upper Austria demands the right of initiative to audit municipalities.**



# Ordinary budget's balance from municipalities 2002



## Legend:

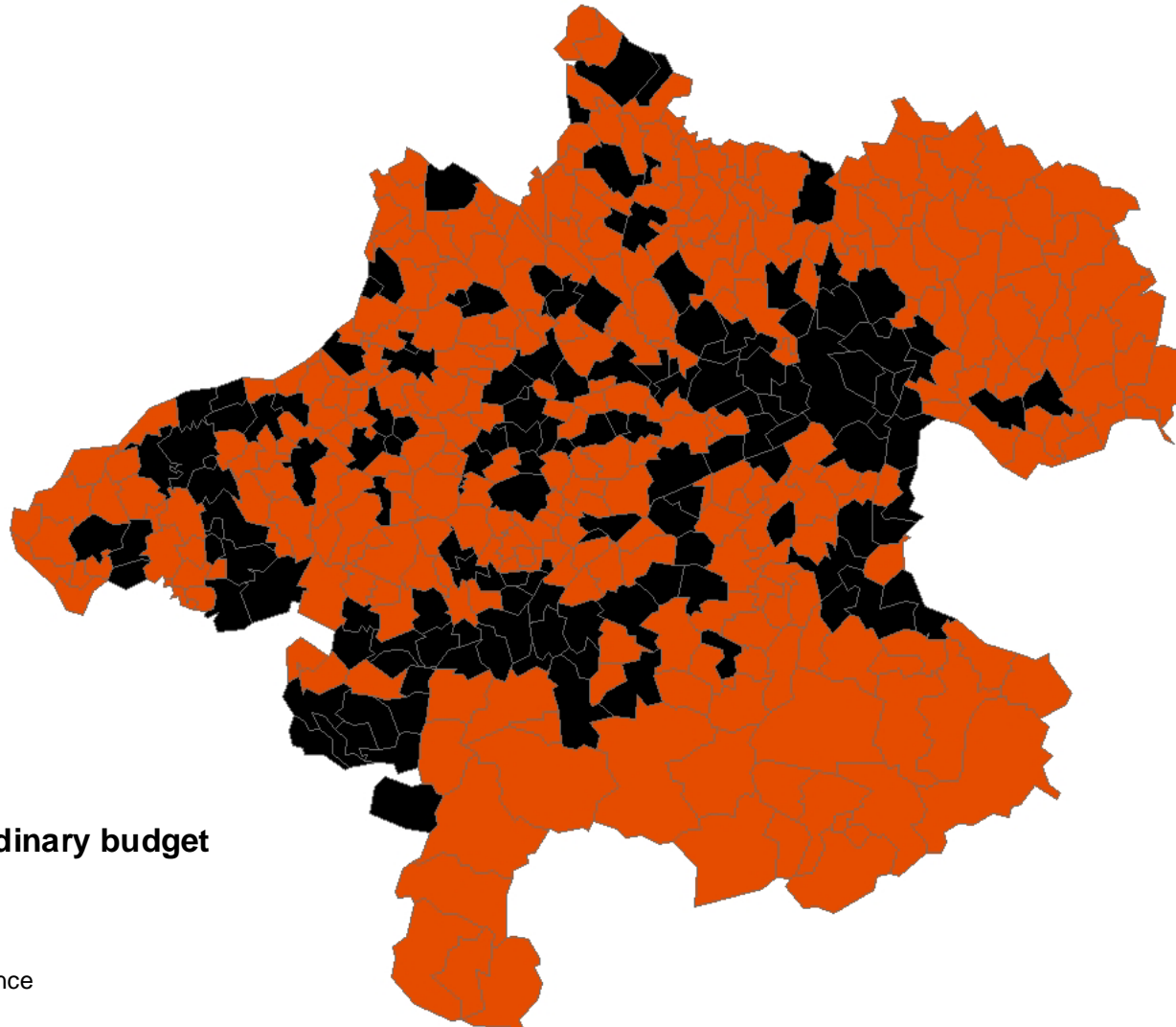
balance of the ordinary budget

lfd\_Ord\_Saldo

-  negative balance
-  0 or positive balance





# Ordinary budget's balance from municipalities 2010



## Legend:

balance of the ordinary budget

lfd\_Ord\_Saldo

-  negative balance
-  0 or positive balance



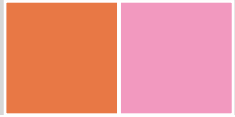
# Audit of municipalities by audit committee and province's supervision

## ■ Audit Committee

- mandatory annual audit of the closing of accounts, especially budget account and debt as well as continuous audits of the budget

## ■ Province's supervision

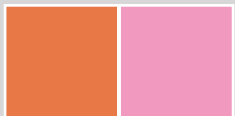
- audit of the budget and the closing of accounts from municipalities
- audits with other main focuses of the municipal budget – however, outsourced companies are excluded



# Audit of municipalities by audit committee

- **benefits from auditing the budget and the closing of accounts**
  - important addition to the work of the audit committee and important basis for an effective use of the right of supervision
  - ensures broadly consistent budgeting and accounting in municipalities
  - strengthens the trust from political decision makers, investors and citizens





## Audit of municipalities by province's supervision

- **annual audit – from the point of view of the Regional Court of Audit of Upper Austria**
  - basically established and reliable, however,
    - the instructions of the supervisory body are partly too detailed and are in the area of conflict with the municipal autonomy
    - budget law based instructions and standards for the audit are given as well as interpreted and revised to a high extent by the supervisory body– promotes the interests of the province but makes it more difficult for nationwide comparisons
    - the audit of the closing of accounts only provides a limited overview of the financial situation of the municipality because outsourced companies are excluded





- **audit work in municipalities by the Regional Court of Audit of Upper Austria**
  - municipal audits as an expert opinion; the Provincial Government - within their right of supervision – has to give an order for the audit
  - 5 expert opinions per year
  - since 2000 approx. 50 to 60 expert opinions were made in the area of municipalities

- **difference between audits done by the Regional Court of Audit of Upper Austria and supervisory audits**
  - independent external financial control versus audit bound to instructions within the compulsory control of the province
  - system and performance audit versus formal audit
  - recommendations and consulting versus instructions and orders

**The audits made by the Regional Court of Audit of Upper Austria go beyond a mere formal audit of the budget account!**

## ■ main focus of audit

- analysis of the budgetary and financial situation
  - analysis of changes and key data of
    - budget results
    - main revenues and expenditures
    - debt and debt service
    - level of cost coverage from economic entities in the budget
    - subsidies
- audit of the organisation
  - mainly done by structured interviews
    - structures, processes, cooperations
- project audits of construction projects
  - audit of the demand, planning, execution, cost controlling, final payments

- **main focus of audits – public debt**
  - debt in the narrower sense
    - financial debt
      - classic debt in the main budget and in companies with market-oriented activities
      - Maastricht-relevance of debt or bonds
  - debt in the broader sense including
    - outsourced debt
    - cash credits
    - certain liabilities
    - financial obligations from alternative financing of investments (leasing, rent, PPP, etc.)

**Official debts of municipalities only provide limited information!**

## ■ Important audit statements I)

- the financial situation of municipalities is generally difficult
- the budget account only provides incomplete information about the actual budgetary and financial situation
- due to outsourcing a comprehensive overview is hardly possible
- growing indebtedness is becoming more intransparent
- important payment obligations for several years are not included in the closing of accounts

## ■ Important audit statements II)

- the principle of annuality is often being evaded – expenditures are transferred to the following year(s)
- budgets are not being kept to and do not correspond to the principle of budget truth
- incomplete recording of assets and debts
- audit of the budget account by the audit committee or the supervisory body can be influenced by self-interest
- Internal-Control-System is realized to different degrees in the processes
- cost-awareness in the municipal administration is hardly existent

## ■ Important audit statements III)

- high subsidies between public administration entities are not coordinated, not transparent, mainly without clear objectives and often hidden
- transfer relations between public administration entities are becoming more intransparent and increasingly go to the expense of municipalities
- expensive investments due to the building and the subsequent operating business strongly overburden the municipal budget
- possible cost-reductions due to inter-communal cooperation are not used
- management in municipalities is strongly improvable

## ■ Important recommendations I)

- sustainable consolidation of the municipal budget by structural reforms and revenue-oriented savings is necessary
- outsourced entities must be consolidated with the main budget and the essential financial figures at least at a glance
- debt must be measured and presented according to economic criteria
- all payment obligations for several years must be reported transparently in the closing of accounts



## ■ Important recommendations II)

- budget principles such as budget truth and annuality have to become more important
- assets and debts must be fully included and assessed
- activities from the audit committee have to be pushed – external audit of the budget account by a supervisory body have to be expanded
- Internal-Control-System has to be fully realized in the processes
- cost-awareness in the municipal administration has to be strengthened; cost accounting has to be used as controlling tool

## ■ Important recommendations III)

- subsidies have to be designed in a target and effect oriented way, furthermore they must be coordinated between public administration units
- transfer relations between public administration units must be reduced – the responsibility for the job and the resources should be concentrated in one position
- construction and subsequent cost from investments should be realistically estimated, and should be made transparent in a medium-term finance and investment plan
- inter-communal cooperation should be pushed in order to save cost and to further improve the quality of the administration's performance
- management and leadership must be strengthened in the municipal administration

## Summary:

**Audits of communal budgets by the Court of Audit of Austria and the Regional Courts of Audit of Austria are necessary, in order to**

- further improve the effectiveness and efficiency of municipalities
- evaluate the interests of the province and municipalities in this context according to objective criteria

**Audits of municipal budgets by independent financial controls promote economic allocation of means and overall structural public reforms**

**Thank you very much for your attention!**



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