



**SINDICATURA DE COMPTES**  
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New challenges concerning internal control of subsidies  
and grants by local authorities in Spain

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# New challenges concerning internal control of subsidies and grants by local authorities in Spain

1

Some data on local governments in Spain

2

Literature on fiscal federalism

3

Literature on Public Administration Management & Control

4

Internal and external control on local governments in Spain

5

Shortage of qualified personnel to implement internal control procedures

6

Out-sourcing at local governments increases risk of fraud

7

Effectiveness and efficiency control of public subsidies

8

Proposals

# New challenges concerning internal control of subsidies and grants by local authorities in Spain

1

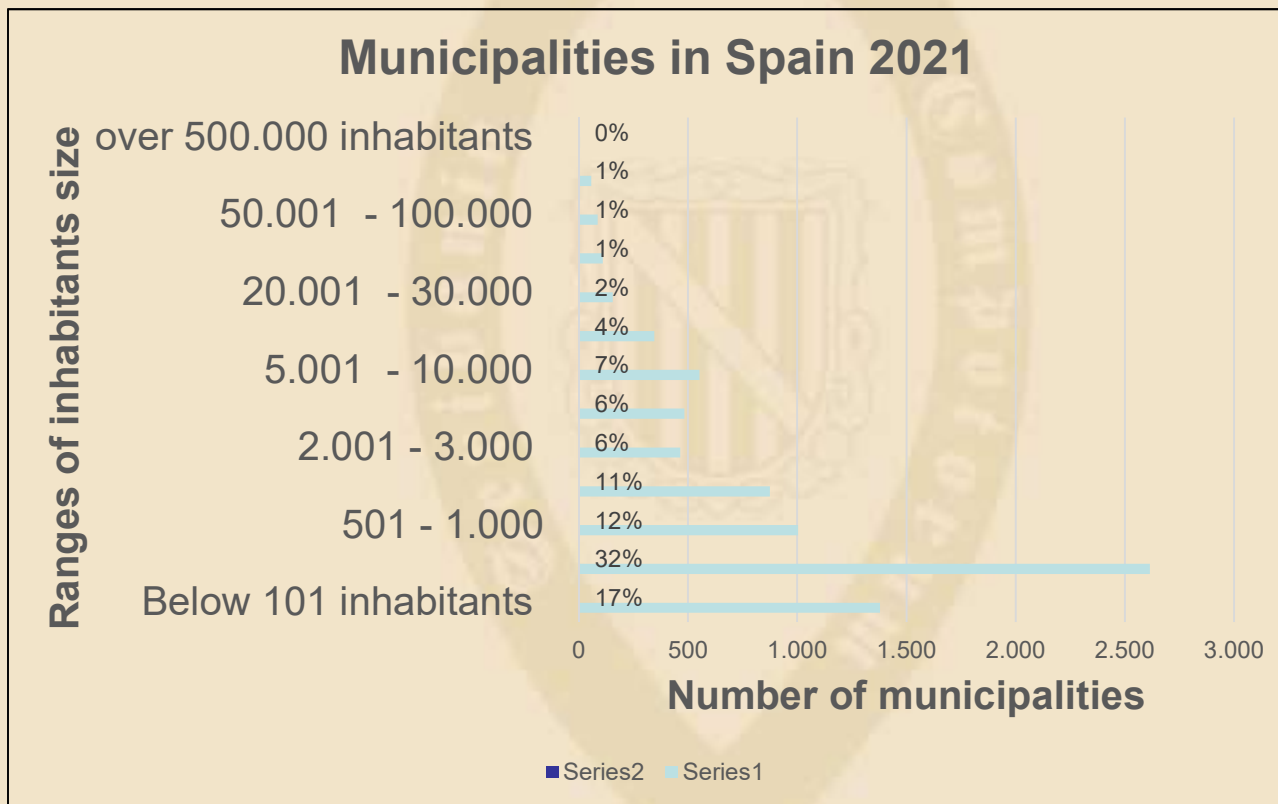
## Some data on local governments in Spain

- In Spain there are 8,131 municipalities plus many other local authorities (provincial councils - *diputaciones*, island councils - *cabildos y consells insulares*, associations of municipalities - *mancomunidades*, counties – *comarcas*, etc.) and their own public bodies (public companies, public foundations, consortiums, etc.).
- 61% of the municipalities have less than 1,000 inhabitants, and 90% less than 10,000.
- Financial sources and responsibilities that correspond to municipalities depend on their number of inhabitants.
- Sources of financing can take the form of local taxes (including prices for public services, special levies, etc.), grant transfers and subsidies from other tiers of government, shares on central government/regional government tax revenues and debt.

# New challenges concerning internal control of subsidies and grants by local authorities in Spain

1

## Number of municipalities and their size in Spain 2021



# New challenges concerning internal control of subsidies and grants by local authorities in Spain

1

## Sources of financing of Spanish municipalities in 2021

Income revenue sources of Spanish municipalities 2021 (million €)		
		%
Taxes and fees	32,806,190	51%
Transfers and subsidies	27,064,659	42%
Other	1,535,370	2%
Debt	2,389,472	4%
Total	63,795,692	

# New challenges concerning internal control of subsidies and grants by local authorities in Spain

2

## Literature on fiscal federalism

- There is an extensive literature analyzing the determinants of fiscal decentralization (considering also income sources and revenues).
- It is commonly accepted that
  - Responsibilities are to be assigned among different levels of government considering potential economies of scale, spillover effects and externalities in the provision of public goods, and voters' preferences.
  - Tax sources are to be attributed to different levels of government according to potential fiscal competition and tax exports, which are mainly associated to the mobility of tax basis. It is widely accepted that taxes on real state are to be allocated to municipalities. However, there is no consensus on how to finance “middle” levels of government (i.e. island councils at the local level).
  - The effects of tax shares, transfers and subsidies to local governments depend on whether transfers are conditional or unconditional; the importance given to fiscal responsibility; the relevance given to local voters' preferences; potential spill-over effects, etc.

# New challenges concerning internal control of subsidies and grants by local authorities in Spain

3

## Literature on Public Administration Management & Control

- It is widely accepted that all local governments are at risk of fraud such as asset misappropriation, financial statement fraud, and acts of collusion. Weak anti-fraud controls often contribute directly to the occurrence of these acts of fraud.
- There is therefore a necessity to improve control of the local public sector aimed at preventing and fighting corruption and fraud.
- The literature provides many recommendations on which are the initiatives aimed at setting a proper internal control framework. However, there is a lack of studies on how effective their implementation has been. My point is that many of the recommendations are not implementable in small municipalities beyond some particular successful initiatives.

# New challenges concerning internal control of subsidies and grants by local authorities in Spain

## 4

### Internal and external control on local governments in Spain

- Local governments are subject to internal control, which is determined by law.
- However, completeness of control depends on the size of the budget of the municipality and the will of local authorities (they decide the number of positions available, how these public jobs are provided – temporary vs permanent, etc., and their wages).
- Municipalities are also subject to external control by supreme and/or regional public sector audit institutions. However, given the large number of municipalities and their small size (90% with less than 10,000 inhabitants), it is very likely that small municipalities are never to be audited.
- From my perspective, there are several issues to be considered concerning the effectiveness of internal control in small-medium local governments. Needless to say that a strong internal control framework “facilitates” external control. According to my experience it is not possible that external control substitutes internal control.



## New challenges concerning internal control of subsidies and grants by local authorities in Spain

5

### Shortage of qualified personnel to implement internal control procedures

Although there is no consensus concerning the impact of decentralization on corruption, some contributions indicate that decentralization might help to reduce corruption.

However, the first condition for an internal control framework to succeed is that there are sufficient qualified personnel to do the job.

I argue that positions as city council general secretary, city council comptroller or treasurer in medium-small local governments are difficult to fill, due to:

- In a highly decentralized country such as Spain, there is a large number of institutions competing to hire the same type of staff, who are scarce.
- There is a limited labor force mobility which is fostered by regional “barriers” (such as different official languages). The supply of qualified personnel depends largely on the composition of the GDP: regions specialized in tourism are characterized by having low rates of graduates because they are intensive in low-skilled employees.

# New challenges concerning internal control of subsidies and grants by local authorities in Spain

5

## Shortage of qualified personnel to implement internal control procedures

In addition to the problems associated to the competition among local governments for highly skilled personnel, I argue:

-Regulation changes too often and the use of new technologies require an ongoing training process. Therefore, jobs in local administration are somehow stressful.

-Too much responsibility. Very often the city council comptroller or the general secretary is the only responsible (without any support staff) for all administrative procedures (contracts, payments, internal auditing, etc.).

-Job positions are often offered as temporary positions (subject to the influence of political decision-makers?)

-These positions are not attractive to qualified personnel because of low salaries (compared to similar positions in the private sector) and limited future job perspectives (in the same municipality)

## New challenges concerning internal control of subsidies and grants by local authorities in Spain

5

### Shortage of qualified personnel to implement internal control procedures

-Spanish law allows these positions to be “filled” eventually by staff without any training on internal control. This is very attractive to local political decision-makers.

-Political decision-makers argue too often that they do not have resources to be devoted to internal control. Is it because there are no resources or because these activities do not provide visible social impact (meaning: votes)?

-Finally, another issue to be considered at small-medium size local governments is to what extent public sector employees can be objective and independent when analyzing subsidies and contracts that may affect citizens or firms to whom they interact with every day. Therefore, even if the positions are covered with skilled personnel, their independence remains an open issue.

# New challenges concerning internal control of subsidies and grants by local authorities in Spain

6

## Out-sourcing at local governments increases risk of fraud

- Due to the lack of qualified personnel, or by decision of local political decision takers, some of the responsibilities that correspond to local government are often provided by private firms.
- This occurs very often with tax revenue management. The same risks may arise when outsourcing payroll management, procurement control, social services, investment in new facilities, grant administration, etc. We are not arguing that this outsourcing is bad per se, but that higher controls are needed to prevent fraud and rent seeking.
- The efficiency of subsidies or grants require also to be properly designed since, very often, some conditions/results are to be achieved. In general, internal control requires to check compliance with the laws and regulations.
- These types of contracts/subsidies are rather complex. If they are not properly designed, they provide an advantage to private firms/individuals. There is a risk of potential fraud if local governments do not have qualified personnel to control/design these contracts/subsidies.

# New challenges concerning internal control of subsidies and grants by local authorities in Spain

7

## Effectiveness and efficiency control of public subsidies

- In addition to the fact that human resources devoted to activities of internal control and to properly design contracts and subsidies are scarce; the fact is that not much attention is devoted to analyze the outcome of subsidies and grants.
- I mentioned before that very often subsidies and grants are somehow conditioned to achieve some goals.
- Auditing subsidies and transfers from a perspective of effectiveness and efficiency control requires a type of analysis for which, unfortunately, the internal comptroller is not qualified for. In addition to that, at least in Spain, political decision-makers are not really willing to devote personnel to do such analysis.
- This lack of control might be even worsened in a decentralized framework in which central government transfers resources to regional governments aimed at achieving a specific goal, then regional governments transfer the resources to the mid-local government level (i.e. island councils) and finally these transfer the funds to the local governments that finally implement the policy (e.g. Next Generation Funds).

# New challenges concerning internal control of subsidies and grants by local authorities in Spain

8

## Proposals

- Improve coordination and cooperation procedures among different local authorities (consortiums)
- Improve the support of higher levels of government (providing personnel to help designing contracts and subsidies and also to support the task of internal control)
- Improve the level of education and skills of the personnel devoted to internal control
- Improve the economic conditions of public employees, especially those with higher responsibilities
- Simplify red tape regulation
- Persuade political decision-makers at local level that devoting resources to internal control will improve the effectiveness of public resources and will release resources to implement additional services with a valuable social impact.

# New challenges concerning internal control of subsidies and grants by local authorities in Spain

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

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