



# Auditing the economic activities of regional and local authorities – current challenges

Halle, 17 October 2013

- Performance audit of public institutions.
- Performance audit in the Audit Office of the Valencian Autonomous Community. Recent experience.

**Speaker:** **Antonio Mira-Perceval Pastor.**  
**Member of the Board of the**  
**Audit Office of the Valencian Community**



## Private sector

- **Competencies:**
  - To raise capital.
  - To attract customers.
- **Profit and loss account as an expression of the efficiency of the undertaking.**
- **Annual accounts of interest to:**
  - Actors involved.
  - Society as a whole.
- **The auditor states his opinion on the veracity of the accounts.**
  - The auditor does not give an opinion on:
    - ✓ Whether the undertaking produces a good with demand.
    - ✓ Whether it uses human resources efficiently.
    - ✓ Whether it has a procurement system to acquire in cost-effective conditions.
    - ✓ ...
- **Performance audit is an internal audit.**

## Public sector

- **Lack of competence → the profit and loss account does not provide information on the efficiency of the entity.**
- **The fallacy of the management of the budget as a proof of effectiveness.**
- **Confusing ends with means:**
  - In the absence of indicators to measure to what extent needs are met, the extent to which resources are consumed to meet the needs is used.
- **Performance audit is essential in the public sector.**



# Performance audit in the Valencian Community

- **There is a tradition in the Audit Office to perform such audits. However, audits have increased in recent years.**
- **Local authorities.**
  - Waste treatment.
  - Waste collection.
  - Street cleaning.
- **Regional government.**
  - MRIs (magnetic resonance imaging).

# Impact

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EL PAÍS, viernes 2 de agosto de 2013

## COMUNIDAD VALENCIANA

# La gestión pública de las resonancias ahorraría hasta 16,7 millones al año

La Sindicatura de Comptes audita el concierto privado y recomienda medidas

ADOLF BELTRAN  
Valencia

Las resonancias magnéticas son más baratas para el erario público si los aparatos son propiedad del mismo sistema valenciano de salud y las gestiona su perso-



en el uso de este tipo de equipos, y el de San Juan, en Alicante, que lo ha instalado recientemente, disponen de equipos de resonancia magnética de gestión pública. La modalidad de resonancias realizadas con equipos privados ubicados en hospitales públicos, pero

### Torró ofrece a Miró dos meses para buscar otra ubicación a su escultura

FERRAN BONO, Valencia

Se evidenciaron las diferencias ideológicas, se constataron los planteamientos artísticos divergentes, pero se llegó a un principio de acuerdo. El alcalde de Gandia, Arturo Torró, del PP, ofreció ayer a



## Auditing the economic activities of regional and local authorities

Halle, 17 October 2013

- Methodology for promoting practical implementation of performance audits: Performance Audit Guide.
- Practical experiences: Management audit using criteria of economy, efficiency and effectiveness of the street cleaning service in 6 municipalities in the Valencian Community.

**Speaker:** **Miguel Olivas Arroyo**  
**Auditor at the Audit Office of the Valencian**  
**Community**





# Performance Audit Guide

[www.sindicom.gva.es](http://www.sindicom.gva.es). Audit manual: MF 951

- **Objective**
- **Content**
- **Annexes**
- **TeamStore**



# Performance Audit Guide

## OBJECTIVE

To provide for general guidelines on the methodology to be used when implementing performance audits, also called management audits or value-for-money audits by the Audit Office of the Valencian Community.

These guidelines are designed to provide reasonable assurance that performance audits are carried out in compliance with the legal requirements, as well as the professional and quality standards of the Audit Office.





# Performance Audit Guide

## SOURCES

The main sources taken into account when preparing the guidelines have been:

Public sector auditing principles and standards -PNASP- adopted by the Coordination Commission of Spanish RAIs and approved by the Board of the Audit Office of the Valencian Community on 16 April 1991.

Current good practice on this matter contained in several audit manuals, both at national and international level (Spanish Government Internal Audit Office, European Court of Auditors, Office of the Auditor General of Canada, as the most significant) as well as in INTOSAI performance audit standards and guidelines.



# Performance Audit Guide

## CONTENT

### **1. Introduction and general concepts**

1.1 Definition

1.2 Necessary requirements

1.3 Typology

# Performance Audit Guide

## CONTENT

- 2. Objectives and scope of performance audit**
  - 2.1 Objectives
  - 2.2 Scope
- 3. Prior analysis to identify potential areas or activities to be audited**
- 4. Stages of the performance audit**



# Performance Audit Guide

## CONTENT

### **5. Planning**

5.1 Preliminary study

5.2 Audit work plan – planning report



# Performance Audit Guide

## CONTENT

### **6. Implementation**

- 6.1 Evidence gathering process
- 6.2 Audit evidence
- 6.3 Using work performed by third parties
- 6.4 Preparation of audit results. Comparison of evidence obtained with the audit criteria fixed
- 6.5 Audit findings
- 6.6 Drawing up recommendations
- 6.7 Documentation and monitoring of the audit process



# Performance Audit Guide



## CONTENT

### **7. Preparation of the report**

7.1 Introduction

7.2 Characteristics to be fulfilled by the report

7.3 Structure of the report

7.4 Content of the report

7.5 Preparation process for the report

7.6 Monitoring impacts of the report



# Performance Audit Guide

## **ANNEXES**

- |         |  |
|---------|--|
| Annex 1 | Objectives of performance audit according to type                |
| Annex 2 | Assessment model of areas or activities to be audited            |
| Annex 3 | Conduct of tests planning and evidence gathering                 |
| Annex 4 | Questions to be raised before the adoption of an audit work plan |
| Annex 5 | Performance indicators in the public domain                      |



## Performance Audit Guide

# TeamStore – Performance Audit Guide





# PRACTICAL EXPERIENCE

Local authorities: Management audit using criteria of economy, efficiency and effectiveness of the street cleaning service in 6 municipalities in the Valencian Community.

**Speaker:** **Miguel Olivas Arroyo**  
**Auditor at the Audit Office of the Valencian Community**



## Overview of the street cleaning service

- A service that comes under municipal jurisdiction to be compulsory provided by the local authority.
- The financing of the service is provided for by the regular resources of the local authority.
- Different forms of operating the street cleaning service:
  - Direct management by the local authority itself
  - Indirect management by a municipal company
  - Indirect management by contracting out for the provision of the service.

## Overview of the street cleaning service

- The provision of the street cleaning service consists, in general terms in manual and mechanical cleaning of streets and public spaces.
- It includes services such as:
  - Manual and mechanical sweeping of pavements, roads, public spaces.
  - Clean-up of street market areas, fairs and ceremonies areas...etc.
  - Street watering and cleaning.
  - Cleaning of street furniture and graffiti on buildings.

## Overview of the street cleaning service

- It includes services such as:
  - Cleaning of plots, uncontrolled landfill sites, tracks and areas close to the municipality.
  - Cleaning of green areas and clearing of tree surrounds.
  - Cleaning, emptying and maintenance of litter bins.
  - Others (cleaning of the sewerage system, collection of animal excrements...)

## Audit subject

- Performance audit of certain areas of local authorities by agreement of the Board of the Audit Office of the Valencian Community (Action programme 2013).
- The objective of the audit is to verify the levels of efficiency, effectiveness and economy attained by local authorities when managing their different services.

## Stages of performance audit

- **Stages:**
  - Planning: preliminary study and audit work plan
  - Implementation
  - Preparation of the report

## Preliminary study

- Compile information
- Summarize the most relevant aspects
- Propose audit targets
- Identify risk factors
- Set audit criteria
- Identify the sources of the criteria
- Choose the approach and methodology to follow
- Set up working programmes

## Preliminary study

### – **Seeking information. Examples:**

- Services provided by local authorities
- Legislation applicable to local authorities
- Studies on costs and indicators in local government
- Articles in specialized journals
- Statistics of census nature and other aspects (Spanish National Institute of Statistics)
- Economic and budgetary information
- Reports and data bases of the Audit Office
- Reports issued by other Spanish RAIs



## Preliminary study

- **Synthesis of the most relevant aspects of the analysis of the information collected:**
  - The need to limit the sample size of local authorities.
  - Similar population sizes. No seasonality.
  - Identify the period to be analyzed.
  - Services provided by the Street Cleaning Service per municipality.
  - Different management modalities (direct-indirect).
  - Degree of cooperation of the local authority with auditors.
  - Exceedingly long waiting times in obtaining information. No uniformity in the documentation.

## Preliminary study

### **The preliminary study phase concluded with:**

- A statement on the feasibility of the audit
- Realizing the objective, field and scope of the audit
- An initial proposal of audit criteria and their sources
- A proposal of the approach and methodology to be used, the nature of the evidence and how to obtain evidence.
- A proposal for the timetable and the time budget
- A proposal for the structure of the report

## Audit work plan/ Planning report

### **In the audit work plan were included:**

- The preliminary study of the environment and the feasibility of the audit
- Risk assessment
- Objective, field and scope of the audit
- Local authorities to be audited
- Audit criteria and their sources
- Approach and methodology to follow. The nature of the evidence and obtaining evidence.
- Working programmes and organizing the audit working papers.
- The audit team, timetable and time budget
- Structure of the report

## Objectives and scope

- Evaluate in terms of efficiency, effectiveness and economy the management of the street cleaning service by the 6 local authorities selected.
- In later stages the Audit Office will expand assessments on the management of other areas within local authorities. **An audit of the SOLID WASTE COLLECTION SERVICE is currently being undertaken.**

## Objectives

- **The following specific objectives have been defined:**

**Objective 1:** Has the most suitable management procedure for the service been implemented in accordance with the principles of economy, efficiency, and effectiveness which should govern the management of public resources? Has this procedure been implemented in compliance with the applicable legislation?

**Objective 2:** Is the service performed the most suitable way in terms of quantity, quality and cost?

**Objective 3:** Is there an appropriate control system of the provision of the service?

## Scope

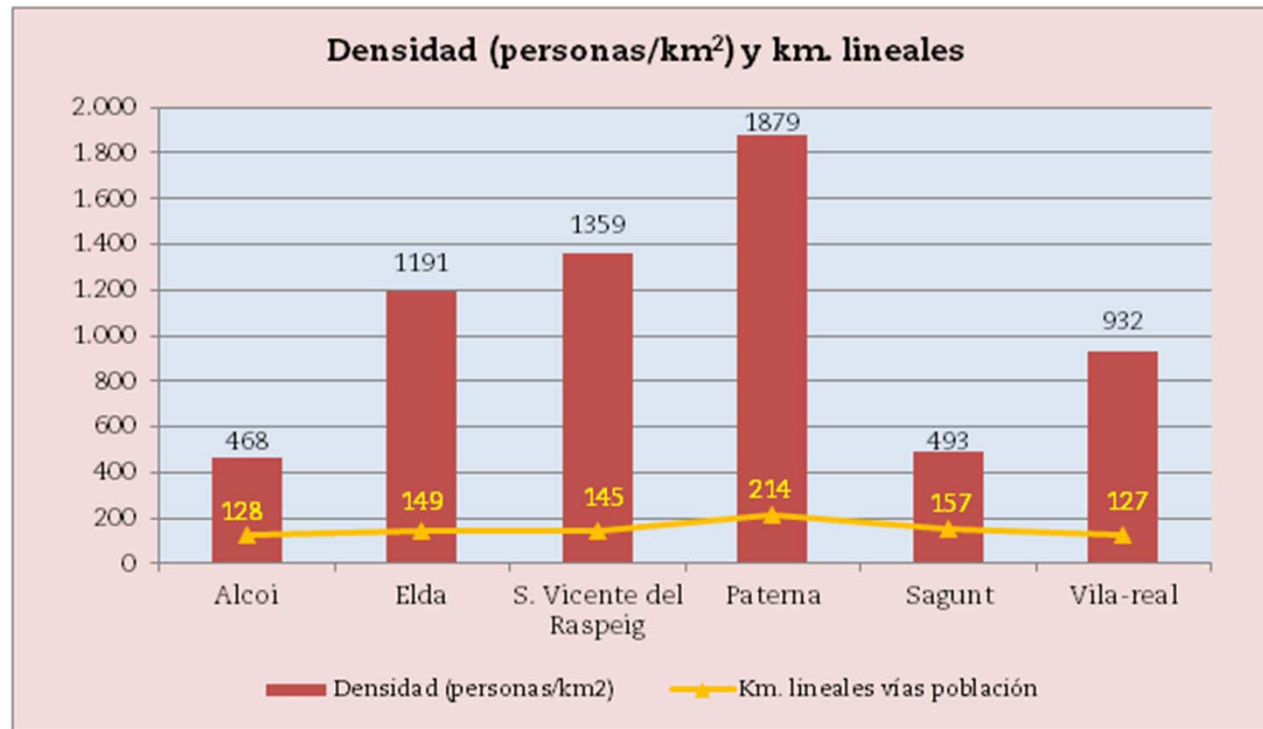
- In accordance with the data of the Spanish National Institute of Statistics, risk assessment and the territorial area of the Valencian Community the municipalities selected have been the following:

Municipio	Alcoi	Elda	S. Vicente del Raspeig	Paterna	Sagunt	Vila-real
<i>Datos generales (1)</i>						
Nº habitantes 2012	60.837	54.536	55.100	67.356	65.238	51.357
Km <sup>2</sup> municipio	130	46	41	36	132	55
Densidad (personas/km <sup>2</sup> )	468	1.191	1.359	1.879	493	932
Km. lineales vías población	128	149	145	214	157	127

(1) Datos obtenidos del INE.

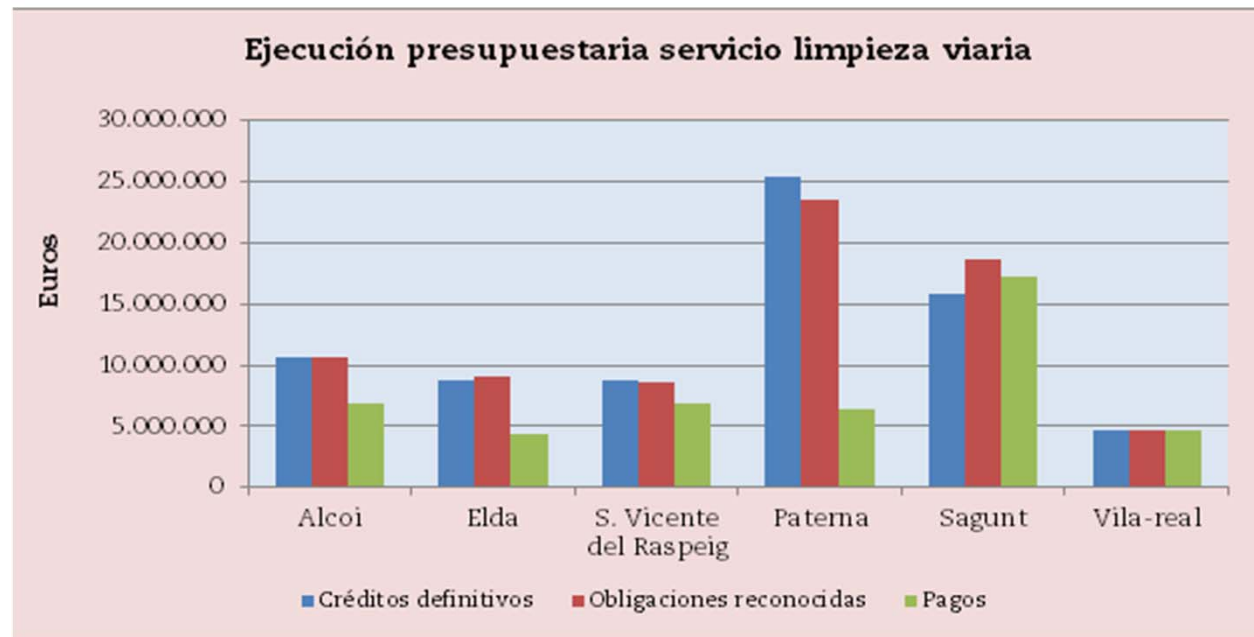
- **Province of Valencia: Paterna and Sagunto**
- **Province of Alicante: Alcoy, Elda, and San Vicente del Raspeig**
- **Province of Castellón: Vila-real**
- ✓ The audit has covered the period 2009-2012

## Data of population density and linear kilometers of the municipalities



## Economic data of the local authorities

- Total expenditure budgeted of the 6 local authorities:
  - 73.966.096 €.
  - An average of 18,5 million euros each year.
  - Annual average cost per person: 52.17 euros





## Procedures for the management of the Street Cleaning Service

Ayuntamiento	Gestión
Alcoi	Indirecta/Contrata
Elda	Indirecta/Contrata
S. Vicente del Raspeig	Indirecta/Contrata
Paterna	Mixta Indirecta/Contrata Indirecta/Encomienda
Sagunt	Indirecta/Encomienda
Vila-real	Indirecta/Contrata

Form:  
Concession of  
public  
services





## Methodological approach

- Risk assessment
- Audit criteria and their sources
- Approach and methodology used. The nature of tests and evidence gathering

## Risk assessment

### Risk arising from:

- ✓ Absence of objectives and performance indicators (economy, efficiency and effectiveness) which assess the results.
- ✓ Limitations on the comparability of data: service provision, different frequencies provided, population,.....
- ✓ The age of the contract for the provision of the service.
- ✓ Lack of human and material resources in the departments responsible for the control.
- ✓ Degree of cooperation of local authorities, consistency of documentation requested and documentation delivery deadline.

## Audit criteria and their sources

Audit criteria are measurement units which serve to evaluate the efficiency, effectiveness and economy of the area or activity audited by comparison with their real situation.

Given that local authorities do not have indicators to measure objectives (which are also not defined) that are aimed at with the provision of the street cleaning service.



The Audit Office has established specific audit criteria for each and every objective and sub-objective set.

## Audit criteria and their sources

The **sources** taken into account when defining the audit criteria have basically been the following:

- ✓ The regulations that concern the activities of local authorities.
- ✓ Reports and technical studies.
- ✓ Sources as a result of the implementation of contracts.
- ✓ Organization chart of local authorities and human resources.
- ✓ Economic and budgetary data of local authorities.
- ✓ Citizens' opinions.

## Approach and methodology. Nature of the tests and gathering of evidence

### – Approach:

- Approach directly based on the **results obtained** for the local authority compared with the objective pursued.
  - ✓ To respond to the target of whether there is an appropriate management control system over the services engaged **an approach based on the control systems** has been additionally applied, consisting of:
    - ❖ Analysis of human and material resources of the local authority. Indicators for evaluating the service provided.
    - ❖ Review of the reports produced by the municipal services. Monitoring of incidents and deadline for reply.

## Approach and methodology. Nature of the tests and gathering of evidence

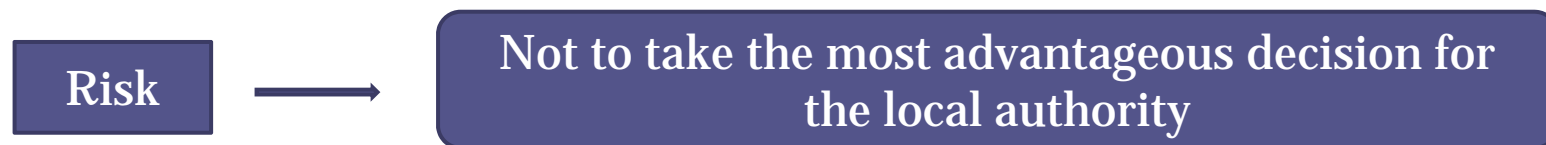
### – **Methodology and nature of the tests:**

- The pattern used has been to obtain information directly:
  - ✓ Document examination (procurement record, invoices, budget execution).
  - ✓ Analysis of the control procedures in each local authority.
  - ✓ Interviews and questionnaires.
  - ✓ Degree of satisfaction amongst citizens.
- As regards the nature of the tests, both numerical tests of analytical character (trends and coefficients) and descriptive tests based on qualitative comparisons.

## Approach and methodology. Nature of tests and gathering of evidence

### An example:

- ❑ **Audit objective 1: Has the most appropriate management procedure been implemented for the service?**
- ❖ **Sub-objective 1.1: which has been the procedure followed when making decisions?**



- ❑ **Source of information: Managers within the local authority**
- ❑ **How to collect information:**
  - ✓ **Interviews**
  - ✓ **Document examination**
  - ✓ **Questionnaires developed by the auditor**



## Approach and methodology. Nature of tests and gathering of evidence

### □ What we shall do with the information collected:

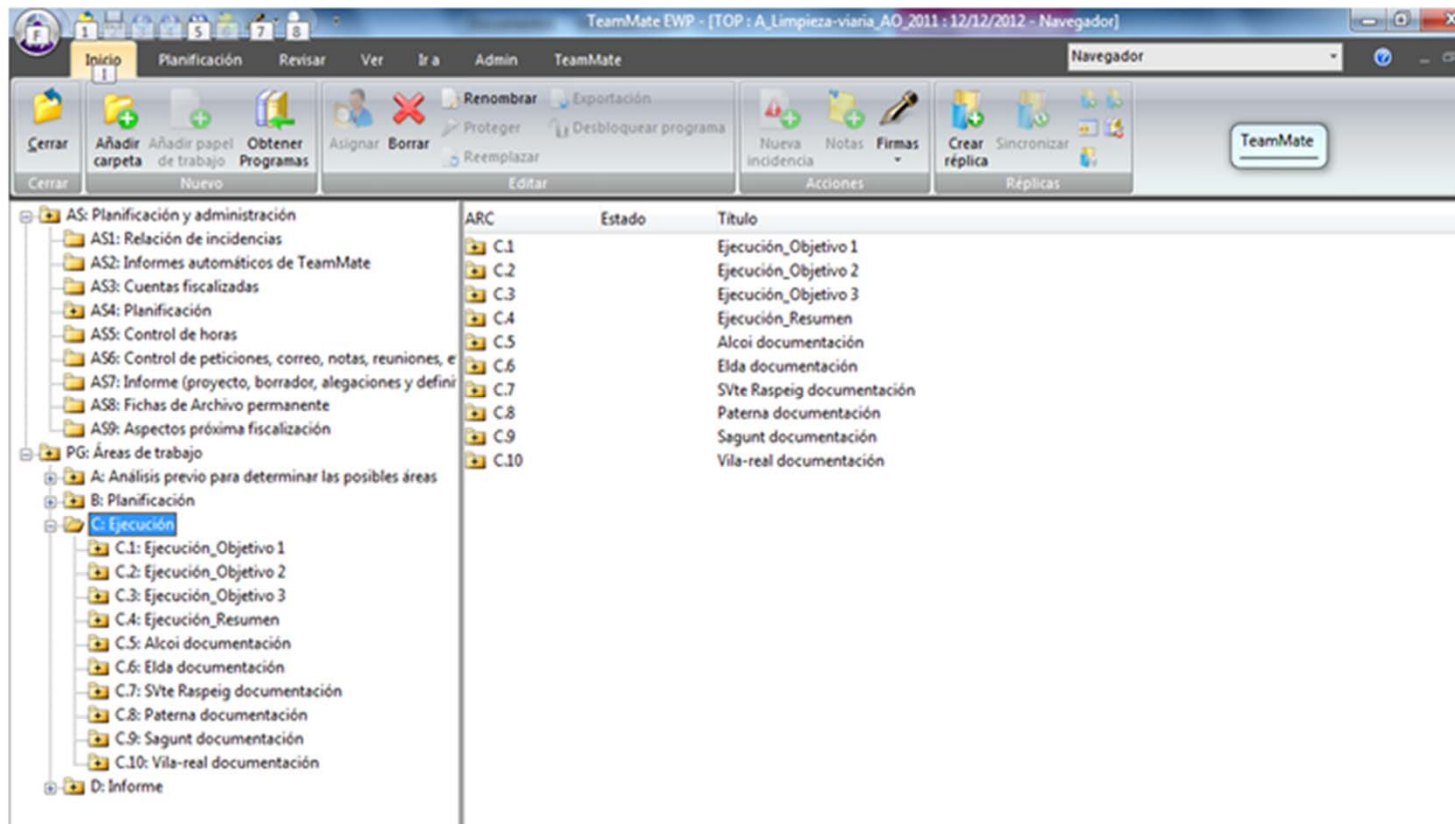
- ✓ Individual and comparative analysis for each local authority
- ✓ Verification of:



- ✓ Elaboration of comments and recommendations

# Implementation

- **Documentation of the work carried out:**
  - Each audit objective has been considered a working area



The screenshot displays the TeamMate EWP software interface. The left pane shows a tree view of the audit structure, with 'C: Ejecución' selected. The right pane shows a table with columns 'ARC', 'Estado', and 'Titulo'.

ARC	Estado	Titulo
C.1		Ejecución_Objeto 1
C.2		Ejecución_Objeto 2
C.3		Ejecución_Objeto 3
C.4		Ejecución_Resumen
C.5		Alcoi documentación
C.6		Elda documentación
C.7		SVte Raspeig documentación
C.8		Paterna documentación
C.9		Sagunt documentación
C.10		Vila-real documentación

# Implementation

## Documentation of the work carried out:

- Each sub-objective has been considered a procedure

AOLV12			
PROGRAMA DE REVISIÓN. PLAN DE REALIZACIÓN DE PRUEBAS Y OBTENCIÓN DE EVIDENCIA			
Objetivo 1 ¿Se ha aplicado el procedimiento de gestión del servicio más adecuado de acuerdo con los principios de economía, eficiencia y eficacia que deben regir la gestión de los recursos públicos? ¿Dicho procedimiento se ha implantado cumpliendo la legislación aplicable?			
Subobjetivo 1.1 ¿Cuál ha sido el procedimiento seguido en la toma de decisiones?			
Pruebas	RESPUESTA	ALCOI	
		COMENTARIOS	REFERENCIA
a) ¿Se ha efectuado un análisis previo de las necesidades de la población?	NO	Respuesta: Por supuesto que se hizo, este fue a nivel interno entre los departamentos implicados y el equipo de gobierno, las conclusiones dieron como resultado el correspondiente Pliego, no se plasmó en documento alguno.	Ver Alcoi respuesta cuestiones 29-04-2013.pdf
- ¿Se encuentra plasmado documentalmente de forma que avale y soporte la decisión tomada por la Corporación? - Obtener el informe/documento firmado por el responsable del servicio.	NO N/A		
b) ¿La entidad local ha fijado los objetivos y características que debe reunir prestación del servicio, y se ha efectuado una adecuada delimitación de las actividades objeto de prestación?	NO	No existe otro documento que el PCA yT	
c) ¿La entidad ha previsto una estructura orgánica interna para la adecuada ejecución y seguimiento de la prestación, en función del procedimiento o sistema de gestión elegido? Indicar estructura y dotación. Mostrar su inclusión en el organigrama.	SI	Concejalía medio ambiente. hay 1 persona con 50% dedicación	ver AOLV12 cuestionario anexo 2 y 3 ALCOI.xls



# Report

## **0. SUMMARY - CONCLUSIONS**

## **1. INTRODUCTION**

- 1.1 Overview of the street cleaning service
- 1.2 Subject of the audit
- 1.3 Preliminary analysis of the service environment

## **2. AUDIT OBJECTIVES AND SCOPE**

- 2.1 Objectives, scope
- 2.2 Characteristics of the service and economic information

## **3. METHODOLOGICAL APPROACH**

- 3.1 Risk assessment
- 3.2 Audit criteria and their sources
- 3.3 Approach and methodology. Nature of the tests and gathering of evidence

## **4. COMMENTS**

- 4.1 Implementation of contracting procedures
- 4.2 Quantity, quality, and cost of the service provision
- 4.3 Monitoring of the service provision

## **5. RECOMMENDATIONS**

## **Annexes**

## Main conclusions

With regard to the management procedure chosen by the local authorities for the provision of the street cleaning service:

- ✓ There are no preliminary technical analysis or setting of targets.
- ✓ The contracting of the service was made in accordance with the regulations. Discrepancies as regards the modality chosen: concession.

As regards the most significant aspects of the provision of the street cleaning service.

- ✓ Differences in the allocation of means. Population density in municipalities and linear kilometres.
- ✓ Direct costs of the provision of the street cleaning service. Variations amongst local authorities.
- ✓ Comparison costs with annual budget payments.
- ✓ Implementation of extra services.
- ✓ ISO Quality protocols.

## Main conclusions

In relation to the economic and budgetary magnitudes derived from the provision of the street cleaning service:

- ✓ Account of annual costs incurred.
- ✓ Budgetary sufficiency.

In connection with the control of the provision of the street cleaning service performed by the local authorities:

- ✓ Limited staff allocated to the monitoring of the provision of the street cleaning service within the local authority.

As regards the degree of citizen satisfaction with the provision of the street cleaning service:

- ✓ Insufficient handling of complaints submitted by citizens.
- ✓ Very few surveys to measure the citizen satisfaction with regard to the street cleaning service.

## Main recommendations

In relation to the economic and budgetary magnitudes derived from the provision of the street cleaning service:

- ✓ Undertake needs studies and technical analysis
- ✓ Change the mode of contracting: service contract

With regard to the control of the street cleaning service performed by the local authorities:

- ✓ Exercise due monitoring over the set of services.
- ✓ Allocate adequate material and human resources.

As regards the degree of citizen satisfaction with the provision of the street cleaning service.

- ✓ Take action to know the citizen opinion.
- ✓ Monitoring and resolution of complaints and suggestions.



Thank you for attention  
Vielen Dank für Ihre Aufmerksamkeit  
Merci de votre attention  
Gracias por su atención  
Спасибо за Ваше внимание