



SWEDISH NATIONAL AUDIT OFFICE
ANNUAL AUDIT PLAN

2018/19



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Swedish National Audit Office Annual Audit Plan 2018/19

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1 Introduction

The Swedish National Audit Office (Swedish NAO) is part of parliamentary control and is tasked with auditing central government activities. The activities are to contribute to sound use of public resources and effective and efficient public administration. Audit is performed through *performance audit and financial audit*. Every year in the Audit Plan the Auditors General present the main focus of operations, for the purpose of providing an overall picture of ongoing and planned audits within performance audit and financial audit.

The Auditors General have decided on the audit focus in their respective audit areas, which are presented below in the overall audit plan. The division into audit areas between the Auditors General Stefan Lundgren and Helena Lindberg is shown in Annex 1.

This year the Audit Plan presents a slightly different structure for audit focus. On the basis of an overall strategic and risk analysis, the Swedish NAO has identified four main risks in central government, which have formed the basis of the audit focus in both fields of operation. These concern risks of deficiencies in

- management and follow-up
- organisation and responsibility
- staffing and skills
- central government finances.

On the basis of each main risk, more concrete risk areas have been identified for performance audit and financial audit. The risk areas are described in section 3.

The risk model means more systematic management and follow-up of the audit operations, as the audit types are based on the same overall risk profile. The structure used in this Audit Plan will also be used in the Annual Report of the Auditors General, which will make follow-up clearer.

The new model entails the greatest changes for performance audit, as the identified risks are mainly thematic and cross-cutting. The Swedish NAO has been able to note deficiencies in organisation and responsibility in several areas of central government. In previous years the performance audit focus was mainly broken down into subject areas, such as social insurance or defence. Even if the audit focus is broken down thematically, a condition for effective audit is also to work on the basis of subject areas, which the Swedish NAO intends to continue with.

The Swedish NAO will further develop the risk model by means of deeper analysis of risks in central government activities, for example.

2 Premises for audit operations

2.1 Remit and mandate of performance audit

The mandate of the Swedish NAO is to audit central government activities and state-owned limited liability companies and foundations.¹ Apart from these activities, the Swedish NAO may also audit the use of central government funds received “in support of certain activities, if the funds are subject to accountability in relation to central government or if special provisions or conditions have been issued concerning how the funds have been used”.² The mandate also covers audit of the processing of unemployment benefit by the unemployment insurance funds.

The recommendations of the Auditors General are directed at the actors covered by the audit mandate, but the audits may also include descriptions and analyses that go beyond central government activities.

Audit implementation

Performance audit shall primarily focus on circumstances related to the national budget and the implementation and results of state activities and commitments in other respects but may also relate to the work of central government generally. Fundamental to performance audit focus is that it is to “promote development, whereby the State, having regard to the general public interest, receives an effective return on its investments.” The audit must therefore mainly focus on economy, efficiency, effectiveness and public benefit.³ Performance audit complies with the International Standards for Supreme Audit Institutions (ISSAI), to the extent appropriate.

The audit mandate means that performance audit focuses on audits on significant societal issues referring to the relationships between objectives, methods and effects of central government activities and initiatives.⁴ A typical performance audit focuses on assessments of whether the Riksdag’s objectives and intentions are fulfilled to the highest possible degree within the limits of available resources and economy, efficiency and effectiveness.

¹ Chapter 13 Article 7 of the Instrument of Government and Section 2 of the Act on Audit of State Activities etc. (2002:1022).

² Section 2 of the Act on Audit of State Activities etc. (2002:1022).

³ Section 4 of the Act on Audit of State Activities etc. (2002:1022).

⁴ The term broad audit examinations is described in report 2009/10:KU17, p. 26–28.

By focusing the audits on indicated problems and reporting clear observations, conclusions and recommendations, the audit aims at achieving improvements that will promote economy, efficiency and effectiveness in the use of resources.

Performance audit reports constitute a basis that enables the Riksdag to demand accountability.

The selection of audits is governed by risks of inefficiency and ineffectiveness in areas of central government activities that are important for the central government budget from a perspective of principle or quantity.⁵ The audit is thus problem-oriented.

Reporting of the audit

Performance audit reports are submitted to the Riksdag, which passes them on to the Government for a statement on the report before it is dealt with by the Riksdag.

The Swedish NAO's reports are quality assured internally and externally. For example, draft reports are subject to factual examination by those affected by the audit.

The Swedish NAO generally includes recommendations in its performance audit reports. They aim to promote economy, efficiency and effectiveness in the organisation audited by concretising the consequences of the conclusions set out in the report. Under Section 4 of the Act on Audit of State Activities etc., the Swedish NAO can propose alternative measures to achieve the intended results.

The most important findings of both performance audit and financial audit are also reported in the annual report of the Auditors General.

2.2 Remit and mandate of financial audit

The Swedish National Audit Office is to audit public sector annual reports through financial audit. The audit is intended to assess whether the accounts and the underlying documentation are reliable and the accounting records true and fair and whether the administration by the management complies with relevant provisions and special decisions.⁶ The Swedish NAO may also appoint auditors in state-owned enterprises and state foundations.⁷

⁵ Committee report 2009/10:KU17, p. 25.

⁶ No assessment of the administration by the management is made when auditing the accounts of the State, Government Offices, Palace Administration and Royal Djurgården Administration (Sections 3 and 5 of the Act on Audit of State Activities etc. (2002:1022)).

⁷ Section 2 of the Act on Audit of State Activities etc. (2002:1022). This applies to limited liability companies whose activities are governed by law or other statute or if the State has a controlling

Financial audit is conducted in accordance with generally accepted auditing standards and thus applies the International Standards for Supreme Audit Institutions (ISSAI) when auditing central government activities, which means that these are followed where relevant to the audit assignment. Financial audits of performance reporting and other information in the annual reports complies with the Swedish NAO's internal policy documents.⁸

Audit implementation

Audit is conducted with reference to an analysis of risks of material misstatement by the auditee. The relative financial size of a reporting item normally forms the basis for assessment of materiality in the audit. Within central government, however, risks of misstatements that refer to relatively small amounts may be deemed to be material risks if the misstatement may damage confidence in central government activities.

Financial audit is also to work preventively by reporting misstatements and deficiencies on a current basis as they are discovered.

Reporting of the audit

Financial audit is reported through an auditor's report and – for the authorities that submit interim reports – also an audit certificate, which are submitted to the Government.⁹ An overall account of the most important findings from audits are reported in the Annual Report of the Auditors General.

The auditor's report contains opinions on whether the annual report has been prepared in accordance with applicable regulations and gives a true and fair view. In addition, the auditor's report contains statements concerning whether performance reporting supports a true and fair view of the annual report, whether the authority's management has used appropriations and income in accordance with applicable regulations and – for the authorities covered by the Ordinance on Internal Control (2007:603) – whether there is anything to indicate that the authority's management has not complied with the Ordinance.

In other respects, material findings in the course of the audit are reported in writing in an audit report to the authority's management while minor material findings are reported orally.

interest over the activities. This also applies to foundations whose activities are governed by law or other statute or if the foundation has been formed by, or jointly with, the State, or is administered by a state agency.

⁸ The Swedish NAO's instruction for audit of the performance report and other information in the annual report (RRI).

⁹ Section 5 of the Act on Audit of State Activities etc. (2002:1022).

3 Audits in the coming year

This section presents the ongoing and planned activities for performance audit and the focus for financial audit. As described in section 1, the audit focus is based on four main risks in central government. These concern risks of deficiencies in

- management and follow-up
- organisation and responsibility
- staffing and skills
- central government finances.

On the basis of each main risk a few more concrete risk areas have been identified. The areas are described below in the sections on performance audit and financial audit.

3.1 Performance audit

For each main risk mentioned above, the Swedish NAO has identified two to three more concrete risk areas. These areas are to guide the development and choices in the process of proposing and giving priority to new performance audits. In the following, these areas are described with examples of both ongoing audits and more preliminary subjects for future audits. The audits may include one or more auditees. They may examine whether an authority manages an area of responsibility effectively. But there are also audits in which several authorities using various measures are to contribute to achievement of objectives within an area, such as integration. In some cases, this may refer to phenomena that are not very significant in individual authorities but where the overall performance is relevant, for example procurement. Another indication of audit-worthy areas is where the problem concerns several different areas of risk.

When selecting audits, an assessment of materiality and risk is made, which is intended to lead to broad audits of significant societal issues. Areas of great significance for the central government budget in terms of principle or quantity are given priority. The selection framework also includes activities of importance for citizens' life quality and confidence in public authorities. The Swedish NAO's choice of audits is also based on the international standards issued by INTOSAI, including criteria for the choice of areas to audit.

The Swedish NAO has a long-term ambition for audit operations that over time aim to achieve a comprehensive and nuanced analysis of effectiveness and efficiency in central government activities.

Apart from the risk areas and audits presented below, there are also ongoing audits and possible topics for future audits. The Swedish NAO also has the preparedness and flexibility to audit issues that are currently most material,

regardless of whether they have been included in the audit plan. The questions that will actually be audited will be determined on a current basis by the Auditors General individually. All the Swedish NAO's ongoing audits are presented in Annex 2.

Governance and follow-up

The Swedish NAO's performance audits are mainly focused on examining the implementation and outcome of initiatives determined by the Riksdag and Government. This normally also includes auditing the Government's governance and its administration. For example, the governance of the judicial chain and the Government's governance in the area of culture are currently being audited. It is also deemed important to audit the actions of central government in the sale of state-owned enterprises or organisational changes in company ownership, since this may be of great significance for the revenue side of the central government budget. A description is given below of three more specific areas of risk in governance, monitoring and reporting.

Risk of ineffective oversight and control

Public oversight is to help to sustain fundamental values in society such as legal security, effectiveness and equivalence. Oversight issues also relate to the quality of public sector activities and in some areas may be crucial to life, health and the environment. It is therefore important to audit whether oversight is effective and impose reasonable requirements based on the intentions behind Riksdag decisions. The Swedish NAO has found in previous audits that oversight by the State is not always satisfactory and oversight issues continue to be important to audit.

Oversight and control activities are conducted in a large number of areas of central government, which may give rise to broad audit procedures. The various oversight and control mechanisms of the State should be effective so that errors are detected and prosecuted, errors that for example may lead to failure to achieve objectives and damage confidence. Significant costs may also arise as a result of deficient control. Another form of control is that of protecting the country from a concrete threat. For example, customs controls are of such importance that audit is justified. The school system has many school authorities and providers, and their task is complex. The Swedish NAO therefore now audits how the Swedish Schools Inspectorate follows up its oversight decisions. During the coming year, the Swedish NAO also plans to audit oversight in the care sector, i.e. the supervisory activities of the Health and Social Care Inspectorate (IVO). The aim is to examine whether IVO's oversight is carried out efficiently and consistently throughout the country. Furthermore, competition oversight is an important instrument to create and maintain well-functioning markets for the benefit of consumers and businesses. In the coming year, the Swedish NAO will audit whether the Swedish

Competition Authority's intervention against market-damaging behaviour is well-founded and effective.

Risk of unclear objectives and low effectiveness

The public commitment is often characterised by complexity, featuring several actors with different objectives and roles. In some cases, the objectives may be unclear, overlapping or conflict with each other. Unclear objectives may lead to inefficiencies and low effectiveness if it is not clear to the authorities what they should achieve. Furthermore, unclear objectives risk leading to different interpretations by different actors, which may lead to low effectiveness for the organisation as a whole.

One example of potential conflicting objectives relates to a level playing field for entrepreneurship, where the Swedish NAO audits whether there are conflicting objectives between market supplementing central government activities and the objective of economic equality between women and men.

The Swedish NAO's audits often have the objective of examining achievement of objectives. The Swedish NAO's audit of the Climate Leap initiative included examining whether the initiative had been dealt with effectively and whether the support had led to cost-effective measures.

An audit of targeted state subsidies to municipalities for increased housing construction has also started. The aim is to audit whether the design of the initiative is fit for purpose to produce the desired effect.

Risk of events that undermine public confidence

In an international perspective, the Swedish administration has a high level of confidence among citizens. The absence of corruption is crucial for confidence and anti-corruption measures are central. Corruption is to be considered in a wide context, including clientelism, nepotism and other favouring on grounds that are not objective or impartial. The ongoing audit of government authorities' procurement from employees and their relatives is an example of the National Audit Office's work on this issue.

Public procurement is often highlighted as a risk area for corruption. The Swedish NAO considers that it is justified to audit how authorities work with procurement to avoid corruption.

Organisation and responsibility

The effectiveness of central government initiatives often depends on how their implementation is organised. It is an important task for performance audit to examine whether the organisation and division of responsibilities in central government are designed to promote effectiveness.

The tasks and obligations imposed by central government on municipalities constitutes an important aspect of public organisation and division of responsibility. Central government governance needs to achieve a certain degree of equivalence of public services regardless of where citizens live. At the same time, municipalities need to be in a position to take responsibility for the compulsory tasks assigned to them by central government. A question which the Swedish NAO is planning to audit is whether the Government's economic instruments are sufficient to enable municipalities to provide substantially consistent services.

Three areas of risk in organisation and responsibility are described below.

Risk of weaknesses in coordination of cross-cutting issues and outsourcing

The Swedish administrative model is characterised by many independent authorities with mandates in different areas. At the same time, there are issues that concern several authorities, creating a need for interaction. As an organising principle, the interaction may be weak and unclear, which may lead to inefficiencies. Within the coordination and outsourcing theme, action in several expenditure areas may be subject to audit. This may concern issues where several authorities are to coordinate their efforts to achieve the objectives, and also outsourcing as a form of organisation.

During the year the Swedish NAO will audit whether the division of roles between the Swedish Council for Higher Education and the Swedish Higher Education Authority functions as intended after the reform of 2013. Another area in which cooperation is being examined is the joint work carried out by the authorities on organised crime. Cooperation may also be needed where the positive effects of a measure in a system are cancelled out by adverse effects in another. This risk is significant in the context of large social security systems in the form of unemployment insurance and social insurance. There is a risk that the intentions behind the design of sickness insurance and the pension system, for example, may be influenced by measures and actions within the surrounding transfer systems. These are examples of problem areas that will be monitored and considered for audit during the year.

Matters that naturally have a cross-cutting perspective – such as gender mainstreaming – lead to considerable needs for interaction. The combined efforts of central government in areas of exclusion are another example. During the year the Swedish NAO will consider audits in these areas.

Interactions are usually between authorities, but also municipalities, stakeholder organisations and companies can be actors. Such interaction may have advantages, but also poses certain challenges in terms of transparency and division of responsibility. The Swedish export strategy, decided by the Government in 2015, contains several measures with elements of interaction between different actors.

In this area, the Swedish NAO audits the establishment of regional export centres, focusing on whether past experience of similar measures has been utilised and whether the effects of the initiative can be evaluated.

In some areas, there is a shared responsibility between industry and central government where liability issues may be unclear. One specific situation leading to challenges is when central government outsources activities to another provider. This is usually done for the sake of efficiency, but it is important for the authority to ensure that the provider complies with the requirements applicable to central government activities. Outsourcing leads to particularly sensitive situations when it comes to security-sensitive operations, and it is therefore important that there is appropriate protection of such operations. These are important issues to audit.

Risk of the administration not taking advantage of opportunities offered by digitalisation

Digitalisation is an ongoing process aimed at creating benefits through new or changed ways of organising and working using digital technologies. There are significant efficiency gains for the administration if it can take advantage of the opportunities offered by digitalisation, including the adaptation of approaches to the potential of digital solutions.

Citizens now expect to be able to conduct business and interact with authorities digitally. In addition, a major element of manual steps in a process indicates working methods that do not fully use the potential of digitalisation. The Swedish NAO will audit whether the administration is succeeding in using the potential of digitalisation in this regard.

The Swedish NAO will also audit the existence of outdated IT systems in public administration, as well as how the authorities and the Government have dealt with these systems to achieve the objectives of digitalisation and information and cybersecurity.

Risk of deficient reception and integration

The high levels of migration to Sweden in recent years have been, and remain, a challenge for public administration. It is of utmost importance for the legitimacy of migration policy and for the asylum seekers that the administration is capable of managing reception in a way that meets the requirements of public service. These include ensuring an asylum application process that is effective and fit for purpose, which may be of relevance to audit.

The integration of newcomers to Sweden is important. Conversely, segregation can lead to exclusion, lack of legitimacy for migration policy and social problems. The activities of the authorities immediately responsible are of course important for the outcome of migration policies and as such are of interest for audit. Another aspect is the vertical implementation chain, in which the central-local government relation is of central importance. A particular challenge for the public sector is

“areas of exclusion” where persistent negative spirals may arise. It is important to audit how state actors, individually and in collaboration, succeed in preventing such spirals.

An important example is to continue to audit how well the labour market policy initiatives work for new arrivals. The Government’s integration policy for foreign-born women and the results, costs and effectiveness of return activities will also be audited.

Staffing and skills

Large parts of the public service are staff-intensive and require specific skills. There is a risk that the public sector will face difficulties in meeting its mandate if the supply of skills is not functioning.

Risk of shortages in skills supply

In healthcare, school, defence and police services there is a risk of difficulties in managing the supply of skills and staff. In this context, central government initiatives to educate key groups are worth auditing. Another matter worthy of auditing is how well central government manages to retain skills. It may also be relevant to audit initiatives to help older employees of the State to work for longer.

A lack of skills and staff leads to direct problems of effectiveness and efficiency for the activities concerned, a situation that may arise in the case of relocations. Staff shortages may lead to greater expense, for example due to the necessity of purchasing consultancy services. It is also important to audit whether case officers who are to implement different central government initiatives in practice are in a position to take decisions contributing to the achievement of objectives. This may include auditing whether case officers have sufficient knowledge, resources and incentives to implement the assignment.

Risk of inefficient procurement

Central government procures goods and services annually for significant amounts. The regulatory framework for procurement is extensive, making it necessary to have staff with good procurement skills and efficient processes.

Investment in and maintenance of infrastructure entail major central government expenditure and the proper functioning of transport is important for both business and the everyday lives of individuals. In the coming year the Swedish NAO will audit the Swedish Transport Administration’s procurement of operation and maintenance of roads. Corresponding audit procedures for rail traffic may also be relevant.

Central government finances

Public finances face significant challenges. It is of the greatest importance that central government resources are used effectively, and that fiscal policy supports

long-term sustainable development. In particular in the context of the audit criteria on risk and materiality, the management of central government finances is an area that the Swedish NAO continuously follows and audits. The Swedish NAO intends to continue to audit important aspects of the fiscal policy framework and the budget process.

A description is given below of two themes which will be given particular attention in the audit operations in the coming year.

Risk of ineffectiveness and lack of transparency in the fiscal policy framework and the budget process

The fiscal policy framework is a tool to ensure that fiscal policy is sustainable and transparent in the long term. The fiscal policy framework consists of a set of objectives and principles for fiscal policy, as well as forms of monitoring, evaluation and transparency. The framework consists of the following components:

- budget policy objectives (surplus target, debt anchor, expenditure ceiling, balanced municipal budgets)
- a disciplined central government budget process
- external follow-up of fiscal policy
- transparency and clarity.

The Swedish NAO has regularly reviewed the application of the fiscal framework, which will continue in the future.

Risk of insufficient quality of forecasts and impact assessments

Forecasts and impact assessments from the Government and its authorities provide important input for political decisions. If the quality of the forecasts is insufficient, there is a risk that the Riksdag and the Government will make fiscal decisions based on false premises. A high quality of national accounts and other economic statistics on which forecasts are based is essential for reliable forecasts. Economic statistics are therefore an area for review.

Robust and clearly reported impact assessments ahead of decisions facilitate the choice of effective policy options. They also contribute to the control and transparency of costs, impacts and side effects. Such analyses also provide referral bodies with better prospects of making qualified comments and allow those affected by the proposals to prepare themselves. The Riksdag has on several occasions expressed its views on the need for impact assessments, for example when the Government submits proposals for new legislation. The Swedish NAO is currently auditing the work of public authorities on the calculations and scenarios for long-term planning and decision-making in central government. This includes initiatives in the areas of energy, environment and infrastructure. The aim is to examine whether the bases for calculation are of sufficient quality to allow the

Riksdag to make informed decisions and whether the work is organised in such a way as to enable an efficient, coordinated and transparent operation.

In previous audits, the Swedish NAO has found that cost overruns often arise in relation to original analyses and forecasts, including for infrastructure projects. The Swedish NAO may also audit such cost overruns in the future.

3.2 Financial audit

Financial audit examines the approximately 230 annual reports submitted by authorities every financial year. Based on a materiality assessment, an analysis is made for each authority as to which areas should be audited. Furthermore, information is gathered to assess the risks that the annual accounts would not give a true and fair view of the financial position and performance of the authority. The identified risks are linked to the materiality assessment, and the cumulative assessment of the risk of material misstatement governs the choice of audit procedures. A higher risk of material misstatement normally leads to more extensive audit. The financial audit's basis of risk and materiality means that the audit will normally target large and complex items or payment flows in the authorities.

The annual information gathering for each audit engagement includes analysis of any major changes in the governance of the authority, the internal control environment (including protection against fraud, etc.) and whether the authority has relevant control activities. In addition, other external and internal factors that may have an impact on the annual accounts are analysed. Some examples include reporting requirements in accordance with appropriation directions, management control systems, as well as laws and ordinances that can indirectly influence the annual accounts and how the authority ensures compliance with them.

In the course of the audit, the authority's internal control system is reviewed through various audit procedures. The choice of method and scope is guided among other things by the materiality of the risk.

The financial audit opinions in the auditor's report refer to one financial year. The Swedish NAO collects or updates information for each engagement on an annual basis in accordance with generally accepted auditing standards, but the risk assessment is also based on previous knowledge. Consequently, when there are no major changes in the authority's activity or risk profile, audit procedures will target the same risks from one year to the next. This also means that each year financial audit examines the large and complex payment flows which are deemed to have increased risk of misstatement by the authorities.

Risk areas

The Swedish NAO has identified a number of risk areas which could relate even for financial audit, based on the main risks in central government and past experience. The risk analysis for the 2018 audit year for each authority considers these risk areas, given that they are relevant to the authority and could lead to material misstatements in the annual report in question. In other words, the bulk of these risk areas will be dealt with in the ordinary audit.

Governance and follow-up

Risks related to unclear normative framework for the central government annual report

Every year the Government submits a central government annual report to the Riksdag. The central government annual report is prepared in accordance with the Budget Act, which defines the contents, overall accounting and valuation principles, scope and format of the annual report. However, the Budget Act does not regulate, for example, the criteria for the delimitation of consolidated accounts, i.e. what should be included in the accounts. Nor does the Act provide more than general accounting rules, which do not make it clear what valuation methods are to be used or how the information contained in the central government annual report is to be presented.

The Swedish NAO considers the risk that the central government annual report does not provide a transparent picture due to an unclear normative framework.

Risks related to exemptions from financial administration regulations

Public authorities may be exempted from accounting requirements in ordinances. Exemptions may affect the fair presentation of financial statements. Where there are exemptions, the Swedish NAO therefore needs to assess the impact on the individual authority.

Risks related to shortfalls in authorities' fee-based financing

Many authorities finance parts of their activities with statutory fees or fees for contract activities. Full cost coverage should normally apply as the economic objective for fee-based activities, unless otherwise decided by the Riksdag or the Government. On this basis the authorities are to calculate fees so that in the long term the revenues cover all costs. For a number of years, the audit has shown that there is a lack of clarity and consistency in the governance of how authorities may charge fees and how activities are to be financed. This has also applied to how the Government deals with surpluses or deficits in these activities. The Swedish NAO will continue to audit how the authorities are complying with the applicable charging rules.

Risks related to unclear rules for authorisations

The Swedish NAO's previous audits have revealed shortcomings in the way in which the authorities comply with the provisions of the Appropriations Ordinance concerning authorisations. These are deficiencies that can be linked both to internal control at the authorities as regards authorisations, and deficiencies in the governance of operations through unclear decisions by the Government. These deficiencies may involve a risk of incorrect handling of or accounting for authorisations. They may also lead to lack of clarity or incorrect perception of whether authorisations are indicative or governing. When responsibility is shared between authorities, there is also a risk of insufficient control of outstanding commitments. Sometimes authorities agree on commitments beyond the final year decided by the Government. In the work of risk analysis, the Swedish NAO will continue to take into account the risk of unclear authorisations in the engagements where it is relevant.

Risks related to accounting for financing instruments

In their annual report for 2018, the Auditors General noted that there were grounds for reviewing the accounting policies applicable for financial instruments, applied in both the authorities reports and in the central government annual report. At present, there is a risk that these funds are not accounted for in a consistent and objective manner. The instruments are built up with EU and national funding and are managed by several authorities. The funding is passed on to the recipient actors, which in turn build up and administer funds. The purpose of the funds is to provide venture capital to borrowers who may not be able to obtain it via traditional sources.

The design of the funds means that the contributing authority retains control of the funds, by deciding on the use of the remaining funds, which may include repayment or re-lending. The funds therefore have the character of both grant funds and capital investment, nor do the donors and recipients account for the funds in a similar way. When the authorities pass on the financing, this is recognised as grants paid, while the recipients of the funds recognise the amounts as a liability to the relevant authority. At the relevant authorities, the Swedish NAO will audit how EU funds for financing instruments are accounted for.

Risk of deficiencies in transfers

A large number of our authorities are responsible for transferring their appropriations for different purposes such as social benefits and other various purposes. The funds can be provided as contributions to households, businesses and municipalities. Authorities' transfers are often both material and risky. The financial audit includes examining whether the funds of the authority have been used as intended, i.e. in accordance with the Appropriations Ordinance. The audit thus covers not only whether the funds are presented fairly in the accounts, but also whether the authority has complied with the rules applicable to their use. This

normally means that the internal control of the authority is audited to ensure that correct payments are made to the correct recipient. The Swedish NAO audits transfers at authorities where they constitute material amounts, and also where there is a risk of material misstatement.

Risk of misuse of appropriations

Authorities sometimes use appropriations for purposes other than those intended. Based on an assessment of risk and materiality for the individual authority, the audit may therefore include the item 'income from appropriations'. In addition, unclear division of responsibility for appropriations and authorisations between authorities may create the risk that the accounts are not subject to the internal control required, which leads to an increased risk of misstatements. This is always taken into account in the respective audit engagements.

Risks related to monitoring and control of research grants

A number of agencies are tasked with supporting research, for example by distributing grants for research, development and innovation. The Swedish NAO has noted in previous years that there are deficiencies in the monitoring system for funds paid out by central government research financiers. A number of these authorities have been required by their appropriation directions for 2018 to improve internal control, but risks related to such deficiencies may need continued consideration when auditing the authorities dealing with research funding.

Risks in public procurement

Central government authorities procure goods and services annually for large amounts. Procurement may concern several items in the annual accounts of the authorities, both in relation to the costs incurred by the authorities and in the balance sheet. Procurement is a complex area with extensive regulation, both as regards the implementation of the process (Public Procurement Act) and as regards financing for procurement of assets. Procurements may, in addition, involve the risk of fraud in the form of active or passive bribery, etc.

Depending on the risk assessment, the audit may examine procurement contracts for the individual authority. When assessing the risk of material misstatement due to fraud, more audit work is carried out. The audit of the control structure of an authority includes the internal control for procurement.

Organisation and responsibility

Risks related to sharing of responsibility for transactions and accounting between authorities

There continue to be instances of several authorities sharing responsibility for the processing of one case. Shared responsibility entails risks of unclear division of responsibility, with negative consequences for accounting, control and follow-up. Unclear division of responsibility also entails a risk of cases falling between stools.

There is also an increased risk of misunderstandings and errors where responsibilities are shared between several authorities.

The Swedish NAO will take into account these risks and the consequences that may arise in the form of insufficient internal control.

Risks related to deficiencies in authorities' measures to prevent fraud

Risks related to deficiencies in the management's system to counteract and prevent fraud must be taken into account in the audit when they are deemed to be material. Internal control of funds at authorities that levy taxes and charges and authorities that make transfers is a particularly important area. When the Swedish NAO identifies misstatements due to fraud, they are always reported to the authorities regardless of the amounts involved. The occurrence of fraud may also affect the ability of the Swedish NAO to perform the audit.

Even if fraud does not normally involve material amounts, it may affect confidence in the State. Financial audit takes this risk of damaged confidence into account when mapping the authority's risk situation by paying particular attention to the capacity of the authority management to provide a high level of protection against the occurrence of fraud. However, misstatements due to fraud that do not involve material amounts in relation to the annual accounts as a whole, are not always the focus of an audit.

Staffing and skills

Risks related to staffing and skills in individual authorities may arise for various reasons. These include key people leaving, large retirements of staff with long experience, lack of recruitment possibilities or relocation. In the case of relocation, there is always a risk that staff with the necessary skills will not opt to relocate, risking more or less prolonged losses of skills.

As part of the audit risk assessment, an opinion must be formed of the audited authority's internal control, which includes the skills of those responsible for internal control. Ultimately, the audit's information gathering and risk assessment aims to assess the authority's ability to prepare annual accounts that present a true and fair view. In many authorities internal control is dependent on key individuals with different cutting edge skills. Current market conditions and relocation may involve difficulties in retaining and recruiting people with such skills. In that case the risk of the authority's internal control not functioning as intended may be higher. This is something that is analysed and taken into account in the risk analysis for the individual authority.

Central government finances

Risks related to collection

Misstatements due to deficiencies in tax collection or the recording of tax revenue

could have a significant impact on central government finances. However, audit of internal controls referring to tax systems at the authorities that account for collection have not revealed any major shortcomings in previous years. The audit of tax revenue is usually carried out by mapping and reviewing internal control. As these are material and often complex processes, this is normally done every year. In the central government annual report, tax revenues are accrued according to a special method. There is a risk that this accrual will be incorrect, as the method is not sufficiently documented.

Areas for development in financial audit

In the context of financial audit, the Swedish NAO continues to work in a number of development areas.

Overall risk analysis

In financial audit, an annual risk analysis is carried out for each individual engagement, identifying the risks of material misstatement in the annual accounts. By compiling, categorising and analysing identified risks for all engagements, the Swedish NAO can draw up an overall risk analysis for the financial audit. The aim is to give an overview of the risks and be able to obtain better conformity in the risk assessment of authorities with similar conditions and similar items, etc. The overall risk analysis can thus contribute to further development and streamlining. Another purpose is to serve as a knowledge base within the Swedish NAO to identify needs and proposals for audit.

Administration by the management

Development work started in 2017 on the question of whether audit of the administration by the authority management has complied with applicable regulations and special decisions. At present the opinion on administration by the management is limited to compliance with ordinances linked to the Budget Act. The purpose of the assignment is to examine whether there is a reason to broaden this approach.

Adaptation to regulatory changes

The financial audit mandate is to audit the authorities' annual accounts and assess their fair presentation and compliance with the applicable financial reporting framework. In 2018 the Government adopted amendments to two ordinances that are central to the audit work. These are amendments to the Ordinance concerning the Annual Reports and Budget Documentation (2000: 605), which partly change the content of the performance report. There are also changes in the Ordinance on Internal Control, which among other things clarify the responsibilities of management. In the light of these changes, the Swedish NAO needs to review the working methods, the reporting and certain elements of the internal policy documents for the audit work.

Annex 1. Audit areas of the Auditors General

Stefan Lundgren

Responsible for audits in the following expenditure areas

- 2 Economy and financial administration (financial market)
- 2 Economy and financial administration (public finances)
- 3 Taxes, customs and enforcement
- 4 Justice
- 5 International cooperation
- 6 Defence and contingency measures
- 7 International development cooperation
- 10 Financial security for the sick and disabled
- 11 Financial security for the elderly
- 12 Financial security for families and children
- 13 Gender equality and introduction of newly arrived immigrants
- 14 Labour market and working life
- 26 Interest on central government debt etc.
- 27 Contribution to the European Union

Also audits of

Revenue side of the central government budget
Central Government Annual Report

Helena Lindberg

Responsible for audits in the following expenditure areas

- 1 Governance
- 2 Economy and financial administration (administrative and employer policy)
- 8 Migration
- 9 Health care, medical care and social services
- 15 Financial support for students
- 16 Education and academic research
- 17 Culture, media, religious communities and leisure activities
- 18 Community planning, housing provision, construction and consumer policy
- 19 Regional growth
- 20 General environmental protection and nature conservation
- 21 Energy
- 22 Transport and communications
- 23 Land- and water-based industries, rural areas and food
- 24 Industry and Trade (including companies and foundations)
- 25 General grants to local government

Annex 2. Ongoing performance audits

Ongoing performance audits are presented below as at 17 October 2018. The expected year of publication is stated in brackets. Both title and year of publication are subject to change.

Riksdag Committee on the Labour Market

Integration policy for foreign-born women (2018)

Can the Swedish Public Employment Service's placement services be more effective? (2019)

Conditions for effective matching activities (2019)

Results, costs and effectiveness of return activities (2019)

Long-term effects of support to business start-ups (2019)

Documentation requirements of the Discrimination Act (2019)

Riksdag Committee on Civil Affairs

The government grant to municipalities for increased housing construction (2019)

Support for energy efficiency and renovation of multi-dwelling buildings and outdoor environments (2019)

Riksdag Committee on Finance

Central government guidance of municipal supervision in certain areas (2018)

Public authorities' purchases from employees and relatives of employees (2019)

Nordic parallel audit of digitalisation – audit of digital work processes (2019)

Application of the fiscal policy framework (2019)

Incentives detrimental to growth in municipal income equalisation (2019)

The local government financial equalisation system (2019)

Quality of the national accounts (2019)

Riksdag Committee on Defence

Security work for nuclear activities (2019)

Riksdag Committee on Justice

Inter-agency work against organised crime (2019)

Governance of the judicial chain (2019)

Riksdag Committee on the Constitution

The Government's governance of County Administrative Boards (2019)

Riksdag Committee on Cultural Affairs

Security in museum collections (2019)

The Government's governance of cultural authorities and institutions (2019)

Riksdag Committee on Environment and Agriculture

The Climate Leap – support to local climate investments (2019)

Riksdag Committee on Industry and Trade

Implementation of share sales in Nordea (2018)

Sweden's export strategy – formulation and implementation (2019)

Gender equal conditions for enterprise – an audit of Almi's operations (2019)

The Swedish Competition Authority's supervision of competition (2019)

Riksdag Committee on Taxation

Audit of the RUT tax credit for domestic services (2019)

Control activities of the Swedish Customs (2019)

Riksdag Committee on Social Insurance

The premium pension system – is cost-effective management maintained? (2018)

Effects of overcrowding on health and school outcomes – an audit of the design of housing allowance (2019)

Audit of child allowance (2019)

Reasons for gender differences in sickness absence (2019)

Hidden statistics in housing benefits (2019)

Riksdag Committee on Health and Welfare

Central government measures on non-compliance with rights laws (2019)

The Health and Social Care Inspectorate's supervision (2019)

Riksdag Committee on Transport and Communications

The four-step principle in national infrastructure planning (2018)

Procurement of operation and maintenance of roads (2018)

Estimates and scenarios as a basis for long-term planning and decisions in central government (2019)

Outdated IT systems – an obstacle to information-secured digitalisation? (2019)

Riksdag Committee on Education

Reform of authorities in higher education (2018)

Work to prevent unlawful spreading of national tests (2018)

Efficiency and productivity for Swedish universities and other higher education institutions in a Nordic perspective (2019)

The Schools Inspectorate's follow-up of its supervision (2019)

Central government initiatives for knowledge focus in compulsory schools for pupils with learning disabilities (2019)

Riksdag Committee on Foreign Affairs

Interaction between Sida's humanitarian aid and long-term development cooperation (2019)

