



SWEDISH NATIONAL AUDIT OFFICE
ANNUAL AUDIT PLAN

2017/18



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Swedish National Audit Office Annual Audit Plan 2017/18

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1 Introduction

The Swedish National Audit Office is part of parliamentary control and is tasked with auditing activities of the State as well as contributing to sound use of resources and effective and efficient public administration. The Swedish NAO has a strong mandate that entitles it to conduct independent audit of central government activities. The audit is carried out through financial audit and performance audit. As a supreme audit institution, the Swedish NAO represents Sweden on matters concerning public sector audit. The Swedish NAO applies international standards in its activities, both in audit and for example in communication concerning its activities and in ethical issues.

In the annual audit plan, the Auditors General present the overall focus of activities within both types of audit. The annual audit plan is to provide an overall picture of ongoing and planned audits in financial audit and performance audit.

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

2 Premises for audit operations

Remit and mandate of financial audit

The Swedish National Audit Office is to audit public sector annual reports through financial audit. The audit of annual reports is intended to assess whether the accounts and the underlying documentation are reliable and the accounting records true and fair and also whether the administration by the management complies with relevant regulations and special government decisions.¹ The Swedish NAO may also appoint auditors in state-owned enterprises and state foundations.²

Financial audit applies the International Standards for Supreme Audit Institutions (ISSAI) when auditing central government activities. Financial audit of performance reporting and other information in the annual reports complies with the Swedish NAO's internal policy documents.³

Audit focus and implementation

Audit is conducted on the basis of an analysis of risks of material misstatement by the auditee. The relative financial size of an audited item is normally 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, under international standards, to work preventively by reporting misstatements and deficiencies on a current basis as they are discovered.

Reporting of the audits

Financial audit is reported by means of an auditor's report and – for the authorities that submit interim reports – an audit certificate, which are submitted

¹ With the exception of auditing the Central Government Annual Report, the Government Offices and the Palace Administration and Royal Djurgården Administration. Sections 3 and 5 of the Act on Audit of State Activities etc. (2002:2022).

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

³ The Swedish NAO's instruction for audit of the performance report and other information in the annual report (RRI).

to the Government.⁴ 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 statements that 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 agency management has used appropriations and income in accordance with applicable regulations and – for the agencies covered by the Ordinance on Internal Control (2007:603) – whether there is anything to indicate that the agency management has not complied with the Ordinance.

Decisions on auditor's reports for each agency are normally taken by an appointed auditor in charge on behalf of the Auditor General responsible. A written report is sometimes submitted to the agency if material findings have emerged in the audit. Less serious findings are communicated on an ongoing basis in dialogue with the agency.

Remit and mandate of performance audit

The Swedish National Audit Office's remit is to audit activities conducted by the State and state-owned limited liability companies and state foundations.⁵ 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 are to be used."⁶ The remit 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 focus

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 the State generally. Fundamental to the focus of the performance audit is that it is to "promote development,

⁴ Section 5 of the Act on Audit of State Activities etc. (2002:1022). The term review report is used for reviews of agencies' interim reports.

⁵ Chapter 13 Article 7 of the Instrument of Government and Section 2 of the Act on Audit of State Activities etc. (2002:1022).

⁶ Section 2 of the Act on Audit of State Activities etc. (2002:1022).

whereby the State, having regard to the general public interest, receives an effective return on its investments". Performance audit is therefore required to focus chiefly on an audit of economy, efficiency and effectiveness.⁷ Performance audit applies International Standards for Supreme Audit Institutions (ISSAI).

The audit mandate allows performance audit to focus on audits of important societal issues referring to relations between objectives, funds and effects of central government activities and initiatives.⁸ A typical performance audit focuses on assessing whether the objectives and intentions of the Riksdag (the Swedish Parliament) are fulfilled to the highest possible degree in the context of available resources.

By focusing audits on indicated problems, presenting clear findings, conclusions and recommendations, performance audit aims at achieving improvements that promote economy, efficiency and effectiveness in the use of resources. Performance audit reports constitute a basis that enables the Riksdag to demand accountability.

Moreover, the intention is to audit important parts of each of the Riksdag's parliamentary committee areas during a mandate period.

Criteria for selection of audits

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.⁹ Thus the audit is problem-oriented.

The Swedish NAO uses the following criteria for selecting audits, which are based on international standards for performance audit:

Relevance and materiality: Relevance refers to the significance of the audit for citizens and/or the public commitment. The criterion also refers to whether the question has a major impact on the central government budget, entails risks to public finances or is important in principle.

Value added: Value added means that the Swedish NAO is to contribute added value through the audit compared with what other auditing and investigating actors have already achieved.

Timing: The audit must be justified in time and location.

Feasibility: The risks of implementation of an audit must be assessed. Might it be difficult to answer the audit question due to lack of data or are there

⁷ Section 4 of the Act on Audit of State Activities etc. (2002:1022).

⁸ The term broad audit examinations is described in report 2009/10:KU17 p. 26–28.

⁹ Committee report 2009/10:KU17 p. 25.

methodological problems? These are examples of questions that must be taken into consideration when making this risk assessment.

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 auditees are also given the opportunity to comment on reported conclusions and recommendations.

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 and the criticism 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.

International activities

The Swedish NAO represents Sweden as its supreme audit institution in international contexts and is thereby also a member of the International Organisation of Supreme Audit Institutions (INTOSAI) and of the EU Contact Committee. As a supreme audit institution, the Swedish NAO is to collaborate with the European Court of Auditors (ECA). The Swedish NAO assists the ECA when it makes audit visits to Sweden.

The Swedish NAO also conducts international development cooperation within the field of audit. The purpose is to support development of independent professional audit bodies, contribute to the development of democracy and strengthen parliamentary control.

3 Audits in the coming year

This section presents the focus for financial audit and ongoing and planned activities for performance audit.

Financial audit

In the context of financial audit, the Swedish NAO works in a number of development areas, which are presented below. In 2016–2017 the Swedish NAO also produced a reworked model for classifying and dealing with risks in audit engagements. A new manual for assessment of materiality has also been prepared.

Development areas

An overall risk analysis for central government

Apart from auditing each individual remit or annual report the Swedish NAO is also tasked with auditing the central government annual report, i.e. the central government "consolidated accounts". The risk analysis and materiality assessment that is to form the basis of this audit are dependent on a more general risk analysis of the entire public administration. As a first step, the Swedish NAO will in 2018 develop a more structured process for management of risks and reporting of findings as a basis for auditing the central government annual report. In a longer perspective the Swedish NAO will prepare an overall risk analysis for central government.

Materiality assessment

Materiality and risk are governing concepts for financial audit as well as for other audit operations at the Swedish NAO. Risk analysis and materiality assessment steer the focus and reporting of audit engagements within financial audit. Quantitative materiality is normally the starting point for planning the focus and scope of audit engagements. Based on a holistic view of public administration there is a need to develop assessment of risks and misstatements using more qualitative aspects. For example, a misstatement in a public agency deemed to be non-material in terms of amounts may have major consequences for public confidence in public administration. The Swedish NAO will analyse and evaluate how qualitative aspects in materiality assessment should be taken into account in audit engagements.

Broader basis for risk assessment

The statutory remit for financial audit means that audit and reporting is focused on the annual report for the individual agency. At the same time the audit, and above all the information gathering on which the risk analysis is based, can provide knowledge and insight into other risks and risk areas in central

government that do not necessarily need to influence the opinion on the annual report. This may apply to occurrences deemed to have an impact on public confidence in one or more agencies and that may ultimately affect confidence in the entire public administration. One example is the audit of procedures for dealing with secondary occupations for agency employees, which the Swedish NAO has conducted at a number of agencies during the 2017 audit year. In 2018 the Swedish NAO will present proposals for audit of risks and deficiencies that go beyond the remit to audit the agencies' annual reports.

Administration by the management

The question of auditing the administration by the agency management to ensure compliance with applicable regulations and special decisions will also be analysed in 2018. At present the audit on administration by the management is limited to compliance with ordinances linked to the Budget Act. The Swedish NAO will investigate whether there is reason to broaden this approach.

Risk areas

Financial audit has identified a number of risk areas, based on previous experience. The risk analysis for the 2017 audit year for each agency takes into account these risk areas, given that they are relevant to the agency and could lead to material misstatements in the annual report in question. In other words, the main part of these risk areas will be dealt with in the ordinary audit.

Risks related to lack of 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. But the Budget Act provides greater scope for the Government to decide what should be included in the accounts than if the Government were to follow the framework used by agencies under the Government, for example, i.e. the Ordinance concerning the Annual Reports and Budget Documentation (2000:605). An accounting framework normally provides criteria for defining consolidated accounts, i.e. what should be included, which the Budget Act does not include. Nor does the Budget Act provide more than general rules for the accounts, which gives the Government great scope to decide on valuation methods or ways to present the information in the central government annual report.

Risks related to exemptions from financial administration regulations

It happens relatively often that agencies are exempted from accounting requirements in ordinances. About 90 agencies were granted exemptions from one or more ordinances for 2016. Exemptions may affect the possibilities of

obtaining a true and fair view of the financial statements. The Swedish NAO intends to further analyse and categorise the types of exemption that occur in order to present proposed measures in the annual report of the Auditors General.

Risks related to the sharing of responsibility for transactions and accounting between agencies

Several agencies continue to share responsibility for the processing of one matter. Shared responsibility entails risks of unclear division of responsibility, with negative consequences for accounting, control and follow-up. There is also a heightened risk of misunderstanding and errors when administrative responsibility is separate from accounting responsibility. When responsibility is shared between an agency and the Government or the Government Offices these risks are particularly apparent. The Government and Government Offices are not covered by the Government Agencies Ordinance and the Ordinance on Internal Control, and therefore are not subject to the same control requirements as other agencies.

Risks related to unclear rules for fee-based financing

Many agencies 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 agencies are to calculate fees so that in the long term the revenues cover all costs. In previous years the audit has shown that there is a lack of clarity and consistency in the governance of how agencies 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.

Risks related to agencies' reporting of internal control

The Ordinance on Internal Control (2007:603) applies to just over 60 agencies. When signing the annual report, the management of these agencies must submit an assessment of whether internal control is satisfactory. In several cases the Swedish NAO has noted deficiencies in internal control at agencies that have had consequences in various areas, such as in relation to procurement and secondary occupations. During the 2017 audit year the Swedish NAO will focus more particularly on agencies' procedures for preventing prohibited secondary occupations.

Risks related to incorrect use of appropriations

In all activities financed through appropriations there is a risk of appropriations being used incorrectly, for example through costs that should be loan-financed instead being deducted from appropriations or administrative expenses being charged to appropriations intended for substantive activities. Unclear appropriation directions mean that the agencies themselves can decide whether administrative expenses are to be charged to other appropriations than the

administration appropriation, and there may also be such incentives for the agencies (for example for programme-linked expenses). The basic rule in the Appropriations Ordinance has always been that an agency's total expenditure for activities, including expenses for processing transfers, should be deducted from the agency's administration appropriation. If administrative expenses are taken from appropriations intended for substantive activities, it may impair transparency in the central government annual report and the central government budget, which are important sources of information for the Riksdag.

Risks related to monitoring and control of research grants

A number of agencies are tasked with supporting research in various ways, such as distributing grants for research, development and innovation. In 2016 these agencies distributed more than SEK 11 billion in grants to research, development and innovation. The Swedish NAO has noted that there are deficiencies in the monitoring system for funds paid out by central government research financiers. Risks due to such deficiencies may need to be taken into consideration by the agencies that handle research funds.

Risks related to unclear rules for authorisations

The Swedish NAO's previous audits have shown deficiencies in agencies' compliance with the provisions of the Appropriations Ordinance concerning authorisations. These are deficiencies that can be linked to internal control at the agencies, as well deficiencies in governance of activities through unclear decisions by the Government. Risks that may give rise to incorrect processing or accounting for authorisations may include:

- lack of clarity or incorrect perception of whether authorisations are indicative or governing,
- deficient control of outstanding commitments when responsibility is shared,
- undertaking commitments beyond the final year decided by the Government.

Risks related to deficiencies in agencies' measures to prevent fraud

In the past year there have been indications of fraud at several agencies. These have been given extensive coverage by the media. Such irregularities may undermine public confidence in government agencies. Consequently, the risk of deficiencies in the management's system for counteracting and preventing fraud needs to be taken into account in the audit. Risks of fraud may also be linked to the fact that the agencies' systems do not identify and prevent external fraud attempts. Internal control of funds at agencies that levy taxes and charges and agencies that make transfers is a particularly important area.

Risks related to accounting for investments in wholly or partly owned companies

In accordance with the Ordinance concerning the Annual Reports and Budget Documentation (2000:605) shares and participations in companies wholly or partly owned by the State are valued and accounted for in accordance with the equity method. A partly owned company refers to a company in which the State owns at least 20 per cent of the shares or participations. However, valuation using the equity method has the consequence for agencies with shares in wholly or partly owned companies – due to lack of time when preparing the annual accounts – that the accounting for the value of the shares is based on earlier periods. The method is also applied to the central government annual report, the consequence of which is that assets and liabilities held by the State in majority owned companies is not reported. Therefore, the consequences of applying the method are that the same valuation method, applied on the same closing date, leads to different values in the accounts of the Legal, Financial and Administrative Services Agency and in the central government annual report.

Performance audit**Focus on certain areas**

Based on the Swedish NAO's ongoing strategic intelligence, previous audits and statements by the Riksdag, and within their respective audit areas the Auditors General have identified the following areas that should be in focus for performance audit.

The selection of focus areas is based on an assessment of materiality and risk intended to lead to broad audit examinations on significant societal issues. Areas of great significance for the central government budget in terms of principle or quantity have been given priority. The selection framework also includes activities of importance for citizens' life quality and confidence in public agencies. 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 aim to achieve over time a comprehensive and nuanced analysis of effectiveness and efficiency in central government activities. Thus, the fact that there is focus on certain areas does not mean that other areas and issues will be excluded from examination. The Riksdag has stated that the most important parts of each parliamentary committee area should be audited during an electoral period.

The focus on important areas refers to the Swedish NAO's operations in the next 2–3 years, but the assessments will be revised in pace with societal development. There will also be scope in the Swedish NAO's planning for auditing important unforeseen events or deficiencies in effectiveness that become evident. The

questions that will actually be audited will be determined in due course by the three Auditors General individually.

One purpose of clarifying which areas are in focus is to give a clearer account to the Riksdag, the Government and agencies concerning the focus of ongoing and planned audits. The audit plan will be further developed in coming years.

In light of this the Swedish NAO intends to focus on the following areas:

- Efficient and effective public administration
- Public finances, financial market and taxes
- Defence and security
- Social insurance and pensions
- Socially disadvantaged areas, integration and the labour market
- Culture, the media and civil society
- Housing policy and community planning

The areas are described in more detail below. The Swedish NAO's ongoing audits are presented in Annex 2.

Efficient and effective public administration

To realise the Riksdag's and the Government's policy there must be efficient and effective public administration. Effective agencies are also central to ensuring citizens' confidence in the administration.

Through audit operations in both financial audit and performance audit the Swedish NAO gains unique knowledge of how well public administration functions. The Swedish NAO intends to further develop collaboration between the audit types, and sees that there is reason to give priority to audits in the area of administration.

Fundamental requirements of agencies include effective and efficient operations in compliance with applicable law and prudent management of public funds by the agency.¹⁰ The opinion of the Auditors General is that on the basis of fundamental requirements of agencies' activities there are several important areas that should be audited in future. In the requirements concerning effectiveness and applicable law questions of transparency and equal treatment are also relevant. This also applies to audits of the agencies' anti-corruption work, where the occurrences within the National Property Board show that these audits are important.

Another area is central government procurement. Since purchased goods and services are an essential part of central government activities and procurement contracts amount to large amounts in the central government budget, the State must be a competent commissioner and recipient of the goods and services

¹⁰ Section 3 of the Government Agencies Ordinance (2007:515).

purchased. Inefficient purchasing may lead to waste of taxpayers' money and deterioration in the organisation's performance of its remit. This may damage confidence in central government. In view of this, in 2017 the Swedish NAO started an audit on the theme *The State as Purchaser* and more audits may be considered on this theme.

Development towards increasingly digitalised activities creates both opportunities and challenges for public agencies. Digitalisation makes it possible, for instance, to improve the effectiveness of working processes and simplify collection of various types of data. It can also be used for more effective communication with the public. At the same time, increased digitalisation requires conscious information and IT security work. The Swedish NAO has conducted several audits on how agencies work on information security, which have shown that this is still neglected area. Consequently, there is a need for continued audits. The occurrences for example at the Swedish Transport Agency underline this.

The Government's formulation of its governance also impacts the effectiveness of public administration. A particular challenge is designing effective governance for cross-sectoral issues that affect several policy areas. The Swedish NAO's audit of the Government's gender equality initiative noted for example that there was no systematic cross-sectoral governance in the area. The issue of cross-sectoral governance and monitoring comes to the fore in the work on the UN Agenda 2030 for sustainable development. The Agenda includes global goals, which Sweden, as other countries, has committed to fulfil by 2030. The goals will need to be integrated into many policy areas and impose high requirements for cohesive governance and monitoring. There is reason for the Swedish NAO to follow the Agenda 2030 work from the perspective of governance.

Public administration also acts at the regional level through the activities of the County Administrative Boards. The activities are characterised by a balance between central governance, national goals and regional adjustment. The County Administrative Boards have a variety of assignments, which creates a complex organisation. For the sake of effectiveness and efficiency some issues have been concentrated to one or a few County Administrative Boards. The Government's objective is to increase central government presence throughout the country, for example by relocating several agencies. In that context the activities of the County Administrative Boards is also of interest. In the coming year the Swedish NAO intends to investigate the possibilities of auditing the governance of the County Administrative Boards' activities.

Public finances, financial market and taxes

Sound public finances are a good basis for effective and efficient public administration. This applies to the conditions both for financing of central government activities and for appropriate distribution of public funds. Fiscal policy choices and institutions are also of great importance to the overall economy. Not least on the basis of materiality criteria this means that public finances are an important area for the Swedish NAO to audit.

Public finances will face considerable challenges in the coming years. Besides the cost increases that an aging population entails, expenditure requirements are also great in many other areas, such as introduction of newly arrived immigrants, defence, police services, education, infrastructure etc. The risks to the economy are also increasing due to high indebtedness among households and financial institutions. It is of the greatest importance that public resources are used effectively and that fiscal policy supports long-term sustainable development.

The Swedish NAO intends to continue to audit important aspects of the fiscal policy framework and the budget process. Financial management may also be audited, since effective central government financial management provides fundamental conditions for sound economy and effective implementation of decisions by the Riksdag and the Government. Well-balanced financial management is a pre-requisite for both effectiveness and confidence in central government activities.

Taxes are not only an important source of income for the State, but are often chosen and designed to also act as economic policy instruments. For the Swedish NAO it is just as important to audit effectiveness and achievement of objectives for taxes as for benefits. An example of this is an audit just started concerning value added tax on food. Another project started concerns achievement of objectives for the special tax rules for investment savings accounts.

The Swedish Customs Service determines and levies customs duties, taxes and charges in connection with imports and exports. There is a complexity in the activities, for example as a consequence of interaction with other agencies and organisations being a central part of the ability of the Customs Service to conduct effective control activities. During the year the Swedish NAO intends to audit issues linked to the activities of the Customs Service. The Government's governance in the area may then be subject to audit.

Several important agencies operate within the area of public finances. The Government's governance of these and the agencies' organisation and internal control are important for performance. Therefore, it is important for the Swedish NAO to conduct audits of central parts of these agencies' activities. A good example of this is the audit of population registration at the Swedish Tax Agency. Parts of the National Debt Office's debt management are the subject of a recently started audit. Several agencies in the area will be subject to audit going forward.

Both on the basis of materiality and risk it is important for the Swedish NAO to audit the public finances area. A related area concerns central government regulation and supervision of the financial markets. Public finances, as well as the economy, are considerably affected if there is instability in the financial markets. Experience, not least from the Swedish crisis in the 1990s and the global financial crisis in 2007-2008, shows that this constitutes a significant risk for public finances. The Swedish NAO will therefore audit central government commitments in the area and is currently conducting an audit concerning macro-prudential supervision.

Defence and security

The Riksdag's policy objective for Sweden's security is to protect the lives and health of the population, society's ability to function and our capacity to uphold basic values such as democracy, the rule of law and human rights. This requires military defence, which alone and together with others, inside and outside the country, can defend Sweden and promote our safety.¹¹ A total defence system is required to prepare Sweden for war. Total defence consists of military and civil defence. Both the Government and the Riksdag consider that planning for civil defence should be resumed and implemented on the basis of a holistic view in which the scale of threat covers both peacetime emergencies and heightened preparedness.¹²

Security can also be seen in a broader perspective. In the national security strategy, the Government has identified eight threats against Sweden's security.¹³ Apart from military threats, these include increasing influence operations and cyber-attacks that are also directed at Sweden. Other threats pointed out are global climate change, organised crime, the growing threat of terrorism, threats to our health through pandemics and antibiotic resistance, and vulnerability in our energy supply and infrastructure.

The Swedish Armed Forces' economic assets are important. The ongoing development of total defence services and their component parts entail extensive central government commitments with a series of inherent risks of deficiencies in effectiveness, efficiency, implementation and performance. In the other areas as well, significant demands may be made on the public commitment, and therefore the Swedish NAO sees central government activities in defence and security as important to audit.

Military and civil defence

Sweden's security policy situation has deteriorated over a number of years. The Government considers that the most important thing during the 2016–2020 defence period is to ensure overall capability in total defence and to raise operative capability in military units.

The task of building up capability in total defence includes many areas and questions that are extensive and difficult to solve. These include leadership, governance and financing, administrative preparedness (statutes and ordinances that are necessary to prepare and adapt society to circumstances under heightened alert), supplies provision for both the Swedish Armed Forces and society as a

¹¹ Govt. Bill 2014/15:109, Committee Report 2014/15:F6U11, Parliamentary communication 2014/15:251.

¹² Govt. Bill 2014/15:109, Committee Report 2014/15:F6U11, Parliamentary communication 2014/15:251.

¹³ Government Offices (2016). *National security strategy*.

whole in times of crisis and war, population protection etc. Even if the work has started it will take a long time and require many resources to bring about a modern and effective total defence. In light of this the Swedish NAO regards it as important to audit that resources are used effectively and that the build-up of capability in military and civil defence follows the intentions of the Government and Riksdag.

The Swedish Armed Forces have for a long period been oriented towards building security in an international perspective, which has meant a severe decrease in their volume and lower priority for planning and capability to respond to attacks against Sweden. Due to the deterioration in the international situation the focus again lies on strengthening the operative capability of the Swedish Armed Forces. This requires defence equipment and staff in the right combinations and with sound capacity and skills, organised in units that are practised and available with the preparedness required in each situation. Sweden and the military system are facing continued challenges in all these areas.

Some measures have been taken (for example compulsory military services has been reactivated) but continued work will be required on the supply of soldiers and officers. In the coming years the Swedish Armed Forces will also face important investments in new equipment systems, some of which will require very large amounts to acquire. Special conditions and circumstances apply to procurement in this area, and account needs to be taken not just of finances and performance but also of defence and security policy considerations. The development towards ensuring supply of staff and equipment is crucial to the operative capability of the Swedish Armed Forces in coming years and therefore is an important area for the Swedish NAO to audit.

Other aspects of security

As shown by the national security strategy, there are also many other aspects of security. In this context the Swedish NAO wishes to point out not least the continued need for improvement of emergency preparedness. This will require system-wide initiatives that involve many different actors, not just central government and agencies but also municipalities, county councils, civil society and private actors. Examples of important issues that may be subject to audit are how emergency preparedness work is financed, how governance and coordination between actors is designed and how the principles on which emergency preparedness is based are formulated.

The Swedish NAO also sees that several of the threats highlighted in the national security strategy lie in a borderland between emergency preparedness, civil defence and/or the judicial system. Examples are cyber security, improper influence, organised crime and terrorism. In all these areas there is a risk that events will occur that make heavy demands on the public commitment. These are therefore areas that the Swedish NAO may audit to show effectiveness, performance and achievement of objectives.

Social insurance and pensions

Social insurance is to provide financial security at various stages in life and is thus of essential importance for citizens' quality of life. It accounts for a large part of the central government budget and likewise demands great administrative resources. Against this background the Swedish NAO considers that social insurance is an important area to audit in the coming year. Through the Swedish NAO's broad audit mandate a holistic perspective on public transfer systems is also possible; for example, how sickness insurance measures may affect associated systems such as unemployment insurance and the pension system.

Socially sustainable social insurance

Income protection in the national insurance schemes has decreased over time, which risks having an effect on confidence in the public systems. The trend of falling benefit rates in the national systems has led to the emergence of such things as supplementary collective insurance.¹⁴ The design and application of the national social insurance schemes also entails considerable differences in income protection between various forms of employment.¹⁵ There are also indications of increased financial vulnerability among some groups in society, above all older women.

A priority area for the Swedish NAO in the next few years is to audit how the reduced income protection of national insurance schemes affects the function and achievement of objectives of the social insurance systems in the sense of providing financial security to various groups in society in keeping with the objectives of the Riksdag.

Financially sustainable social insurance

The social insurance schemes are to provide financial security but also safeguard the incentives to work, contribute to financial equality and promote low and stable sickness absence. These factors are crucial for financially sustainable development of social insurance, i.e. development of public income and expenditure that creates the conditions for strong public social security systems also in the future.

The proportion of older people in the population continues to increase, while the number in work is not increasing at the same rate. This means lower future pension levels, which risks affecting the social sustainability of the pension system as well as leading to higher general government expenditure in the form of basic protection to pensioners. Moreover, group insurance pension solutions may

¹⁴ Swedish Social Insurance Inspectorate (2014). *Utvecklingen av socialförsäkringsförmåner sedan 1990-talet* (Development of social insurance benefits since the 1990s, report 2014:4).

¹⁵ See for example Analysis Group The future of work (2016). *Den tredelade arbetsmarknaden* (The three-tiered labour market, background report to interim report 2).

increase incentives to leave the labour market earlier and thus contribute to a lower labour supply among older people.¹⁶

The financial sustainability of social insurance is also affected by the increase in the number of new arrivals in recent years. Unless labour market introduction improves considerably, this entails new expenditure risks and an increased percentage of older people forced to live on low incomes.

A fundamental principle behind the design of Swedish social insurance schemes is that they are to safeguard the work first principle in that each person contributes to and earns their benefits from the insurance through work. An important part of the Swedish NAO's continued audit work is to monitor whether this is the guiding principle both when designing and implementing social insurance benefits such as sickness benefit, pensions and family policy support. For example, focus will lie on whether social insurance reforms are well adapted to current circumstances in the labour market as well as whether resources are invested in measures that give the intended result. Hence it is important to take into account the effects, both intended and unintended, that social insurance reforms give rise to.

Conditions for low and stable sickness absence

Sickness absence has increased substantially since 2010, and even if the peak seems to have been reached, the expenditure risks continue to be high.

In recent years a series of measures have been taken with a view to bringing down sickness absence, including increased resources for health and safety work, initiatives for rehabilitation, adaptation and readjustment of the person insured, initiatives in primary care for people with mental illness and long-term pain, as well as resources to the Swedish Social Insurance Agency.¹⁷

The Swedish NAO's audits conducted in recent years show that there are deficiencies in rules and application that entail high costs and less effective support to the person insured.¹⁸ The Swedish NAO intends in the next few years to follow up the work of the Government and the Swedish Social Insurance Agency to remedy the expenditure trend.

Efficient administration of social insurance benefits

Legally secure and uniform application of the rules and effective work to prevent incorrect payment of benefits are examples of criteria for a socially sustainable

¹⁶ Swedish Pensions Agency (2017). *Flexpension och delpension* (Flexipension and part-time pension, VER 2017-247).

¹⁷ Government decision. *Åtgärdsprogram för ökad hälsa och minskad sjukfrånvaro* (Action programme for better health and reduced sickness absence, annex to minutes from a government meeting held on 24 September 2015, no I: 1).

¹⁸ Swedish National Audit Office (2016). *Is sick leave good for your health?* (RiR 2016:31) and Swedish National Audit Office (2016). *Incorrect payments in social insurance – Control activities of the Swedish Social Insurance Agency* (RiR 2016:11).

social insurance system. The Swedish NAO has therefore started audits in 2017 focussing on efficient administration of social insurance benefits and intends to continue with more audits in this area.

Socially disadvantaged areas, integration and the labour market

There is a growing number of municipal districts in Sweden where general and targeted government social policy initiatives have – and have had – a limited reach. Already after completion of the “Million Homes Programme” in the period 1965–1975 awareness grew of negative social and economic development in several of the housing areas that had been built. Even though the definition of their problems has varied somewhat over time at the same time as new housing areas have been added, they are still understood in terms of concentrated social problems. These are municipal districts that are characterised by high unemployment, low labour force participation, poor educational outcomes, problems of integration of new arrivals, insecurity and crime.

For more than 20 years the Government has implemented several initiatives to prevent and combat social exclusion and segregation in vulnerable areas.¹⁹ Most recently in the Government’s Budget Bill a reform programme is announced for reduced segregation 2017–2025.²⁰ The targeted central government measures have aspired to promote different aims in parallel. The purpose of the initiatives has been to counteract both underlying reasons for segregation and social exclusion and their consequences. The initiatives have further aimed at achieving both individual effects and improvements to the housing areas’ social and physical environment.

There is not necessarily any conflict between these ambitions. However, it seems that the choice of purpose, goals, focus, method and efforts in the initiatives have not been sufficiently coordinated. It is also difficult to determine to what extent the initiatives have been based on an analysis of where the central government resources can be expected to have the greatest benefit. The diversity of goals, focuses and methods within the framework of the same initiatives has also fragmented resources and made the activities difficult to evaluate. There has been criticism that goals and other central concepts in the initiatives have often been unclearly defined.

The implementation and results of all central government initiatives in vulnerable housing areas is an important area for the Swedish NAO to audit. The perspective is broad and covers the principally important question of the extent to which central government agencies with responsibility for people’s quality of life have been able individually or together to define, prevent and solve social and economic

¹⁹ Examples of initiatives are the state environmental improvement grant (1974–1980), the “Blomman Fund” (1995–1999), the Metropolitan initiative with targeted funds (1999–2004), Metropolitan policy with local development agreements (2005–2008), Urban development policy (2008–2015) and the Reform programme against segregation (2017–2025).

²⁰ Govt. Bill 2016/17:1.

problems in vulnerable housing areas. The total costs for ordinary and special initiatives in vulnerable areas are considerable, seen over time.

The implementation of labour market policy initiatives is a key question, not least for integration. This applies in particular to introduction activities for new arrivals that require cooperation between several central and local government authorities. The risk of continued problems in the initiatives is great. This applies in particular to groups of new arrivals who have been given residence permits and are expected to enter the labour market in the next few years but who do not have the necessary skills to get work. It may therefore be particularly urgent to audit initiatives that target new immigrants with a short education.

A crucial question is the effectiveness of the Swedish Public Employment Service's placement services, and the Swedish NAO has started an audit in this area. It is also important to audit the Employment Service's extensive procurement of initiatives and services.

Audits in this area may also include questions concerning whether there is an adequate link between the goals, choice of measures and allocation of resources. Attention may be drawn to questions of whether central government initiatives are designed on the basis of a relevant and empirical knowledge base and analyses. Moreover, questions may be asked concerning how special initiatives in the vulnerable housing areas have been dealt with, evaluated and incorporated into ordinary activities. Since developments in the housing areas to a high degree are a municipal matter, coordination between responsible authorities may also be subject to audit.

Culture, the media and civil society

Free and independent media and the possibility for anyone to express their opinion are fundamental conditions for a functioning democracy. The objective of media policy to support freedom of expression, diversity, the independence and accessibility of the mass media, and to counteract harmful effects of the media reflect the democracy aspect.

The national cultural objectives are also based on fundamental democratic values. The objectives are that culture is to be a dynamic, challenging and independent force based on freedom of expression, that everyone should be able to participate in cultural life, and that creativity, diversity and artistic quality should be integral parts of society's development.

Based on the perspective of democracy, the Swedish NAO regards cultural and media policy as an important audit area. Moreover, the Swedish NAO has conducted few audits in the cultural and media area, which is further reason for focusing on the area.

Cultural policy

Through targeted analysis, the Swedish NAO intends to investigate in more detail conceivable audits in the cultural area. These may concern organisation of cultural

activities, for example. Even matters concerning administration of our common cultural heritage may be considered, for example as regards management of museum collections.

Media policy

Part of media policy is to ensure that citizens benefit from comprehensive and independent news coverage. Public service radio and television and press subsidies are intended to contribute to this.

The basic purpose of public service broadcasting is that all citizens are to have access to a broad and varied range of television and radio programmes of high quality in all genres. The services are supplied by the broadcasters Sveriges Television, Sveriges Radio and Utbildningsradion. The activities are governed by statutes, through broadcasting licences and appropriation conditions decided by the Government on the basis of Riksdag decisions. Under the broadcasting licenses programming activities are to be characterised by independence and strong integrity, and be conducted independently of both the State and the various economic, political or other interests and power spheres in society. Since public service has a unique status in news coverage it is an area of importance for the Swedish NAO to audit. This may concern whether current supervision and scrutiny of public service is adequate and appropriately organised.

The aim of press subsidies is to preserve diversity in the daily newspaper market. A new media landscape exemplified by free newspapers and a competing commercial market with advertising on radio and television has fundamentally changed the conditions for daily newspapers. The Media Inquiry proposals presented in 2016 included replacement of press subsidies by a new media subsidy for public news media. Subsidies to daily papers amount to more than a half billion Swedish kronor annually. Regardless of the form of subsidies in future, this will continue to be an important part of state media policy and therefore there is reason for the Swedish NAO to monitor the question.

Civil society

The many different organisations and activities of civil society play an important role in society, not least by contributing to stronger cohesion and public trust, thus promoting democracy in this and other ways. Civil society has also been given a role to play in welfare, for example through women's shelters. There are various sources of funding for activities in civil society. However, state funding is important. In 2014 central government agencies granted more than SEK 19 billion to non-profit associations and other organisations.²¹ There is also some indirect support from the public sector in the form of tax relief, for example.

The extensive state funding of these activities means that it is important for funds to reach the right recipients effectively. This involves civil society actors knowing what support can be given, applying for it being relatively easy and central

²¹ Excluding unemployment benefit and activity support, see Statistics Sweden (2016) *Civil Society 2014 – satellite accounts* (Statistics Sweden 2016:1), table 12.

government nevertheless ensuring that activities undertaken with state funding contribute to the objectives set. For example, it is fundamental that the organisations and activities supported rest on democratic basic values and work in that direction. It is also important that the support itself complies with the legal regulations in the area. In view of this, it is important for the Swedish NAO to audit funding to civil society.

Housing policy and community planning

There is currently a housing shortage in 255 of Sweden's 290 municipalities.²² The right to housing is enshrined in the Constitution but the current situation affects the possibilities of complying with this. Despite increased housing construction the situation is still particularly strained for groups that are new in the housing market, such as young people and new arrivals, but also for older people who want to move to more accessible accommodation. An effective housing market and housing provision is of important even for other policy areas, not least as regards integration. Moreover, research shows that functioning housing provision is a condition for mobility, employment growth and economic growth.

Central and local government share responsibility for housing policy. Central government has had historical responsibility for the legal and financial framework, while the municipalities have been responsible for local planning and implementation. In a previous audit, the Swedish NAO assessed that the Government has a responsibility to provide municipalities with an adequate framework for meeting their housing provision responsibility under the Housing Provision Act.²³

A recurrent question regarding housing construction concerns the obstacles that exist and who is responsible for removing them. Obstacles presented in reports from the National Board of Housing, Building and Planning and the Agency for Public Management include municipalities' deficient planning preparedness and deficiencies in the land allocation process. The municipalities have indicated obstacles such as national regulations (noise, national interests, shore protection etc.), long processing times at County Administrative Boards and other government agencies as well as inadequate infrastructure investment. A lack of competition in the construction industry has also been highlighted, as well as the fact that municipalities allocate development rights that are then not used.

At the same time, a functioning housing provision also assumes that existing housing is used effectively. Here the tax rules for selling property risk creating lock-in effects.²⁴ For rented housing high demand in urban areas among others

²² National Board of Housing, Building and Planning (2017). *National Board of Housing, Building and Planning Indicators* (no 1, May 2017).

²³ Swedish NAO (2014). *Housing for the elderly in depopulated areas* (RiR 2014:2)

²⁴ See for example Swedish Government Official Reports SOU 2015:48 *Long term survey 2015*, annex 3 *Housing market and economic development*, p.33.

has resulted in long housing queues and a black market for rental agreements. This also risks creating lock-in effects and an inefficient use of the housing stock.

In view of the municipalities' problems in fulfilling their housing provision responsibility, there is reason to audit the central government initiatives. Important questions in the housing area are whether the central government policy instruments are working effectively, for example the government grant to municipalities for increased housing construction ("the municipal bonus"). The Swedish NAO also monitors the Government's implementation of the housing policy package presented in June 2016 with 22 measures for more housing, development of the investment grant for building cheap and energy-efficient rented housing, as well as proposals for and decisions on simplification of rules in the planning and building system.

As regards community planning this is associated with several other policy areas, such as housing provision and infrastructure. In the context of the UN 2030 Agenda and the global goals there is a special goal on sustainable cities and human settlements: "Make cities and settlements inclusive, safe, resilient and sustainable." A number of interim targets are linked to the goal. There is reason for the Swedish NAO to investigate more closely whether audits should be conducted in the area of community planning.

Annex 1. Audit areas of the Auditors General

Stefan Lundgren

Responsible for audits in the following expenditure areas:

- 4 Justice
- 6 Defence and contingency measures
- 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

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 Study support
- 17 Education and academic research
- 17 Culture, media, religious communities and leisure activities
- 18 Planning, housing provision construction and consumer policy
- 25 General grants to local government

Ingvar Mattson

Responsible for audits in the following expenditure areas:

- 2 Economy and financial administration (financial market and public finances)
- 3 Taxes, customs and enforcement
- 5 International cooperation
- 7 International development cooperation
- 19 Regional growth
- 20 General environmental protection and nature conservation
- 21 Energy

22 Communication plans

23 Land- and water-based industries, rural areas and food

26 Interest on central government debt etc.

27 Contribution to the European Union

24 Industry and trade

Also audits of:

State-owned companies and foundations

Revenue side of the central government budget

Central Government Annual Report

Annex 2. Ongoing performance audits

Ongoing performance audits as at 30 October 2017 are presented below. The expected year of publication is given in brackets. Both title and year of publication are subject to change.

Riksdag Committee on the Labour Market

Do labour market policy initiatives match actual matching issues? (2017)

The Government's preparations for new labour market policy initiatives (2018)

Preparatory and orientation training – follow-up of participants in the introduction system (2018)

Audit of equivalence of application of unemployment insurance (2018)

Central government initiatives for women born outside Sweden not active in the labour force (2018)

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

Riksdag Committee on Civil Affairs

Effects of housing on employment, education and health (2017)

Legal representatives and trustees – does the State provide the framework for a legally secure process? (2017)

Abolition of audit obligation for small limited companies (2017)

Recovery of housing allowance (2018)

Riksdag Committee on Finance

Application of the fiscal policy framework (2017)

Macro-prudential supervision and agency cooperation on financial stability (2018)

Reliability of the annual account summary (2018)

Audit of the National Debt Office's use of interest swaps (2018)

Effectiveness of central government agencies' purchases of consulting services (2018)

The municipal financing principle – is it appropriately applied? (2018)

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

Audit of public agencies' purchases from employees and relatives of employees (2018)

Riksdag Committee on Defence

The financing system for management of nuclear waste (2017)

National security and important public services (2018) The role and responsibility of military regions in the context of a new total defence organisation (2018)

Riksdag Committee on Justice

Exchange of information between the Swedish Security Service and the Police Authority (2018)

Riksdag Committee on the Constitution

Audit of the Government's governance of County Administrative Boards (2018)

Riksdag Committee on Environment and Agriculture

Long-term conservation of valuable forests (2018)

Riksdag Committee on Industry and Trade

State-owned enterprises' specially determined public policy assignments (turn of year 2017/2018) Aggregate support to solar energy (2017)

The Government's and LKAB's management of the social transformation in Kiruna and Malmberget (2017)

Public enterprises as a corporate form (turn of the year 2017/2018)

Sweden's export strategy – formulation and implementation (2018)

Riksdag Committee on Taxation

Population registration – uphill quality work (2017)

The Investment Savings Account (2018)

Distribution effects and price effects of reduced VAT on food (2018)

Riksdag Committee on Social Insurance

Impact assessments for migration policy bills (2017)

Self-employed people and parental benefit (2017)

Doctors' ability to assess work capacity in the sick leave process (turn of the year 2017/2018)

The effects of sickness benefit and activity compensation (2018)

Mental health diagnoses for sick leave (2018)

Effects of overcrowding on health and school outcomes – an audit of the design of housing allowance (2018)

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

Audit of child allowance (2018)

Riksdag Committee on Health and Welfare

Investment support to special housing for the elderly (2018)

Audit of central government measures for non-compliance with rights legislation (2019)

Riksdag Committee on Transport and Communications

The EU perspective in national infrastructure planning (2017)

Sweden's introduction of ERTMS (2018)

Riksdag Committee on Education

Agency capital at universities and other higher education institutions (2017)

Government grants to schools (2017)

Public R&D funding (2018)

Higher education institutions' provision of premises (2018)

From the principle of vicinity to the principle of grades – long-term effects of changed admission to upper secondary school (2018)

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

Riksdag Committee on Foreign Affairs

Bilateral administration development aid (2017)

Protection against fraud in the processing of migration cases at missions abroad (2018)

