



*The Swedish National Audit Office
Annual Report*

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Annual Report for 2007 of the Swedish National Audit Office

The Annual Report of the Swedish National Audit Office (SNAO) is hereby submitted to the Government. Under Section 12 of the Act on the Audit of Public Operations (SFS 2002:1022), the most important findings in performance and financial audits are to be gathered in an annual report.

The Annual Report has been concurrently submitted to the Board of the SNAO.

Auditors General Lennart Grufberg, Karin Lindell and Eva Lindström have decided in this matter. Anders Rånlund, who is the process owner, has been in charge of presenting the report. Chief Operating Officer Anette Wik, Deputy Chief Operating Officer Inge Danielsson and Audit Director Annika Gustafsson have taken part in the final handling of the matter.

Lennart Grufberg

Karin Lindell

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Table of contents

| | |
|--|----|
| Preface..... | 06 |
| Conclusions and recommendations of the Auditors General..... | 08 |
| Supervision is not functioning properly..... | 08 |
| Lack of transparency in the reporting on public finances..... | 08 |
| Problems in the implementation of labour market policy..... | 09 |
| Internal control needs to be strengthened..... | 09 |
| Recommendations..... | 09 |
| Why audits are conducted..... | 10 |
| SNAO audits..... | 10 |
| Principal findings..... | 10 |
| State supervision..... | 12 |
| Supervision is too limited..... | 12 |
| Excessive variation..... | 13 |
| Inadequate follow-up and reporting of supervision..... | 13 |
| Identified shortcomings do not lead to sanctions..... | 13 |
| Reporting of public finances..... | 14 |
| Unclear principles for monitoring compliance with surplus target..... | 14 |
| Tax expenditure leads to less strict budgetary examination..... | 14 |
| The quality of the Government's forecasts..... | 16 |
| Inadequate clarity of the Central Government Annual Report..... | 16 |
| Implementation of labour market policy..... | 18 |
| Efficiency problems in job intermediation..... | 18 |
| Results-based management not functioning properly..... | 18 |
| Few evaluations and inadequate documentation underpinning decisions..... | 20 |
| Inadequate equality of treatment and service..... | 20 |
| Internal control..... | 22 |
| Protection of State information assets..... | 22 |
| The management of social insurance by the Swedish Social Insurance Agency..... | 25 |
| Control prior to the disbursement of financial support..... | 26 |
| The application of new rules for state-owned enterprises..... | 28 |
| Annex 1 Audits of 2006 financial statements..... | 30 |
| Content and quality of financial statements..... | 30 |
| Financing..... | 31 |
| Exceedance of appropriations and authorisations..... | 32 |
| Income from fees..... | 33 |
| Provisions, period allocations and valuation..... | 33 |
| Public procurement..... | 34 |
| Internal control..... | 35 |
| Other findings..... | 36 |
| Annex 2 Performance audit reports published since the 2006 Annual Report..... | 38 |





Preface

The Annual Report of the Swedish National Audit Office (SNAO) contains the most important findings we have made during the past year.

When the SNAO was created on 1 July 2003 there was some uncertainty as to our role. This uncertainty concerned the conditions necessary for an independent audit. It is important to emphasise that for audits to be perceived as credible, they must be based on objective and unquestionable assessment criteria to the greatest extent possible.

We do not audit politics. However we do audit the implementation and impact of political policies. As a rule, we start with decisions taken by the Swedish Parliament (*Riksdag*) and try to establish whether the Government has implemented them, whether the objectives set have been translated into concrete targets for the government agencies responsible, and whether the public administration has carried out the operations in an efficient and effective manner.

Another important task for the SNAO is to examine the information and documentation underpinning decisions. Any decision taken based on inadequate or misleading information risks leading to the mismanagement of public funds in the longer term. Ultimately, the issue at hand is whether the taxpayers' have received value for money.

Lennart Grufberg
Auditor General

Karin Lindell
Auditor General

Eva Lindström
Auditor General





Conclusions and recommendations of the Auditors General

Our most important findings during the past year focus on four areas of public administration:

- the ability to ensure, through well-functioning State supervision, that public commitments are met;
- the Government's reporting to the *Riksdag* (Swedish Parliament) in budgetary policy documentation;
- the implementation of labour market policy;
- the methods used by government agencies to ensure that their operations comply with applicable laws and regulations.

The deficiencies and shortcomings which we present in this report are serious. The issues at stake are equality before the law and the management of public funds. These deficiencies have an impact on citizens' everyday life and on their confidence in State operations.

Supervision is not functioning properly

A large part of the activities regulated by the State are in fact carried out by municipalities and county councils. This is the case for activities of great importance to individual citizens, not just as taxpayers but also as beneficiaries of public services, such as education, health care and care for children, the elderly and the disabled. State supervision is an important tool in the effort to ensure that the State meets its commitments and the requirements for a good social safety net and equality before the law. Ultimate responsibility to ensure that the focus and conduct of all supervisory activities comply with the requirements laid down in legislation rests with the Government.

Having performed a large number of audits of the supervision by government agencies of above all municipal activities, we find that supervision is not functioning properly. It is carried out too infrequently, and not in a uniform manner. Sanctions are not imposed to a sufficient extent, and follow-up of supervision is rare. Furthermore, it is unclear in certain cases who is responsible for supervision. These problems are particularly serious in areas where they affect groups which have difficulty in making their voices heard. This is something we have drawn attention to in audits relating to municipalities' management of benefits in the areas covered by the Support and

services for specified disabled people Act and relating to the activities of municipal chief guardians.

Similar problems also exist in the supervision of the protection afforded to citizens in their capacity as consumers. Our audits relating to the supervision of consumer protection in the financial-services area and relating to the supervision of estate agents show that the State fails to ensure good consumer protection for citizens. There are different reasons why supervision does not function properly. In many cases, supervisory units are relatively small, which risks making them powerless to act against those they are supposed to supervise. Sometimes the supervisory role has also taken second place to the facilitating one. Supervisory agencies themselves offer explanations such as inadequate resources and skills. In some cases, the Government has failed to allocate responsibility among various bodies in a sufficiently explicit manner. In this context, it is important to point out that government agencies have an obligation to inform the Government of any problems they encounter. They also have a duty to request, when necessary, that the distribution of responsibility be clarified or that legislation be reviewed.

Lack of transparency in the reporting on public finances

Thus far, our audits of the Government's application of the fiscal policy framework have focused mainly on ascertaining whether the *Riksdag* receives the information necessary to get a clear picture of the Government's considerations and whether reporting is transparent and complete. Our findings show that the monitoring of compliance with the surplus target is inadequate, and that there is room for improvement in the quality and presentation of forecasts relating to the state budget, as regards both expenditure and revenue. Inaccurate forecasts of future fiscal income by upwards of two per cent of GDP make it more difficult to align public finances with the surplus target. We are also of the opinion that the current presentation of tax expenditure is not transparent enough and that the handling of such expenditure makes the examination of it insufficiently strict.

As regards the Central Government Annual Report, the presentation can be improved in several respects



to ensure that the *Riksdag* gains a better view of public finances.

Problems in the implementation of labour market policy

The labour market is vital to a healthy national economy. Expenditures in the area of labour market policy amount to approximately SEK 70 billion annually. Moreover, labour market policy programmes and measures affect a great many people. The Government has announced and initiated extensive changes to labour market policy relating to areas such as the design of unemployment insurance, the focus of labour market programmes and the organisation of the Swedish National Labour Market Administration.

We conclude that several of the problems identified in our audits carried out up until the autumn of 2006 have not yet been remedied. Among these problems it is worth noting the risk of 'deadweight effects' in labour market programmes, i.e. the risk that the State may subsidise employment that would have occurred even without the subsidy. Also, there are great differences in efficiency between comparable local public employment offices. There is thus much to learn from the best performing offices.

We have also found shortcomings in the methods used by the Government to inform the *Riksdag* about the development of performance in the labour market policy area. The government agencies involved in labour market policy have had difficulty designing consistent and effective mechanisms to control and follow up programmes and measures taken. What is more, we have noted that the documentation underpinning the Government's decisions to introduce new labour market policy programmes has been inadequate.

Internal control needs to be strengthened

Our audits indicate that there are various types of weaknesses in the internal control of government agencies.

Government agencies using IT to manage information, which is important to society or otherwise sensitive, must have an adequate level of information security. Our audits show that there are serious deficiencies at many agencies in how their top management manage and monitor information security. One consequence of this is that incidents such as virus attacks have deprived citizens and companies of access to the services they expect. Moreover, deficiencies in the protection of websites have led to unauthorised persons gaining access to data of a private nature. The Government has failed to both impose

requirements on agencies' work and to follow up on the adequacy of their information security.

The Swedish Social Insurance Agency has not yet made use of the opportunities offered by the merger into one central agency. There is still unjustified regional variation in the handling of cases as well as problems relating to incomplete documentation underpinning decisions and to social-insurance fraud. Decisions which concern individuals must be based on high-quality documentation. The present shortcomings as regards the application of rules, control and the level of knowledge are unacceptable.

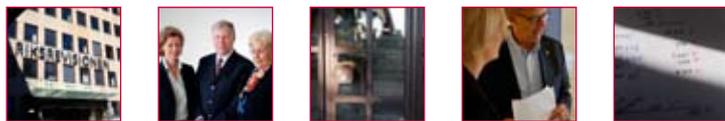
We have found there to be shortcomings in the internal control of the Swedish Public Employment Service, the Swedish Integration Board and the Government Offices with regard to the disbursement of financial support. In some cases, this has led to employers and municipalities being granted State support on erroneous grounds.

Recommendations

In order to bring about improvements and rationalisations based on our audits, the *Riksdag* and the Government must hold those responsible to accountable on the basis of using the information provided in our reports. The problems which we have identified must be remedied quickly.

We address the following recommendations to the Government:

- Take concrete action to bring about a well-functioning supervision. The control function of supervision needs to be strengthened. What is required are clearer priorities, more explicit responsibilities, increased uniformity in implementation and, finally, effective sanctions which are actually used;
- Create greater transparency as regards forecasting methods and descriptions of objectives in budgetary policy documentation. Consider alternative methods for dealing with tax expenditure in the framework of fiscal policy, and continue reducing such expenditure as a share of the State Budget;
- Review the objectives for labour market policy and their structure. Design labour market actions to reduce the risk of deadweight effects. Perform more evaluations and pilot projects to improve the documentation and information underpinning labour market policy;
- Make it clear what the obligations of government agencies are as regards internal control and the provision of information to the Government.



Why audits are conducted

The audits carried out by the SNAO are one of the instruments used by the Riksdag to exercise its parliamentary control. These audits should underpin the improvement of State operations.

SNAO audits

SNAO's operations are based upon the *Riksdag's* position that all state operations be subject to independent audits. The Auditors General decide the overall orientation of auditing operations in an annual audit plan.

The financial audits focus mainly on conditions within an individual agency, state-owned enterprise (SOE) or foundation. Their principal task is to examine the financial statements of the organisation to assess whether they provide a true and fair view, whether the accounts are reliable and whether top management have complied with ordinances and decisions applicable to the operations of the organisation. The financial audits issues auditor's reports and auditor's certificates which are most often submitted to the Government, but in some cases to the *Riksdag*.

Performance audits examine issues relating to the state budget, the implementation and performance of state operations and the commitments made by the State. Audit findings are presented in performance audit reports as decided upon by the Auditor General responsible and submitted to the Government and to the Board of the SNAO.

Principal findings

The SNAO has an increasingly comprehensive information base upon which to make assessments and draw conclusions in relation to public administration. Now that we have produced over a hundred performance audit reports based upon performance audits and examined the financial statements of all government agencies for the last four years, we are able to draw more precise conclusions in this Annual Report than in our previous ones. Our audits cover the entire control process in State operations – from the Government, which has a duty to exercise direction over State-financed operations, follow them up and provide the *Riksdag* with adequate information on which to base its decisions, to public administration, which has a duty to carry out its tasks in an efficient and effective manner and to have good internal control. Over the course of the past year, we have made some important findings in various portions of our broad audit mandate.

A central theme in our audits is how the State ensures that citizens receive legally correct and comparable treat-

ment, and also receive the services they have a right to expect. One of the most important tools to ensure this is State supervision. In a series of audits, we have found that there are considerable deficiencies in how the Government and government agencies live up to their responsibility to ensure that supervision works well.

One important task for the Government is to provide the *Riksdag* with informative and reliable material to underpin its decisions in relation to the State Budget. In its previous Annual Reports, the SNAO has pointed out inadequacies in the Government's reporting to the *Riksdag*, based on the principles of completeness and gross accounting laid down in the Budget Act as well as on other grounds. As a consequence, we have chosen the transparency of the Government's reporting to the *Riksdag* on public finances as one of the focal points of our audits in 2006.

The SNAO's audits cover all State's operations. However, certain areas are of such great financial importance, and encompass such extensive operations that they stand out as particularly worthy of attention. One such area is the implementation of labour market policy. The new Government has decided to make extensive changes to labour market policy, and to the operations of the Swedish National Labour Market Administration. We consider it important to emphasise the findings we have made so far in relation to operations in this area.

The internal control of public administration is the subject of both financial and performance audits. We have previously found that financial accounting and control function in a satisfactory manner and that the number of objections included in auditor's reports is at a constant and low level. The problems which we have identified are more likely to relate to the unclear division of responsibility within government agencies and to inadequate control and follow-up mechanisms. One finding to which we would like to give special attention this year relates to the inadequacy of information security at government agencies.

The statements made in this report are largely based on the knowledge accumulated by the SNAO through the audits carried out so far. A summary of findings from the SNAO's audits in the past year is presented in two annexes, one containing the main findings of financial audits in 2006 and the other containing summaries of performance audit reports on performance audits published since the SNAO's 2006 Annual Report.





State supervision

The SNAO's audits show how important supervision is to ensure that the State can meet its commitments to its citizens. Supervision is an important tool enabling the State to verify that laws are complied with, that citizens receive legally correct and comparable treatment and otherwise feel secure. At the same time, the audits show that State supervision has considerable shortcomings – not only in its implementation but also in the preconditions for it. These shortcomings may lead to serious consequences for citizens.

It is vital for the legitimacy of the welfare state that public operations intended to ensure that citizens feel secure and ensure that legal rights function properly. The importance of this is clear from Chapter 1, Section 2, of the Instrument of Government (part of Sweden's Constitution), which lays down that the personal, financial and cultural welfare of the individual is fundamental to public operations.

The Swedish public sector is characterised by a substantial degree of delegation. While government agencies have considerable responsibilities and authority, a vital part of the production of public services takes place at the level of municipalities and county councils. These operations often relate to national policy areas of great importance to the individual citizens, not just as taxpayers but also as beneficiaries of public services. This holds for central areas such as education, health care and care for children, the elderly and the disabled. The *Riksdag* makes decisions and laws to ensure that all citizens are treated in a legally correct manner and receive comparable treatment. State supervision is a key instrument in ensuring that these decisions and laws are complied with in practice,.

A large number of audits conducted by the SNAO have examined the workings of State supervision. Each of them has identified shortcomings. In last year's Annual Report, we presented our findings in relation to the supervision exercised by county administrative boards, concluding that they often have difficulty discharging their supervisory responsibilities. Based upon the information gathered while conducting audits regarding State supervision, we are now able to present a number of overall findings.

Supervision is too limited

One finding which we have made in most audits is that there is too little supervision. It is too limited, it is not frequent enough and it has inadequate coverage. The reasons for this vary, but government agencies often cite inadequate resources or unclear rules and objectives which make it difficult for them to meet their commitments.

According to the preparatory materials for to the Estate Agents Act, the Swedish Board of Supervision of Estate Agents should exercise effective and active supervision. However, the SNAO found in its audit of the Board's supervision of estate agents (RiR 2007:7) that it has been passive in its role as supervisory authority. The Board has failed to analyse issues relating to consumer problems, and it has also failed to explain why a large share of complaints lodged with it are dismissed without any investigation having been carried out. The Board has made only limited attempts to make estate agents provide written information and records relating to those elements of their task as intermediaries where consumers frequently experience problems. Taken together, this has contributed to a failure to fully implement the intentions of the Estate Agents Act.

The Swedish Consumer Agency and *Finansinspektionen* (the Swedish financial supervisory authority) have a duty to exercise supervision so as to protect consumers of financial services from financial loss. Justifications for such protection include the weakness of consumers' position in relation to insurance companies and banks as well as the size of the amounts at stake. The SNAO's audit (RiR 2006:12) shows that the two agencies' supervision has been limited in many important areas of risk, such as information about risks and potential returns, unreasonable contractual terms, easily accessible credit and new, complex financial products.

The SNAO's audits of the emergency preparedness of Swedish society have identified several examples of inadequately active supervision. We have audited preparedness for nuclear accidents (RiR 2007:4). If an accident occurs at a nuclear power plant, it is the task of county administrative boards to lead and co-ordinate rescue work and to ensure decontamination. The Swedish Rescue Services Agency supervises the preparedness of county administrative boards. The audit shows that this supervision is weak and does not cover all legal requirements.



Our audit of the safety of Sweden's hydroelectric-power dams (RiR 2007:9) also shows that supervision is limited. In this case, county administrative boards exercise supervision over approximately 200 dams. It is clear from the audit that county administrative boards in general limit their supervisory work to examining the forms sent in each year by dam owners and, in some cases, to following up whether any deficiencies stated on those forms are remedied.

Excessive variation

Variations in supervisory methods in terms of both scope and content, dependent upon who is in charge of supervision are too great. This is in particular true in cases where county administrative boards and municipalities are in charge and where each of them can – and does – set its own priorities and make its own choices.

Examples of this can be taken from the audit of the service called 'Housing with special services for adults' (RiR 2007:1). Municipalities are responsible for offering disabled people opportunities for education and training, work and housing. The Swedish National Board of Health and Welfare and county administrative boards supervise the actions taken by municipalities. Our audit shows that to a considerable extent, municipalities refuse to support disabled people who have been assessed to be in need of such support. The supervision exercised by county administrative boards is not strong enough to counteract such conduct on the part of municipalities. Supervision is too dependent upon individual persons and too vulnerable. There is also a lack of common criteria regarding when municipalities should be reprimanded.

Each municipality in Sweden must have a chief guardian – a municipal authority in charge of supervising guardians, custodians, trustees and administrators. In turn, county administrative boards exercise supervision over municipal chief guardians. In its audit of the supervision of chief guardians (RiR 2006:5), the SNAO finds that county administrative boards conduct too few and too superficial inspections to be able to identify unsuitable chief guardians. In line with the current ordinance, county administrative boards are to inspect chief guardians at appropriate intervals. However, our audit shows that county administrative boards interpret this ordinance differently, and that as a result, one in five chief guardians had not been the subject of an inspection in over three and a half years.

Inadequate follow-up and reporting of supervision

It is vital that the results of supervision are followed up

and evaluated. However, this aspect is neglected in some cases. This is true of reporting to central supervisory authorities and of their reporting to the Government, as well as of the Government's presentation of supervision results to the *Riksdag*.

In our audit of the supervision of chief guardians, we find that a full eleven years after its decision in 1995 to reform guardianship, the *Riksdag* has not yet received any reports on how county administrative boards have managed to shoulder their supervisory responsibilities. The Government has failed to use supervision to obtain information about the activities of chief guardians. In addition, the Government has failed to take an initiative to bring about national co-ordination of the supervision by county administrative boards of chief guardians.

The audit of the supervision by county administrative boards in the field of urban and regional planning (RiR 2005:12) shows that county administrative boards do not conduct any systematic analysis of the shortcomings identified in the planning activities of municipalities and that such shortcomings are also not reported to the Swedish National Board of Housing, Building and Planning. The Government has not taken any action to direct this supervision, and the information provided to the *Riksdag* has been inadequate.

Identified shortcomings do not lead to sanctions

When a supervisory authority identifies errors and shortcomings, it often lacks the means to impose sanctions. And where sanctions do exist, it is clear that they are too rarely used.

One example of the latter emerged in the audit of the supervision exercised by county administrative boards over undertaking services (RiR 2006:7). The supervisory duties in question include the appointment of representatives whose task is to examine whether the Church of Sweden respects the interests of those who are not members of it. The SNAO finds that it is extremely rare for county administrative boards to take action based on examinations carried out by such representatives.

Our audit of consumer protection in the field of financial services also shows that the Swedish Consumer Agency and *Finansinspektionen* (the Swedish financial supervisory agency) are restrictive in their use of sanctions. The Consumer Ombudsman (the head of the Swedish Consumer Agency) brings few matters before courts of law, and the *Finansinspektionen* uses 'softer' types of measures in most cases. As a consequence, there is a shortage of established precedent regarding the extent of companies' obligations.



Reporting on public finances

The SNAO has examined how the Government applies the fiscal policy framework, whether the *Riksdag* receives the information necessary to gain sufficient insight into ongoing deliberations in the Government and whether the reporting is transparent and complete. Findings show that there are shortcomings in the follow-up of compliance with the surplus target and that there is room for improvement of forecasts and their presentation as regards both the expenditure and the revenue included in the State Budget. With regard to the Central Government Annual Report, our audit shows that its financial sections provide a true and fair view, but that there is room for improvement in several other respects to ensure that the *Riksdag* obtains a better view of public finances.

Following the crisis which struck Sweden's public finances in the beginning of the 1990s, a number of radical changes were made in the mid-1990s to the budgetary process and the direction exercised over fiscal policy. These changes included the introduction of a Budget Act, new types of appropriations and new preparatory and decisional processes both at the Government Offices and in the *Riksdag*. Overall medium-term restrictions on public finances were also introduced, in the form of an expenditure ceiling and a surplus target. The fiscal policy framework is seen to have worked well for the most part during its just over ten years of use. The Government has begun a review to further clarify and supplement the rules governing fiscal policy.

The SNAO has conducted several audits to investigate the Government's handling of the fiscal policy regulations and the clarity of the Government's reporting to the *Riksdag*. Independent audit of the application of regulations helps to build confidence in fiscal policy.

Unclear principles to monitor compliance with the surplus target

According to the surplus target, Sweden's total public finances should show an average surplus of two per cent of GDP over an economic cycle. However, the Government has proposed that the target be lowered to one per cent as a consequence of changes made to the methods used to

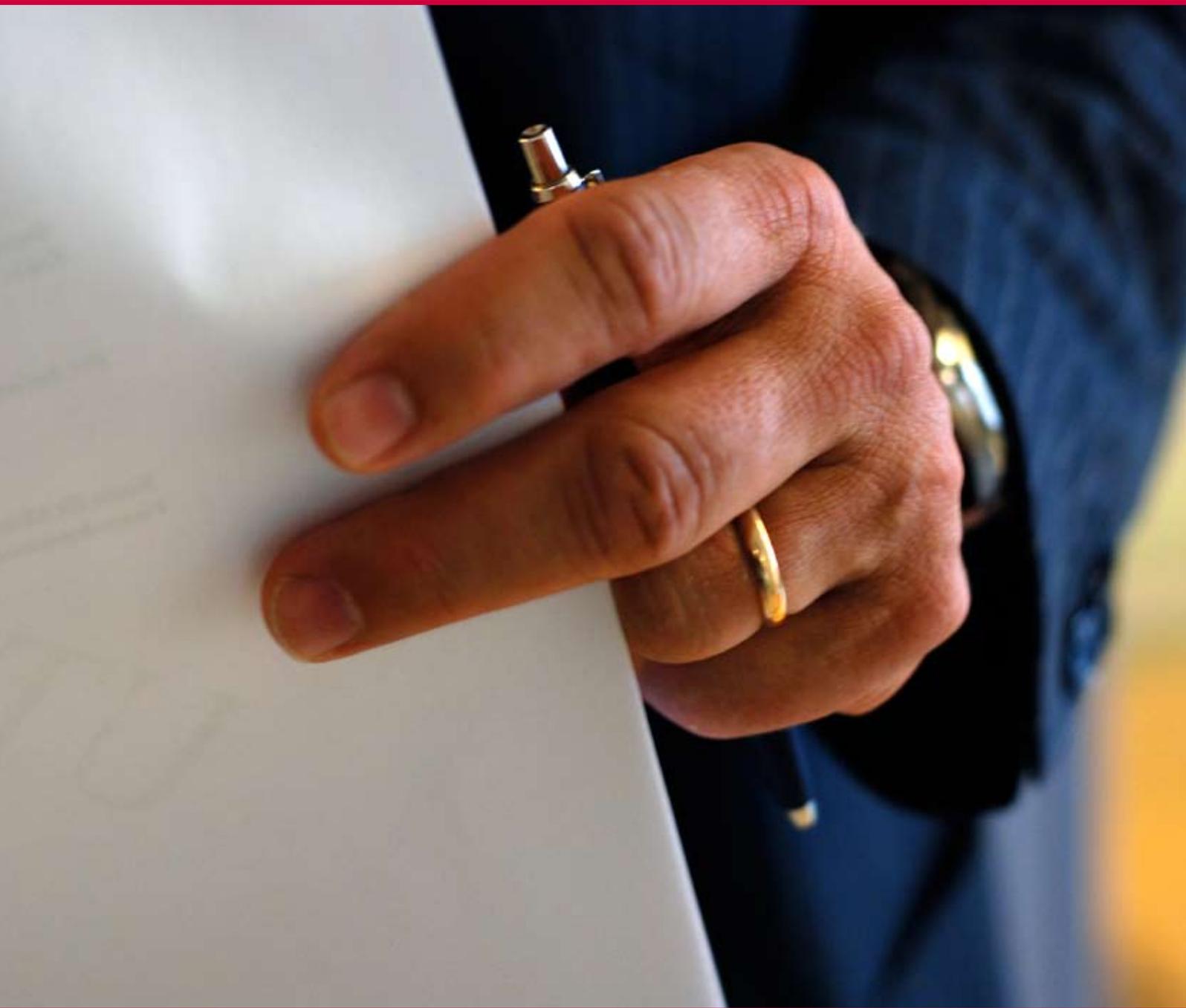
account for premium pensions. Budgetary surpluses over the next few years will build a buffer in public finances, which will be necessary to manage increased spending needs caused by the ageing of the population. The aim is to ensure that the financing of welfare is evenly distributed, so that the social contract between generations is strengthened and so that citizens will have confidence in the welfare systems.

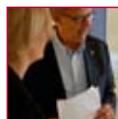
For a target to be able to guide actions taken, it must be clearly monitored. Any deviations must be reported and measures to correct them must be presented. The audit of the Government's monitoring of compliance with the surplus target as presented in its budgetary documents produced between 2000 and 2006 (RiR 2006:27) points to several shortcomings in these respects. There are no clear principles for monitoring. For example, the Government has failed to establish the length of an economic cycle which makes it impossible to evaluate compliance with the target. Monitoring has been carried out using a number of indicators. However, these indicators have differed between budgetary documents and sometimes been used in different ways. The SNAO finds that at certain times, the surplus target has not determined the design of fiscal policy in the medium term. We also emphasise that, to facilitate the assessment of compliance with the surplus target, there is a need for clearly presented monitoring principles.

Tax expenditure leads to less strict budgetary examination

The introduction of the principle of gross budgeting and the abolishment of 'estimated appropriations' are important prerequisites for a strict budgetary process. Their effect is that items of expenditure are clearly juxtaposed both during the preparatory phase and during the decisional one. The *Riksdag* has acquired additional power in fiscal matters because a new decision is required if the Government fails to comply with appropriation frameworks. In this context, the existence of 'tax expenditure' – which in this case means that the State may provide support through the fiscal system by waiving fiscal revenue – poses a risk.

In connection with the budgetary reform of the mid-1990s, the Government concluded that an important





requirement in a new, stricter budgetary process was that any exemptions and special rules leading to a loss of fiscal revenue must be examined as carefully as expenditure appropriations. As a consequence, support provided in the form of tax expenditure must be made visible. For this reason, the Government has included a summary of tax expenditure in an annex to its Spring Fiscal-Policy Bill since 1996. This summary has a double purpose: to make the indirect support that tax expenditure involves clearly visible and to provide a basis for prioritisation among various types of support.

The SNAO has examined the Government's preparation and presentation of matters relating to tax expenditure (RiR 2007:3) and found there to be shortcomings in both respects. We conclude that the Government's presentation does not meet basic requirements for transparency in budgetary presentation. While it is true that the presentation is extensive, this also makes it difficult to fully understand. The descriptions of individual items of tax expenditure are technical in nature, purposes of such items are rarely stated, and no reference is made to sections of legal documents and preliminary work is missing.

There is a substantial risk that tax expenditure will be subject to less strict budgetary examination than framework appropriations. In practice, this means that tax expenditure risks being used much in the same way as the former estimated appropriations. Unlike the present framework appropriations, they did not require new decisions to be taken by the *Riksdag* in the case of overdrafts. Moreover, unlike framework appropriations, tax expenditure is not automatically made the subject of a new examination if the strain on the budget increases more than originally estimated. To maintain good budgetary discipline, it is important to ensure that there is reasonable symmetry in the handling of actions taken on the expenditure and revenue sides of the state budget, respectively.

The quality of the Government's forecasts

If fiscal policy is to be governed by specific objectives such as the surplus target and the expenditure ceiling, the forecasts underpinning it must be of high quality. This is true both of macroeconomic forecasts and of the estimates

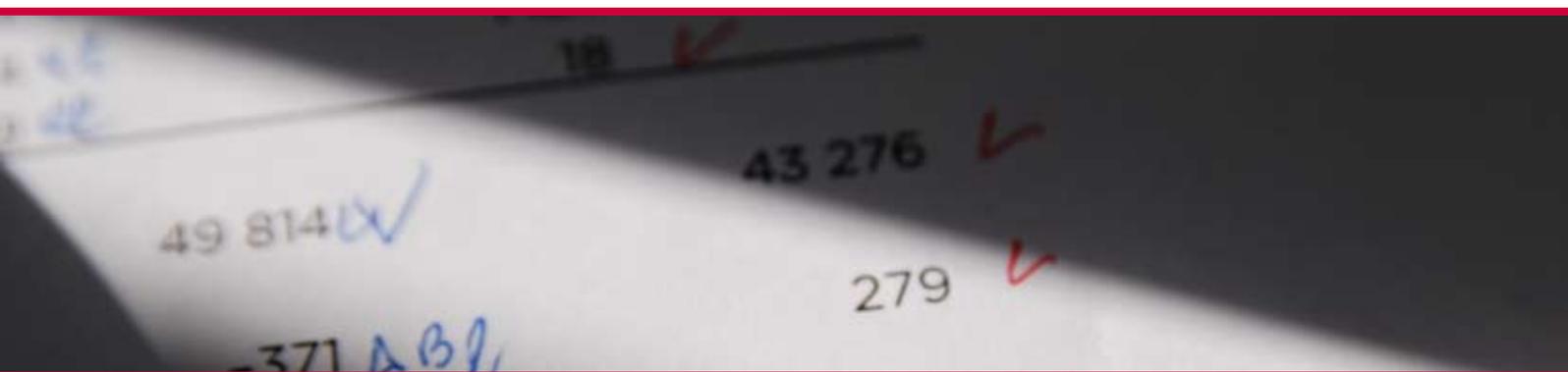
of the development of public finances. It is important that deviations from the objectives of fiscal policy be detected quickly, so that the Government may take remedial action in time. Macroeconomic forecasts relating to the somewhat longer term are very important to fiscal policy in that they form the basis for decisions on new expenditure ceilings. Such forecasts are also necessary to make the long-term impact of measures proposed by the Government in the state budget more clear.

The SNAO has examined the Government's forecasts for both the revenue and the expenditure sides of the State Budget. We find that while the accuracy of the Government's forecasts is generally no less accurate than those conducted by other forecasters, there are certain shortcomings. The audit of macroeconomic forecasts (RiR 2006:23) shows that there is a systematic difference in forecasts of open unemployment, which the Government has underestimated to a greater extent than other forecasters. The audit of fiscal forecasts (RiR 2007:5) shows that the Government has underestimated public revenue by large amounts in recent years and that the perception of the state of public finances has changed radically since the Budget Bill for 2006 was submitted. The underestimates concerned relate mainly to tax on investment income.

However, the accuracy of forecasts should not be the only criterion by which their quality is assessed. High quality also requires the Government to give a clear presentation of the uncertainty inherent in forecasts and to provide detailed explanations of revisions to forecasts and deviations from actual outcome. This will provide the *Riksdag* with a better representation of the information underpinning budgetary decisions, and it will help maintain confidence in Sweden's fiscal policy in the outside world. In this respect, the SNAO finds that the Government's presentation of forecasts in its budgetary documents has shortcomings.

Inadequate clarity of the Central Government Annual Report

Under the Budget Act, the Government must submit an Annual Financial Report on the operations of the Swedish State to the *Riksdag*. The main purpose of this is to provide insight into public finances. The report must contain a



statement of financial performance (income statement), a statement of financial position (balance sheet) and a cash-flow statement as well as a presentation of final outcome for the income headings and appropriations of the State Budget. It also provides an overall view of the expenditure, revenue, assets and liabilities of the State, and it facilitates the control, verification and evaluation of public finances. Under the Act on the Audit of Public Operations (SFS 2002:1022), the SNAO has a duty to examine the financial aspects of the report and to issue an auditor's report relating to them. However, the auditor's report should not include any statement on the work of top management. Our audit of the 2006 Central Government Annual Report (Ref. No. 32-2006-0881) shows that the financial aspects of the report provide a substantially fair and true view.

The report is a crucial document with regard to providing an overview of the state of public finances. It influences the Government's ability to provide the *Riksdag* with a clear representation of how the fiscal policy regulations are applied. That is why the SNAO has also carried out a performance audit on the 2006 Central Government Annual Report (RiR 2007:13). The objective of this audit is not to determine whether the report as a whole provides a true and fair view. Rather, it is based upon information gathered from previous audits on the reporting of public finances.

The audit identifies several shortcomings in the Government's presentation. The same type of criticism

relating to inadequate clarity of presentation which was made in the audit of the Government's monitoring of compliance with the surplus target can be made for the objectives of budgetary policy. The Government's presentation is not comprehensive and material changes are not commented upon in a clear manner.

As regards the Government's presentation of fiscal revenue in the report, we find that there are differences between sections in amounts presented. These differences have not been accounted for.

In order for the Central Government Annual Report to be useful as a whole, there must be consistency in presentation, and any differences in accounting principles must be explained. In recent years, several new sections have been added to the report, for example one dealing with the annual report of the pension system. These statements are in the form of consolidated group statements, linking the retirement pension system (which is presented outside the State Budget) with information about the performance of the seven public pension funds and the Swedish Premium Pension Authority. The presentation is unclear in several respects. Inconsistent information is given in different places in the statements as to the management costs of the retirement pension system, and as to the level of debt of the premium-pension system. The presentation is also not comprehensive since it is not clear what the total management costs of the pension system are.



Implementation of labour market policy

The SNAO's audits of the implementation by the Government and the Swedish National Labour Market Administration of labour market policy up until the autumn of 2006 show there to be a number of shortcomings and problems. Direction exercised by the Government has not been explicit. The Government has also failed to adequately heed information gathered from follow-ups and evaluations and to revise and clarify its requirements based on such information. We have also found shortcomings in the Government's provision of information to the *Riksdag* relating to the development of performance in the labour market. The government agencies involved have not succeeded in designing consistent and effective mechanisms to control and follow up operations. There are obvious efficiency shortcomings in job intermediation and excessive differences between individual local public employment offices in service level and equality of treatment.

Labour market policy is one of the largest policy areas in the State Budget. In 2006, expenditure for this area amounted to approximately SEK 70 billion, not including tax credits. The Swedish National Labour Market Administration (AMV) – that is, the Swedish National Labour Market Board (AMS), the county labour boards and the local public employment offices – is responsible for the main portion of labour market policy programs. Ensuring a well-functioning labour market is an important State commitment which affects citizens in various ways. The SNAO has carried out a number of audits in this area over the past four years.

The new Government has announced extensive changes to labour market policy. One important aspect of these changes is that AMS and the county labour boards will be abolished and that a new, single agency will be established on 1 January 2008. In addition, the operations of the AMV will focus more on its core task: providing job-seekers with jobs. Further, major changes have been made to unemployment insurance and to labour market programmes. On the eve of this reorientation of labour market policy, the SNAO wishes to make an overall presentation of the information obtained from the audits we have carried out regarding the labour market.

Efficiency problems in job intermediation

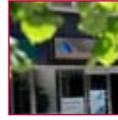
On several occasions in recent years, the Government has emphasised the importance of efficient and effective job intermediation, while also pointing out job intermediation is the key measure to be taken in labour-market policy. In the SNAO's audit of the public employment service (RiR 2006:22), however, we find that there are major shortcomings in efficiency. The importance of the public employment service in the matching process has decreased. Productivity development has been weak and there are large differences in efficiency between individual local public employment offices. The overall assessment of the SNAO is that there is a potential for considerable improvement in efficiency.

The SNAO also carried out an audit which points to efficiency shortcomings in some of the programmes managed by the public employment service (RiR 2006:28). The aforementioned audit focused on 'employment subsidies', a programme now abolished, and indicated that it had limited effects on net employment. A large share of the employment to which the programme led would have occurred anyway – that is, there arose deadweight effects. The SNAO estimates that the total net effect of the programme was 24 per cent or less. In other words, of 100 realized jobs supported under the programme, no more than one-fourth led to an increase in regular (non-subsidised) employment.

Results based management not functioning properly

An important prerequisite for efficient operations is a rationally designed structure of objectives. Such a structure is also a prerequisite for the proper function of results based management. In addition, it is important that the objectives of an operation be designed in a way that makes it possible to evaluate the impact of the resources spent. In the audit of the public employment service, the SNAO points to shortcomings in above all, the structure of objectives set by the AMV. For instance, it is quite often difficult to see any link to the matching process.

In our audit of the State's efforts to reduce part-time unemployment (RiR 2006:1), we stress that one weakness in the direction exercised by the Government over the AMV has been that the Government has stated that



part-time unemployment should be reduced, but failed to link this task to the overall targets for unemployment and employment.

However, a rational structure of objectives is not enough in itself for result based management to work. The Government also needs to receive correct and effective reporting on the results of operations to be able to assess compliance with objectives and adjust its direction. The SNAO's audit of performance reporting by the AMV, however, indicates that there are problems in this respect. For example, the accountancy report on AMV's annual report for 2006 (Ref. No. 32-2006-0550) shows that there is a lack of analysis of the extent to which the actual operations of the AMV and their results have contributed to compliance with objectives. This is true in particular of the operational area called 'Labour market matching', but also to some extent of other areas of activities. Performance reporting would improve if AMS were to present its own evaluations as to the efficiency and effectiveness of its operations. The Government has in fact made a request to

that effect in its agency instructions regulating the AMV.

In its audit of the public employment service, the SNAO did indeed note that AMS analysed the effectiveness and efficiency of matching between job-seekers and employers during a few years, in accordance with a task given to it by the Government. When this task ended, however, AMS stopped performing such analyses. According to the instructions issued by the Government, one of the tasks of AMS is to follow up and evaluate operations of labour market policy. Against this background, it is striking that analyses of aspects such as matching performance are not carried out on an ongoing basis even though the Government no longer explicitly asks for the information concerned.

The SNAO's audits also indicate in several cases that there are weaknesses in the Government's performance reporting to the *Riksdag*. One conclusion drawn is that the information available to the Government itself is inadequate in some cases, as a consequence of deficiencies in reporting requirements and in the actual reporting



by AMS to the Government. For example, in its audit of the 'activity guarantee' (RiR 2005:17), the SNAO points out that the reporting to the *Riksdag* would become more reliable and comprehensive if improvements were made in the areas of follow-up and evaluation. The Government has failed to ensure that AMS carries out the tasks laid down in the instructions that regulates its activities as regards the follow-up and evaluation of labour market policy operations. In the same audit, we also find that the Government's reporting to the *Riksdag* is misleading in some cases. We draw a similar conclusion in our audit of interventions measures taken in an effort to alleviate part-time unemployment.

Few evaluations and inadequate documentation underpinning decisions

It is important for the documentation underpinning decisions on labour market policy to be thorough. Such documentation should show, to the greatest extent possible, what the consequences of a given labour market policy program or measure may be. Follow-up and evaluation provide important information enabling operations to be directed and modified. However, the SNAO considers the shortage of evaluations to be a recurrent problem with regard to the labour market.

The SNAO's audit of the preparatory work in relation to labour market policy programmes (RiR 2007:12) shows that there are major deficiencies in the documentation on which the Government bases its decisions to change regulations governing labour market policy. Evaluations and pilot projects to improve the quality of such documentation are only used to a small extent. The overall assessment of the SNAO is that the documentation underpinning decisions needs to improve considerably for the Government to be able to ensure that programmes lead to the intended effects.

Several audits also show that the Government does not react to the inadequate follow-up and evaluation activity of government agencies. In the case of the 'activity guarantee', for instance, the Government has failed to place stricter demands on the follow-up and evaluation to be carried out by AMS even though information from independent evaluations indicates that compliance

with objectives is poor. Further, in our audit of efforts to reduce part-time unemployment, we point out that AMS has used a very restricted measure of part-time unemployment which does not provide an accurate view of developments, but the Government has not reacted to the description used. From our audit of 'municipal youth schemes' (RiR 2006:14), it emerges that the Government, even though it has made recurrent statements on the importance of education and training in such programmes, has failed to follow up this aspect during the past five years.

In two audits of unemployment insurance (RiR 2004:3 and 2005:3), the SNAO has drawn the attention of the Government and AMS to a number of problems and shortcomings in its management of this issue. Moreover, in recent years a number of measures have been taken to improve the design, application and – not least – controls regarding unemployment insurance. Once again, we have found that these measures are not being evaluated.

Other areas or changes which are not being evaluated include the addition of extra resources, action programmes to enhance job-search activity, contacts with employers, market share, equality of treatment and the control function. The SNAO is of the opinion that it is entirely possible to evaluate changes of this type. We also consider that various kinds of pilot projects can facilitate evaluation and thus provide valuable information on which to base, for instance, the introduction of new rule systems. However, pilot projects are only used to a small extent.

Inadequate equality of treatment and service

In several audits, the SNAO points out problems in relation to the level of service provided by the public employment service, in which employers and others have relatively low confidence with regard to important recruitment issues. One consequence of poor credibility may be that the public employment service only receives a small market share of job vacancies and job-seekers. The audit of the work carried out by the public employment service with young people revealed dissatisfaction with how the local public employment offices updated the youth's action plans and with how well the dialogues



they had with employment officers worked.

The audit of actions taken to counteract part-time unemployment showed that a majority of employment officers considered that the measures taken had improved. However, there was no visible link between their perception that the service provided had improved and better performance in terms of a reduced number of part-time unemployed people.

The issue of equality of treatment is fundamental to citizens' confidence in public administration. However, several of the SNAO's audits in the labour market show

there to be large variation among local public employment offices. These variations centre on the management of unemployment insurance and in the efficiency of offices where differences are very large.

The SNAO has made several suggestions as to how greater equality of treatment can be ensured. In fact, measures have been taken to promote the uniform application of rules such as those relating to unemployment insurance. In many cases, however, such measures have not been evaluated.



Internal control

The SNAO's audits show various types of shortcomings in the internal control of government agencies, such as in connection with their disbursement of social-insurance benefits or other financial support and in their work to protect important information. Government agencies using IT to manage information which is important to society or sensitive must have a high level of information security. However, our audits show that there are serious shortcomings in how top management of many government agencies control information security. There is still great regional variation in the handling of cases as well as problems relating to incomplete documentation underpinning decisions and to social-insurance fraud in the new Swedish Social Insurance Agency.

Government agencies must use the resources allocated to them in the most efficient way possible and manage their operations in a manner that complies with the objectives laid down by the *Riksdag* and the Government. All legislation applicable to agency operations must be complied with. For government agencies to meet these requirements as well as the expectations that citizens and other users have of them, their top management must assume overall responsibility for agency operations as a whole. Agency operations must be guided in the intended direction. Moreover, they must be controlled and followed up.

Issues of internal control have been dealt with in audits from a great number of perspectives. In this section, we focus particularly on the SNAO's findings relating to the work by government agencies to protect their information assets. We also emphasise findings relating to internal control and monitoring at the Swedish Social Insurance Agency and to controls performed by government agencies in connection with the disbursement of financial support. This section concludes with a few examples of how state-owned enterprises apply new regulations relating to internal control and reporting.

Protection of State information assets

Public administration is dependent to a large extent on IT support to manage large volumes of information and to carry out services for individuals, companies and other

government agencies. The government agencies which manage the systems or information contained in them must be able to ensure that their use of IT is safe. Data included in electronic documents or records must not be modified or erased by unauthorised persons. Confidential or otherwise sensitive information must not be revealed. Deficiencies in security may lead to serious consequences for the decisions taken by the government agency and for the privacy of individuals. In addition, they may lead to serious consequences regarding the ability of the State to prevent, preclude and manage national crises of various kinds.

Between 2005 and 2007, the SNAO audited the work conducted by eleven government agencies to protect their IT systems and the information contained in them – that is, their work on information security. Six of them have been the subject of particularly close scrutiny: the Swedish Maritime Administration, the Swedish Migration Board, the Swedish National Government Employee Pensions Board, the Swedish National Labour Market Administration, the Swedish National Land Survey and the Swedish Social Insurance Agency. Common to all eleven government agencies is that their operations are dependent on the safe management of databases containing extensive information about individuals or companies. This information is often classified, and recreating it would be difficult or expensive. Deficiencies in information security may cause substantial harm to individuals and companies.

The information security of government agencies is inadequate

All government agencies audited have deficiencies in their management systems for information security – that is, in the procedures established and measures taken to direct their work in this area. At most of the agencies, these deficiencies are serious in nature. None of the agencies have top management who work systematically with information security. A widespread problem is that top management of the agency – that is, the head of the agency and his or her management team – do not devote enough attention to issues of information security. There is general uncertainty as to the identity of the tasks for





which it would be appropriate for top management to take responsibility. A widespread conception is that information security is a technical matter, and as such not an issue for top management. This view has led to responsibility for information security to a large extent being delegated. However, such delegation has not been accompanied by the corresponding follow-up on the part of top management to see how well the delegation of information security issues has actually functioned. Another problem is that certain important issues are not dealt with by top management or by anyone else in the organisation, such as determining what risks the agency lacks protection against and whether the cost of security is reasonable. Top management rarely request detailed information about existing risks and threats to operations. As a consequence, top management do not gain any overview of the risk situation and cannot form any ideas as to what security measures should be given priority.

Top management rarely follow up whether security measures decided have been implemented and work as intended. In addition, top management do not devote much attention to training in information security. The importance of training and information both for staff in general and for managers is underestimated.

The audits show that serious incidents have occurred owing to inadequate information security at government agencies. Some agencies have failed to repel virus attacks. Incidents have also occurred in connection with the replacement of IT systems. Important services which citizens and companies perform on the Internet have had to be closed down for up to a few weeks. Further, deficiencies in the protection of agency websites have led to unauthorised persons gaining access to, and being able to modify, information of a private nature.

The Government has failed to follow up the information security of public administration

Even though each government agency is responsible for its own information security, the Government has overall responsibility for ensuring that public administration as a whole has an adequate level of information security. For several years, the Government has been making a major

effort to enhance the use of 'electronic government'. As part of this effort, it has demanded that an increasing number of services offered by government agencies be made accessible over the Internet. If information cannot be protected, confidence in electronic government may be damaged, which could jeopardise the entire effort. That is why the SNAO has also examined the action taken by the Government to establish requirements for government agencies' work on information security, to follow up this work and to create better conditions for it (RiR 2007:10).

Our audits show that top management of government agencies have not understood the requirements and regulations which apply to their work on information security, even though it is reasonable to expect that it should be clear to them that this is an important task. However, the precise requirements placed by the Government on this work are not clear either from existing legislation in the field or from other sources. For instance, the strategy developed by the Government for information security does

The SNAO has examined the work on information security carried out by eleven government agencies. The findings have been presented in the following reports:

Svenska Kraftnät (Swedish National Electricity Grid)

(Ref. Nos. 32-2005-0714 and 32-2006-0700)

Swedish Armed Forces (Ref. No. 32-2005-0551)

Swedish Companies Registration Office

(Ref. No. 32-2005-0717)

Swedish Maritime Administration (RiR 2005:27)

Swedish Migration Board (RiR 2006:25)

Swedish National Government Employee

Pensions Board (RiR 2005:26)

Swedish National Labour Market Administration

(RiR 2006:24)

Swedish National Land Survey (RiR 2006:26)

Swedish National Post and Telecom Agency

(Ref. Nos. 32-2005-0738 and 32-2006-0726)

Swedish Rescue Services Agency (Ref. No. 32-2006-0533)

Swedish Social Insurance Agency (Ref. No. 32-2005-0655)



not focus specifically on public administration.

Follow-up or the effective communication of warnings in cases where there are serious deficiencies in information security may enable the Government to take necessary action as required. However, our audit shows that the Government has failed to carry out any comprehensive follow-up to establish whether the internal control and monitoring of information security in public administration is adequate and what problems are encountered by government agencies. For example, result based management has not been used for this purpose.

The Government has chosen to delegate responsibility for various information security issues to several expert agencies, including the Swedish Emergency Management Agency, the Swedish Administrative Development Agency and the Swedish Armed Forces. However, the Government has failed to place specific requirements on these expert agencies so as to ensure that there will be a comprehensive follow-up showing the effectiveness of government agencies' work on information security. As a consequence, the Government is not sufficiently acquainted with the situation in public administration and also has not received any clear information or warnings about widespread or serious problems in the information security of government agencies. The eleven audits carried out by the SNAO have not been perceived by the Government Offices as an indication of such general problems.

The SNAO draws the overall conclusion that neither government agencies nor the Government have taken adequate measures to create and maintain a good level of information security.

The management of social insurance by the Swedish Social Insurance Agency

The Swedish Social Insurance Agency manages the majority of transfers to individuals and households. In 2006, it disbursed a total of SEK 435 billion in retirement pensions, sickness benefit, parental benefit, assistance benefit, housing allowance, dental-care benefit and other transfers.

The new, single government agency called the Swedish Social Insurance Agency began its operations on 1 January 2005 following a reconstruction of the Swedish

National Social Insurance Board and the 21 social-insurance offices. One aim of this reorganisation was to give the Government and the Swedish Social Insurance Agency better opportunities to exercise direction over the management of social insurance. What used to be supervision exercised by the Swedish National Social Insurance Board over the social-insurance offices has become internal control within the Swedish Social Insurance Agency as a consequence of this organisational change.

If the mechanisms for checking disbursements and controlling costs at the Swedish Social Insurance Agency do not work in a satisfactory manner, it may lead to very significant consequences for public finances. Similarly, the confidence of the general public in the social-insurance system may be negatively affected if the Swedish Social Insurance Agency is not able to pay the right amount to the right person or if regional offices assess similar matters differently.

Incomplete documentation underpinning decisions and inadequate efforts to prevent fraud

The Swedish Social Insurance Agency, like the Swedish National Social Insurance Board before it, has proved unable to meet both the Government's demands for more uniform application of the rules and its wish for better presentation of the extent and cost of social-insurance fraud. These are among the findings of the SNAO's audit of the application of rules within social insurance (RiR 2006:20). Agency top management does not have the overview necessary to assess the extent of problems in relation to incomplete documentation underpinning decisions, incorrect decisions and fraud.

High-quality handling of matters and correct decisions are fundamental prerequisites for ensuring the rule of law as regards social insurance. However, the quality of the documentation underpinning decisions relating to certain types of benefits and allowances has deteriorated since 2002. The worst results relate to the handling of matters relating to dental care and sickness benefit, where such documentation was inadequate in one-fourth and one-sixth, respectively, of cases in 2005. Regional differences between social-insurance offices were significant in 2004 as regards the share of cases where such



documentation could be considered adequate and correct. Differences between the offices with the largest and smallest shares of correct documentation were largest for dental-care benefit, maintenance support for children and sickness benefit. Neither the Swedish National Social Insurance Board nor the Swedish Social Insurance Agency has made a closer analysis of why there are differences between regions or types of benefit and allowance in terms of the quality of the documentation underpinning decisions.

The Swedish Social Insurance Agency has been given additional resources to carry out more investigations of suspected social-insurance fraud. The number of police reports and convictions has increased. However, the SNAO has noted that the risk of fraud being disclosed is low for all methods used by the Swedish Social Insurance Agency to carry out checks.

There remain large regional differences in the handling of matters

Top management of the Swedish Social Insurance Agency have a responsibility to ensure that the handling of matters relating to individual benefits or allowances is uniform throughout its regional organisation. The SNAO has observed in several of its audits that there is considerable variation in the handling of cases. This is true, for instance, of the audit of the application of social insurance rules and regulation as well as of the audit of purchases of rehabilitation services by Social Insurance Offices (RiR 2004:21).

The audit of benefits for pregnant women (RiR 2006:30) also shows that there are large regional differences in the handling of cases. If a pregnant woman has difficulty working during the last part of her pregnancy, the Swedish Social Insurance Agency determines whether she is entitled to sickness benefit or pregnancy benefit, or whether she has to start using her parental benefit before her child is born. Seven out of ten women receive one of these benefits at some point during the last three months of their pregnancy. Decisions relating to both sickness benefit and pregnancy benefit showed significant differences between the counties with the smallest and largest share of beneficiaries. For sickness

benefit, the shares in 2006 ranged from 20 to 37 per cent; and for pregnancy benefit, they ranged from 12 to 32 per cent. Both the Swedish National Social Insurance Board and the Swedish Social Insurance Agency had failed to monitor the development of regional differences as well as to analyse their reasons, even though they had been aware of the problems.

Control prior to the disbursement of financial support

Several of the SNAO's audits in the past year have dealt with the issue of the effectiveness of internal control carried out before decisions are made to disburse financial support to citizens, employers, municipalities and other organisations. In some cases there are no clear internal guidelines for such controls, and existing guidelines may not be familiar to officials throughout the organisation. One consequence of inadequate control prior to disbursement may be that the State pays benefits to recipients who are not entitled to them. Findings relating to control prior to disbursement at the Swedish Social Insurance Agency have been discussed above.

Local public employment offices pay financial support to employers in order to stimulate them to employ people who find it difficult to obtain regular employment. In 2005, just over SEK 3 billion of such 'employment support' was disbursed. Prior to disbursement, the employment office should check that the operations of the employer can be considered serious. For instance, the employer must be registered to pay taxes and have done so. The SNAO's audit of employment subsidies (RiR 2006:28) shows that there is great variation both among employment officers and among employment offices in how they carry out such control. Our analyses show that employers that have been granted employment support are more likely to have tax liabilities than employers in general. In several cases, employment offices have paid support to non-registered employers and to employers whose registration to pay company tax had been withdrawn because of mismanagement. The Swedish National Labour Market Board has failed to issue clear guidelines indicating how employment offices should conduct the control process.

When immigrants and refugees arrive in Sweden, the





State and municipalities share responsibility for ensuring that they are welcomed and introduced to Swedish society. The State has overall financial responsibility and determines, through the Swedish Integration Board (the Board), on compensation to municipalities which receive immigrants. In 2005, the Board disbursed a total of just over SEK 1.7 billion for various actions undertaken by municipalities. To be eligible for compensation, a municipality must meet certain criteria. One of them is that it must carry out an introductory programme based on an introduction plan for the individual immigrant or refugee. In our audit of State measures to help newly arrived immigrants (RiR 2006:19), we found that the Board has paid compensation to municipalities without checking whether they had established an introduction plan for the individual concerned and carried out the programme in accordance with the requirements laid down in the Ordinance which regulates such compensation. The SNAO estimates that the Board has disbursed SEK 65–80 million to municipalities on erroneous grounds.

In line with Swedish public administration practice, the government agencies reporting to the Government should manage operational activities such as the disbursement of grants. However, the Government sometimes assumes the task of managing grants itself, or entrusts the Government Offices with such a task. Through programmes or projects, money is allocated to non-State entities. According to statements made by the *Riksdag*, the Government and the Government Offices should only manage individual grant systems in exceptional cases. In such cases moreover, the handling of the grants should be transparent and be subject to good control. The SNAO's audit (RiR 2006:32) shows that, to some extent, the Government has changed its handling of grants so as to comply with the wishes of the *Riksdag*. Grants disbursed by the Government and the Government Offices have fallen from SEK 3.4 billion to SEK 1.5 billion between 2001 and 2005. However, despite a reinforcement of the Government Offices' internal guidelines for the handling of grants, the audit shows that grants have been disbursed in contravention of the guidelines in several cases. The existence and application of the guidelines are not generally known among officials in charge of handling

the relevant matters. What is more, the Government Offices lack a system enabling the overall systematic reporting of grants, which in turn makes follow-up and reporting to the *Riksdag* more difficult.

The application of new rules for state-owned enterprises

In 2005, the state-owned enterprises (SOEs) started to apply the Swedish Code of Corporate Governance. In the same year, the Act on Insight into Specified Financial Relationships (SFS 2005:590) – also referred to as the Transparency Act – came into force. The SNAO has examined the application of the Code and the Act because they are an important part of the basis for good internal control in SOE operations.

Internal control under the Swedish Code of Corporate Governance

The aim of the Swedish Code of Corporate Governance is to improve the governance of Swedish companies. It is primarily designed for Swedish limited companies listed on a Swedish stock exchange, but it is also relevant to other categories of company or partnership. In its decisions relating to the ownership policy of the State for 2005 and 2006, the Government has laid down that the state-owned enterprises are to apply the Code.

An important part of the Code clarifies the extent to which the board of a company is responsible for its internal control. The board should continually keep itself informed about and evaluate the workings of the company's system for internal control. It should also present an annual report on internal control in relation to financial reporting.

The SNAO has examined the board meeting minutes for the 2006 financial year of 32 SOEs to establish whether the boards have assumed their responsibility for internal control under the provisions of the Code (Ref. No. 33-2007-0878). It emerges from this audit that most of the boards have kept themselves informed about their respective SOE's system for internal control on an ongoing basis. However, they have more rarely evaluated the actual effectiveness of internal control. Only one-third of the SOE boards in question have decided upon a fram-



ework for the organisation of internal control. Such a framework is necessary for the board to be able to assess and evaluate internal control on an ongoing basis. The audit thus shows that the Code's provisions relating to internal control have not yet had their full impact on the work carried out by the boards of state-owned companies. It is therefore not possible to say with certainty whether the objective of the Code – which is to protect the owners' investment and the SOE's assets – has been met.

The interpretation and application of the Transparency Act

All EU Member States are involved in business operations through publicly owned or controlled enterprises. This means that the Member States will compete directly or indirectly with privately owned companies.

The overall aim of the EU's Transparency Directive (80/723/EEC) is to ensure that the European Commission has access to the financial information necessary to verify that SOEs are not given State support or provided with other advantages by a Member State in contravention of the EU's competition rules applicable to SOEs and States. The Transparency Act (SFS 2005:590) is Sweden's means of implementing the Directive.

Public undertakings have a number of obligations under the Transparency Act, for example to describe their financial relationships with the State. The category of 'public undertakings' includes, inter alia, state-owned enterprises and government agencies involved in business operations. The description provided should show clearly

what public funds have been made available to an undertaking and how they have been used. Operations which are exposed to competition should be presented separately from those which are not. The Swedish Competition Authority exercises supervision to ensure compliance with the Transparency Act.

The SNAO has examined the application of the Transparency Act by the 33 government agencies and 16 enterprises which should be covered by the Act according to the SNAO's assessment (Ref. No. 33-2007-0878). The audit shows that the majority of these agencies and enterprises are of the opinion that the Act is difficult to interpret. Most of those who have been in contact with the Swedish Competition Authority, for instance asking for help to interpret whether they are covered by the Act, do not consider that they have received satisfactory answers to their questions. The Authority has abstained from answering certain questions for fear that its answer might form a precedent. The SNAO's assessment is that certain unclear points in the Transparency Act and the lack of implementing regulations are contributing factors to why government agencies and state-owned enterprises find it difficult to determine whether they are covered by the Act. Even the Swedish Competition Authority apparently has difficulty determining with certainty what organisations are covered by it. There is a risk that it will take a long time before precedents have been established in this area. In the meantime, there is also a risk that Sweden will fail to live up to the intentions of the EU's requirements.

Audits of financial statements for 2006

Each year the SNAO examines the financial statements of all government agencies to assess whether these annual financial statements and the financial accounting underpinning them are reliable and whether their accounting records provide a true and fair view. Audits of annual financial statements normally also cover the work of agency top management to ascertain whether they follow applicable provisions and special decisions.

The SNAO's audits are concluded with a statement given in an auditor's report. Where the SNAO has found material errors or shortcomings, this is stated as a 'qualified opinion' in the auditor's report. Material errors include those which may affect the decisions to be taken by the recipient of the financial statements on the basis of the information provided in them. The auditor's report is submitted to the Government, and a copy of it is submitted to the agency concerned.

If an auditor's report includes a qualified opinion, or if other material findings have been made, the SNAO will draw up an audit memorandum, which is addressed to the board of the agency, or to its director-general if it does not have a board. A copy of the audit memorandum is submitted for information to the ministry concerned. Findings of lesser importance are normally reported directly to the department concerned at the agency, both orally and in the form of an audit memorandum.

The SNAO has submitted 260 auditor's reports based upon its audits of annual financial statements for 2006. Eleven of them contain qualified opinions; one agency received qualified opinions on several counts. This means that the number of qualified opinions included in auditor's reports remains at a fairly constant and low level. This year's audits have also resulted in 44 special audit reports. Below is a summary of the principal findings made in these reports, presented under eight headings. If an agency has received a qualified opinion in its auditor's report, this is explicitly stated.

Content and quality of financial statements

Agencies are to report back on their operations in their financial statements in accordance with the requirements laid down by the Government in its appropriation directions to the respective agency. They should also analyse compliance with objectives. The following section summarises the findings reported by the SNAO as regards reporting by agencies and analysis of compliance with objectives as well as quality assurance of the content of financial statements. Errors whose effect is that the financial statements do not provide a true and fair view lead to a qualified opinion being included in the auditor's report. No agency received a qualified opinion this year in relation to the content or quality of its financial statement. Other errors and shortcomings noted in special audit reports are as follows:

Swedish National Board of Fisheries

(Ref. No. 32-2006-0707)

The analysis of compliance with objectives carried out by the Swedish National Board of Fisheries can be improved. The Board should also develop indicators to facilitate the reader's assessment of the presentation of effects and compliance with objectives which is given in the financial statements. In many areas, it is still difficult to tell what measurement value or what indicator level is required for compliance with objectives to be deemed satisfactory.

The SNAO's assessment is that the Board conveys the idea that fisheries' control is working well. However, to provide a more balanced view, an assessment of how unreported fishing affects the outcome in relation to the objectives for the Fisheries Control operations should have been presented in the financial statements.

Swedish Gaming Board (Ref. No. 32-2006-0476)

The Swedish Gaming Board has failed to report back in accordance with the requirements laid down in its appropriation directions as regards type approval and permits to organise EMV lotteries – that is, lotteries conducted via the Internet or telephony or in connection with radio and television broadcasts.

Swedish Sami Education Board**(Ref. No. 32-2006-0627)**

The Swedish Sami Education Board has failed to report back on the number of pupils covered by school transport in accordance with the requirement laid down in its appropriation directions.

Swedish Armed Forces (Ref. No. 32-2006-0513)

During its audit, the SNAO discovered several shortcomings which should have been discovered during the quality assurance of the financial statements performed by the Swedish Armed Forces. For example, the Armed Forces' debt to the Swedish Defence Matériel Administration is recorded at too high an amount, and the assets have been financed from the wrong appropriation.

Linköping University (Ref. No. 32-2006-0596)

Linköping University needs to improve quality assurance of its financial statements. This relates mainly to the assessment of appropriate content for the report and its documentation.

Halmstad University College**(Ref. No. 32-2006-0555)**

The quality assurance performed by Halmstad University College in relation to its financial statements is inadequate. This has been noted before by the SNAO. The consequences of the shortcomings include errors in accounting for fee-based operations, capital and capital change. The University College has also failed to report back in accordance with three requirements laid down in its appropriation directions.

University College of Opera (Ref. No. 32-2006-0589)

The model used by the University College of Opera to allocate costs among operational areas is uncertain. As a consequence, it is unclear which operational outcome is the correct one for each operational area.

Swedish Museum of Architecture (Ref. No. 32-2006-0653)

The quality assurance performed by the Swedish Museum of Architecture in relation to its financial statements is inadequate. The liability reported in relation to holiday allowance is too large, and there is no summary of important information with correct amounts.

Swedish Board of Agriculture**(Ref. No. 32-2006-0735)**

The Swedish Board of Agriculture has not performed adequate quality assurance of its financial statements. The income headings were not reconciled until after the financial statements had been adopted. Then an error amounting to SEK 170 million was discovered, and as a result the financial statements had to be supplemented. Such a reconciliation should have been carried out before the financial statements were adopted.

Financing

Government agencies finance their operations through appropriations, fees or grants as laid down in the Government's appropriation directions. Under the applicable rules, purchases of fixed assets should normally be financed by loans, but they may be financed by grants provided that the entire asset is financed by grants. If there are material deviations from the rules on financing, the SNAO will submit an auditor's report including a qualified opinion. No agency received a qualified opinion this year for such reasons. Other errors and shortcomings reported in special audit reports are as follows:

Swedish National Fortifications Administration**(Ref. No. 32-2006-0468)**

The financing of real estate by the Swedish National Fortifications Administration has in part been done by means of its interest-bearing account with the Swedish National Debt Office instead of through loans. If the financing had been done correctly, the borrowing framework would have been exceeded.

Swedish Armed Forces (Ref. No. 32-2006-0513)

On several occasions, the Swedish Armed Forces has failed to contact the United Nations (UN) before equipment has been used in excess of what had been agreed between the Armed Forces and the UN for a specific mission. Such a deviation from the formal procedures laid down in the 'COE Manual' entails a risk that Sweden may not be able to request reimbursement of the relevant costs from the UN.

Luleå University of Technology **(Ref. No. 32-2006-0669)**

Equipment at Luleå University of Technology is financed in part by loans and in part by grants. Based on the financial statements, it has not been possible to conclude how different items of equipment have been financed. An internal inquiry shows the change in capital brought forward to be overstated by SEK 9 million because equipment has been incorrectly financed by grants. As a consequence, the amount of non-utilised grants should be SEK 9 million higher. This has been corrected in the 2006 financial statements.

Mid Sweden University **(Ref. No. 32-2006-0670)**

Mid Sweden University finances equipment in part by loans and in part by grants. It is not clear from the financial statements how each asset has been financed.

Exceedance of appropriations and authorisations

Agencies which materially exceed their appropriations receive an auditor's report with a qualified opinion. This year, one agency received a qualified opinion for this reason. Minor infractions are reported to the board or top management of the agency concerned.

In addition to their appropriation, some agencies have an authorisation framework which they use for future commitments to provide grants. Material infractions of the authorisation framework or commitments made without an authorisation framework lead to the SNAO submitting an auditor's report with a qualified opinion. This year, two agencies have received a qualified opinion for such reasons. Minor infractions are reported to the board or top management of the agency concerned. Other errors and shortcomings reported in special audit reports are as follows:

Swedish Deposit Guarantee Board **(Ref. No. 32-2006-0565)**

The Swedish Deposit Guarantee Board has exceeded its appropriation by SEK 1 million owing to inadequacies in its internal control. The Board received increases to its appropriation and appropriation credit on two occasions in 2006, most recently on 14 December. However, all

costs were not taken into consideration in the estimate submitted to justify its requests for increased appropriations, and as a consequence the appropriation was exceeded despite the increases.

(Qualified opinion included in the end of year auditor report)

Swedish National Agency for School Improvement **(Ref. No. 32-2006-0618)**

The Swedish National Agency for School Improvement decides annually on State grants to municipalities and others for the recruitment of support staff. The message sent to the municipalities in 2006, however, also included undertakings relating to grants in 2007 and 2008. The SNAO has found that the Agency has exceeded its powers by giving municipalities notice of grants without special authorisation by the Government.

(Qualified opinion included in the end of year auditor report)

Swedish Commission for State Grants to Religious Communities **(Ref. No. 32-2006-0483)**

The Swedish Commission for State Grants to Religious Communities has exceeded its appropriation credit by SEK 72,000. The Commission was granted an increased credit facility upon submission of a request, but it did not inform the Government until late in January 2007 that the increased appropriation credit was insufficient.

Blekinge County Administrative Board **(Ref. No. 32-2006-0520)**

The Blekinge County Administrative Board has recorded SEK 800,000 of granted but non-disbursed rural support as an account payable in its annual financial statement for 2006, thus settling it against the appropriation entitled 'General measures of regional policy'. However, that appropriation concerns transfers and settlement should therefore not have been made until 2007, when the actual disbursement takes place.

Swedish Armed Forces **(Ref. No. 32-2006-0513)**

For some areas, the Swedish Armed Forces has exceeded the maximum amounts laid down in its appropriation directions.

Swedish National Board of Fisheries**(Ref. No. 32-2006-0707)**

Data included in the reporting of authorisations and the summary of important information show that the Swedish National Board of Fisheries has made commitments relating to structural support amounting to SEK 353 million. This information does not provide a true and fair view since the actual commitments to be covered by appropriations for future years amount to less than SEK 170 million. The rest of the support can be covered by appropriation savings.

Income from fees

All agencies may charge fees to a minor extent. To charge fees to a greater extent, an agency needs the Government's authorization. Agencies should normally fully cover their costs in areas where fees are charged, but the Government may have decided exemptions from this rule. Material deviations from the relevant rules lead to the SNAO submitting an auditor's report with a qualified opinion. This year, one agency has received a qualified opinion for this reason. The errors and shortcomings reported in audit memoranda are the following:

Swedish Sami Education Board**(Ref. No. 32-2006-0627)**

The Swedish Sami Education Board has failed to raise the fees charged to municipalities in line with the relevant price index. The Board does indicate this in its financial statements, but it does not state the full amount and does not mention that the error applies to several years past. The consequence of its failure to raise fees in line with the index is that the State has financed operations through the State Budget without municipalities being charged the corresponding amount as fees. In all, SEK 11.8 million should have been charged as fees.

(Qualified opinion included in the end of year auditor report)

Swedish Biographical Lexicon**(Ref. No. 32-2006-0493)**

The agency has failed to price its products in line with the objective of full coverage of costs. Prices have instead been set based on an estimate of what customers are willing to pay.

University College of Acting, Stockholm**(Ref. No. 32-2006-0593)**

The University College of Acting has set the rent for premises used as a restaurant at the University College in such a way that these premises are not taxed as a benefit. The University College has not ensured that the rent is at market level.

Swedish Institute of Space Physics**(Ref. No. 32-2006-0609)**

The Swedish Institute of Space Physics reports its running of a staff canteen as 'Section 4 income', which is incorrect according to the Swedish National Financial Management Authority. The Institute has not been granted an exemption from the requirements laid down in the Appropriation Ordinance for the operation concerned.

Swedish Medical Products Agency**(Ref. No. 32-2006-0615)**

Invoicing procedures at the Swedish Medical Products Agency include a good deal of manual handling to carry out reconciliations between the invoicing system and the financial system. As a consequence, the Agency is unable to guarantee that it collects correct fee income and records it correctly.

Luleå University of Technology**(Ref. No. 32-2006-0669)**

The reporting by Luleå University of Technology of external funds for research is inadequate as regards classification of fees versus grants. This affects the 'university VAT' which is to be reported to the Swedish Tax Agency. However, the incorrect amounts noted do not seem to be large enough to make the error material.

Provisions, period allocations and valuation

Provisions and allocations to appropriate periods are to be made for costs which will lead to future disbursement. The valuation of assets is to be based on their expected economic life. Changes to the operations of a government agency, such as closure or a move to a different place, often entail additional costs, which are to be reported as soon as they can be estimated. The value of assets may also have to be adjusted based on changes in conditions. Material errors in provisions, allocations or valuations

will lead to the financial statements not providing a true and fair view. Four agencies have received a qualified opinion for such reasons this year. The errors and shortcomings reported in special audit reports are as follows:

**Swedish National Institute for Working Life
(Ref. No. 32-2006-0549)**

In its valuation of assets and liabilities, the Swedish National Institute for Working Life has failed to take heed of the Government's decision that the Institute will be wound up as of 30 June 2007. According to good accounting practice, all known decisions must be heeded up to the date when the financial statements are presented. The Institute should thus have taken heed of the decision to close down the Institute in its valuation of its tangible fixed assets, inventory and cut-off items. This means that there are material errors in relation to the above-mentioned items in the balance sheet, and thus an impact on performance and on accounting as against appropriations.

(Qualified opinion included in the end of year auditor report)

**Swedish Integration Board
(Ref. No. 32-2006-0610)**

The Swedish Integration Board has failed to allocate to appropriate periods costs relating to State compensation to municipalities and county councils for the reception of refugees and health care costs. The non-disbursed costs amounted to SEK 27.3 million as of 31 December 2006. The need for allocation of these costs was emphasised by the SNAO in an accountancy report issued in 2006. However, the Board failed to take action because it had difficulty estimating the amount of the costs.

(Qualified opinion included in the end of year auditor report)

Riksställningar (Ref. No. 32-2006-0681)

Riksställningar (the Swedish National Expositions Agency) has failed to make provisions for the costs of termination of staff who do not wish to relocate along with the agency. The amount concerned is estimated at SEK 13.9 million.

(Qualified opinion included in the end of year auditor report)

**Swedish Polar Research Secretariat
(Ref. No. 32-2006-0624)**

Income relating to boat rental amounting to SEK 14 million has been reported by the Swedish Polar Research Secretariat, but the corresponding cost has not been allocated to appropriate periods. This has led to the under-reporting of costs and the overstating of the result of service exports.

(Qualified opinion included in the end of year auditor report)

**Swedish National Electrical Safety Board
(Ref. No. 32-2006-0705)**

The Swedish National Electrical Safety Board has failed to make provisions for readjustment costs relating to staff who do not have an obligation to work. These costs have also not been included in the reporting on financial performance.

Public procurement

All government agencies must comply with the Act on Public Procurement when they purchase goods and services from sellers such as private and state-owned enterprises (SOEs). Minor purchases, below a 'threshold value', may be made using a single-tender procedure. The SNAO examines public procurement to the extent that it constitutes a significant part of the operations of an agency. Material deviations from the applicable rules normally lead to a qualified opinion being included in the auditor's report. This year, two agencies have received a qualified opinion for this reason.

The errors and shortcomings reported in special audit reports are the following:

**Swedish Prison and Probation Service
(Ref. No. 32-2006-0517)**

Project-planning services for the construction of new prisons in Östersund and Haparanda have not been purchased in accordance with the Act on Public Procurement. The value of the purchase is approximately SEK 209 million.

(Qualified opinion included in the end of year auditor report)

Mid Sweden University (Ref. No. 32-2006-0670)

Mid Sweden University is a member of a non-profit-making organisation which owns a company. The University has undertaken to pay compensation to this company during the years 2006–2008. This membership violates the provision of the Capital Supply Ordinance and a special Government decision addressed to all universities and university colleges. The provision of compensation may violate the Act on Public Procurement.

(Qualified opinion included in the end of year auditor report)

Swedish National Land Survey (Ref. No. 32-2006-0667)

The Swedish National Land Survey purchases services from its associated company Swedesurvey AB without organising tender procedures as required under the Act on Public Procurement.

Mid Sweden University (Ref. No. 32-2006-0670)

Mid Sweden University has used a single-tender procedure for a purchase above the threshold value laid down in the Act on Public Procurement.

Swedish National Space Board (Ref. No. 32-2006-0729)

The Swedish National Space Board has entered into an oral agreement with the Swedish Space Corporation to buy IT services from it. No tender procedure as required under the Act on Public Procurement has been organised.

Swedish National Road Administration**(Ref. No. 32-2006-0749)**

Compliance with the Public Procurement Act is very inadequate within the Construction business area of the Swedish National Road Administration. Single-tender procedures are used for purchases above the maximum amounts. The planning and follow-up of purchases are inadequate. Written agreements are not always established with suppliers.

Swedish Equal Opportunities Ombudsman**(Ref. No. 32-2006-0566)**

The Swedish Equal Opportunities Ombudsman has engaged a supplier to restructure and further develop its website without complying with the Act on Public Procurement.

Internal control

Top management of an agency has a responsibility to ensure that its organisation is designed so that its financial accounting, its management of financial resources as well as other assets and its operations are under adequate control. The SNAO's financial audits are based upon the assumption that the internal control of agencies is reliable. That is why the SNAO assesses the quality of internal control for important processes at the agencies audited. Inadequacies in internal control may lead to material errors in the financial statements, which will lead to the SNAO including a qualified opinion in the auditor's report it issues. This year, two agencies have received a qualified opinion for such inadequacies. The errors and shortcomings reported in special audit reports are as follows:

Örebro County Administrative Board**(Ref. No. 32-2006-0581)**

Owing to a failure to follow its internal procedures, the Örebro County Administrative Board has twice requested and received money from the EU's Structural Funds for the same period. The error amounts to SEK 84 million. The Board has informed the ministry responsible and the EU of the event.

(Qualified opinion included in the end of year auditor report)

Swedish Consumer Agency (Ref. No. 32-2006-0714)

Differences in payment flows have not been corrected by the Swedish Consumer Agency even though they have been known for several years and have been quantified. The difference amounts to SEK 14.2 million which the Agency is capable of correcting itself and SEK 18 million for which it needs to request a Government decision as to how the difference will be covered.

(Qualified opinion included in the end of year auditor report)

Swedish International Development**Cooperation Agency (Sida) (Ref. No. 32-2006-0491)**

Running examinations of the authority abroad in Kenya show significant shortcomings in internal control. Among other things, audits have not been carried out on a regular basis. The audit carried out shows major shortcomings in internal control as well as a risk of financial irregularities.

Swedish Sami Education Board (Ref. No. 32-2006-0627)

Deficiencies in the reconciliation procedures of the Swedish Sami Education Board have been pointed out by the SNAO in auditor's reports and audit memoranda issued in previous years. Several of the findings previously made are still valid. Among other things, there are differences in relation to other liabilities, accrued grant income and non-utilised grants. The Board lacks procedures for reconciliation of fees which are charged to municipalities.

Swedish Board of Customs (Ref. No. 32-2006-0497)

The present structure of controls carried out by the Swedish Board of Customs is so designed that there is a risk that errors in the collection of duties will not be detected in an effective manner. The SNAO's assessment is that there may be shortcomings in the controls which make it difficult to ensure that the requirements as to collection laid down by the Government in its appropriation directions will be met.

Other findings

This section presents other findings reported by the SNAO in audit memoranda. If there are material errors or shortcomings, the SNAO issues an auditor's report including a qualified opinion. This is mainly the case for errors or shortcomings which lead to the financial statements not providing a true and fair view, or which mean that the agency concerned deviates in a material way from key rules. One agency has received a qualified opinion this year for a material error of this kind. The errors and shortcomings reported in special audit reports are as follows:

Swedish Consumer Agency (Ref. No. 32-2006-0714)

The sale by the Swedish Consumer Agency of the periodical Råd & Rön has not been conducted along strictly business lines. The Sale of Movable Property Ordinance has thus not been complied with.
(Qualified opinion included in the end of year auditor report)

Swedish Research Council (Ref. No. 32-2006-0638)

The board of the Swedish Research Council has established a new decision-making body without the Government's permission. Authority to make decisions has been delegated to this body by the board in contravention of the applicable instructions.

Linköping University (Ref. No. 32-2006-0596)

There are shortcomings in the guidelines issued by Linköping University for the planning, reporting and monitoring of time actually spent in connection with the working hours of teachers. Time and costs are reported in different ways, and there is no monitoring of time actually spent. As a consequence, top management of the University do not obtain information about the actual workload of teachers.

There are also shortcomings in the University's direction and reporting of projects financed by external funds. This entails a risk that externally financed projects will under-report costs, that some project costs will have to be borne by appropriation funds, that the breakdown across operational branches will be incorrect and that the University will fail to meet the requirement that the costs of projects should be fully covered by the relevant funding.

Svenska Kraftnät (Ref. No. 32-2006-0700)

The follow-up of an audit memorandum submitted by the SNAO in 2005 shows that the work by Svenska Kraftnät (the Swedish National Electricity Grid) on its new project handbook has taken longer than planned. Certain findings made during the SNAO's audit in 2005 of Svenska Kraftnät's work on information security remain valid. Continual risk assessment of systems which are of vital importance to society has not yet been introduced.

Kalmar University College (Ref. No. 32-2006-0556)

Kalmar University College has recorded depreciations and amortizations in 2006 which are larger than good accounting practice allows. The University College has adjusted its depreciation plan and amortizations, and in this connection it should have adjusted depreciations and amortizations throughout the estimated remaining economic life of the assets concerned. Instead it made the entire adjustment in 2006.

Malmö University College**(Ref. No. 32-2006-0558)**

The fixed assets register at Malmö University College does not meet the requirements as to registration of assets. The University College does not have control in all respects over what is reported as a fixed asset, and it also does not have a uniform principle as regards what assets are recorded in its balance sheet.

Swedish National Museum of Fine Arts, including Prince Eugen's Waldemarsudde**(Ref. No. 32-2006-0672)**

Only 15 per cent of the collections of objects of the Swedish National Museum of Fine Arts are digitally registered. Parts of its collections are not registered at all. The Museum does not have an established plan for the remaining registration and digitalisation of the objects included in its collections. There are also deficiencies in the Museum's inventory procedures.

Swedish National Museums of World Culture**(Ref. No. 32-2006-0687)**

Only 41 per cent of the collections of objects of the Swedish National Museums of World Culture are digitally registered. The Museums have no established plan for the remaining digitalisation of the objects included in their collections. There are also deficiencies in the Museums' inventory procedures.

Swedish National Fortifications Administration**(Ref. No. 32-2006-0468)**

The sale by the Swedish National Fortifications Administration of real estate to Boden municipality has not been carried out along strictly business lines. Boden municipality has requested an advance decision on the purchase, but it can be questioned whether the municipality has justified its need in compliance with the requirements laid down in the Sale of state-Owned Real Estate Ordinance.

Swedish National Space Board**(Ref. No. 32-2006-0729)**

The Swedish National Space Board has not paid its fee to the European Space Agency on time. The Board wished to wait for the exchange rate to become more favourable. One employee has been without any obligation to work since the autumn of 2003. No termination agreement has yet been entered into with the person in question.

The Riksbank (Swedish Central Bank)**(Ref. No. 32-2006-0494)**

The SNAO has no objections to the accounting principles used by the Riksbank, but it recommends that the Riksbank supplement the documentation of its rules and the existing knowledge of its financial relationship with the International Monetary Fund.

Swedish Armed Forces (Ref. No. 32-2006-0513)

The process used by the Swedish Armed Forces to improve its reporting of assets intended for use in an emergency has resulted in a correction amounting to SEK 250 million. However, the value of these assets is probably too high.

The issue of compensation for running airports has not been solved as between the Armed Forces and the Swedish Civil Aviation Administration.

Invoicing procedures in relation to the Swedish Defence Materiel Administration have not worked. This has led to a failure to invoice the Administration for approximately SEK 60 million relating to work carried out in 2006.

Performance audit reports published since the 2006 Annual Report

The SNAO has published 26 performance audit reports based upon performance audits since its Annual Report for 2006 was published. Below are short summaries of their content and the main findings made in each audit.

State measures to help newly arrived immigrants (RiR 2006:19)

The SNAO has examined the State's measures to introduce newly arrived immigrants into Swedish society. The starting-point of the audit has been the responsibility of the Government, the Swedish National Labour Market Board, the Swedish Integration Board and the Swedish Migration Board for the implementation of integration policy. Responsibility for introducing new arrivals to Swedish society is divided between the State and municipalities. Municipalities which receive immigrants co-ordinate introductory programmes for them while the State finances, supports and follows up the work of municipalities. One of the findings from the audit is that the State has failed clearly to define the responsibilities and duties of various government agencies in such introductory efforts. The Swedish Integration Board has failed to follow the rules for decisions on compensation to municipalities. The Swedish National Labour Market Board and the Swedish Migration Board have failed in several cases to exercise direction, perform quality assurance and follow up their commitments and mechanisms for co-operation with municipalities.

Control and the application of rules within social insurance (RiR 2006:20)

High-quality handling of matters and correctness of decisions within the Swedish Social Insurance Agency are basic prerequisites for legal security with regard to social insurance. Confidence in the insurance system further requires that efforts should be made to curtail fraud. Indeed, the Swedish Government has been emphasising for several years that the handling of matters must improve and that fraud must be counteracted. The SNAO has examined the control exercised by the Government and the Swedish Social Insurance Agency as to the application of rules within social insurance. The audit shows that there are shortcomings both in the application of rules,

as well as control and in the extent of knowledge. Neither the Swedish Social Insurance Agency nor its predecessor, the Swedish National Social Insurance Board, has made a closer analysis of the reasons why there is variation in the quality of the documentation underpinning decisions for certain benefits, or why there are differences in quality between local offices. The work carried out to prevent benefit crime is undeveloped in important respects and the risk of detection is low.

Financial management in state-owned real estate enterprises (RiR 2006:21)

The SNAO has examined the financial management of the state-owned real estate enterprises Akademiska Hus AB, Jernhusen AB, Specialfastigheter Sverige AB, Vasakronan AB and Vasallen AB. Their total debt amounts to just over SEK 40 billion. The aim of the audit was to assess whether the enterprises' financial management, above all in relation to their debt, is business-like and efficient. Among other things, the audit shows that the enterprises differ in their readiness to take financial risks. Several of the enterprises audited have a financial policy which is incomplete, imprecise and – in a few cases – out of date. Several companies would probably be able to improve their returns by using other forms of borrowing and investment. Vasallen AB has excessive equity, and it has had a low return on capital. In its role as owner-manager, the Government has failed to act on indications of overcapitalisation or in cases where enterprises have incomplete financial policies.

The public employment service (RiR 2006:22)

The SNAO has examined the efficiency and productivity of the public employment service and its role in the process of matching job-seekers with vacancies. Measures taken to improve efficiency have also been examined. The audit shows there to be major shortcomings in the workings of the public employment service. Its importance in the matching process has declined and its productivity development has been weak. Efficiency is at a low level and there are large differences in efficiency between local public employment offices. Measures intended to increase efficiency are not being evaluated. Strategic interventions,

such as contacts with employers, have not been given priority. The audit also shows that there are shortcomings in the structure of the objectives set by the Swedish National Labour Market Administration. What is more, it is difficult to tell whether the priorities laid down by the *Riksdag* and the Government have an impact on the work of the public employment service.

The macroeconomic data underpinning the Government's budget bills (RiR 2006:23)

The SNAO has examined the quality of the macroeconomic information provided by the Government in its budget bills during the 1994–2005 period. After the crisis which struck Sweden's public finances in the early 1990s, an expenditure ceiling and a surplus target for public-sector finances were introduced. As a consequence, estimates of public income and expenditure in a time frame normally stretching two years beyond the coming financial year are included by the Government both in its budget bills and in its Spring Fiscal-Policy Bills. If the State expenditure included in the budget has been underestimated and later turns out to be larger than expected, there is a risk that planned reforms may have to be cancelled or that savings may have to be made to ensure that the expenditure ceiling is not broken. The audit shows that the Government's forecasts are uncertain but no worse in terms of overall accuracy than those of other forecasters. One exception, however, relates to open unemployment, where the Government has systematically presented more optimistic forecasts than other forecasting institutions. The audit also shows that there is no overall assessment and analysis of the uncertainty inherent in the calculations concerned.

Audit of the Swedish Labour Market Administration's internal management and control of information security (RiR 2006:24)

The SNAO has examined the work carried out by the Swedish National Labour Market Administration in the field of information security. In its IT systems, the Administration manages substantial flows of money, extensive sensitive information about individuals and information about companies and vacancies. If its systems are not

secure enough, there is a risk that information in its records will be incorrect, that sensitive information will be disclosed or that IT support tools to match job-seekers with vacancies will not be accessible. That is why heavy demands are placed on top management of the Administration to ensure the protection of data and services in its IT systems. The SNAO's audit shows that top management of the Administration do not work in a systematic enough manner on its information security. Several decisions on security measures have not been implemented or followed up. Material parts of its risk analysis are missing, and its staff are not given systematic training in information security. Responsibility for security has been delegated, but the work performed by those responsible has not been monitored to an adequate extent.

Audit of the Swedish Migration Board's internal management and control of information security (RiR 2006:25)

The SNAO has examined the work carried out by the Swedish Migration Board in the field of information security. The duties of the Board include the granting of asylum, Swedish citizenship and permits to visit or reside in Sweden. Its IT systems contain large volumes of personal data. If the Board is unable adequately to protect its IT systems, there may be serious consequences for individuals. If personal data are not managed correctly, incorrect decisions may be taken in matters of asylum, permits and citizenship. The audit shows that the Board has certain parts of a management system for information security in place. However, several decisions taken which relate to information security have not been implemented in practice.

Audit of the National Land Survey of Sweden's internal management and control of information security (RiR 2006:26)

The SNAO has examined the work carried out by the Swedish National Land Survey in the field of information security. At the Land Survey, there is important information in the Land Registry, in geographical databases and in a geodetic reference system. If geographical information or information about land units is inaccessible or incorrect, the consequences may be serious. For instance,

individuals may be affected because the information contained in the Land Registry is used by banks and other credit institutions for credit decisions. The SNAO's audit shows that the Land Survey has several well-functioning parts of a management system for information security in place.

The Government's monitoring of the surplus target (RiR 2006:27)

The *Riksdag* has decided that Sweden's fiscal policy should focus on achieving a surplus in public finances equivalent to an average of two per cent of GDP over an economic cycle. This 'surplus target' is a central element of the fiscal-policy framework which was created following the crisis that struck Sweden's public finances in the early 1990s. For the surplus target to be able to determine the direction of fiscal policy, compliance with it must be systematically monitored and the findings made must be presented in a way which provides a true and fair view. Having an explicitly defined target and monitoring compliance with it in a clear and systematic way helps make fiscal policy inspire confidence. The SNAO has examined how the Government has presented its monitoring of compliance with the surplus target in its budget bills for 2000–2007 and in the Central government annual report for 1999–2005. The audit shows that the Government's monitoring of the surplus target has been presented in an unsystematic manner and that the view it has given has in part not been true and fair. At different times, the Government has emphasised different bases for assessing fiscal policy in relation to the surplus target. One of the indicators used by the Government for follow-up purposes does not appear to be suited to helping achieve the target. Moreover, the surplus target has not been defined in a way which facilitates follow-up.

Employment Subsidies (RiR 2006:28)

The SNAO has examined the effects of 'employment Subsidies' on regular employment and the management by the Swedish Employment Service of this support measure. The audit shows that the support measure has limited effects on employment, in part because employment subsidised by such support crowds out other,

regular, employment. The checks of employers performed by the public employment service before deciding to pay employment Subsidies are inadequate and lacking in uniformity. There are also shortcomings in the procedures used by the Swedish Employment Service to prevent over-use, distortion of competition and corruption.

The reform of Swedish Armed Forces Logistics. Has it become less expensive and more efficient? (RiR 2006:29)

On 1 January 2002, the Logistics Unit of the Swedish Armed Forces (FMLOG) was established. It integrated large parts of the logistics function of the Armed Forces into a single organisational unit, and a new system for control and financing was introduced. The aim was to make logistics less expensive and more efficient. The audit shows that the reform has led to a slight reduction in costs. However, the logistics function is not yet adapted to the new orientation of the national defence organisation. Delays in delivery and non-delivery are frequent occurrences. As a consequence, military units devote unnecessary time to following up and remedying deficiencies in material to be delivered by FMLOG. This affects units' ability to focus on their core activities.

Social insurance benefits for pregnant women: Actions taken by the Swedish Social Insurance Agency to ensure uniform application in accordance with the law (RiR 2006:30)

Seven out of ten pregnant women receive social-insurance benefits at some point during the last three months of their pregnancy. The SNAO has investigated regional differences in the disbursement of sickness benefit, pregnancy benefit and parental benefit to pregnant women, examining the action taken by the Swedish Social Insurance Agency to ensure that the law is applied in a uniform manner and in accordance with its provisions. The audit shows that the Agency still lacks knowledge about the reasons for such regional differences. The problems relating to the application of benefits for pregnant women have not been given attention in its work carried out to improve quality.

**Genetically modified organisms –
the possible and the reasonable (RiR 2006:31)**

Genetic engineering offers great opportunities, but it is also associated with risks and uncertainty. That is why there is an extensive system of rules both in Sweden, at the EU level and otherwise internationally. The aim of these rules is to protect human and animal health and the rest of the environment while at the same time ensuring that the opportunities offered by genetic engineering can be exploited. To maintain a technology-friendly atmosphere in society, it is necessary to make sure that the general public has confidence in the work carried out by government agencies to protect human and animal health and the environment. This requires that the controls and risk management performed by society are adequate and that information about deliberations made is accessible. It is important that the rules work well and that their application by government agencies meets the requirements laid down in European and Swedish law. The SNAO's audit has focused on the requirements placed on the work of the agencies responsible as well as on compliance with them. The SNAO's overall assessment is that the shortcomings observed during the audit mean that risks are not adequately managed and that the general public's confidence is being jeopardised. Besides other effects, this will make it more difficult fully to exploit the opportunities offered by genetic engineering.

**Grants allocated by the Government and the
Government Offices (2006:32)**

The SNAO has examined grants allocated by the Government and the Government Offices to municipalities, county councils, non-profit-making organisations, privately owned companies and individuals. Previous audits have shown there to be problems in the control and organisation of such grants. As a consequence, in 2001 the *Riksdag* requested that the Government resolve these problems. The *Riksdag* position was that the Government and the Government Offices should only manage grants in exceptional cases. The SNAO has examined whether the Government has taken the actions called for by the *Riksdag*. The audit shows that no major new grant programmes have been introduced. The volume of grants

has more than halved, from SEK 3.4 billion in 2001 to SEK 1.5 billion in 2005. The Government Offices have also improved their internal guidelines for the management of grants. However, certain problems remain as regards the control of grants. The Government Offices also lack a system enabling overall systematic reporting of grants, which in turn may make follow-up and reporting to the *Riksdag* more difficult.

**State supervision of housing with special services under
the Support and Services for Specified Disabled People
Act (RiR 2007:1)**

The Support and Services for Specified Disabled People Act (the Act) came into force in the mid-1990s. It specifies a number of services to which specified disabled people are entitled. The SNAO has examined State supervision of the service called 'Housing with special services for adults' provided under the Act. A total of 20,000 people were covered by this service in 2005. Several government agencies have pointed to problems in relation to the implementation of services under the Act, for instance that persons entitled to services have their applications refused by their municipality. State supervision, which is exercised by the Swedish National Board of Health and Welfare and by county administrative boards, is one of the main tools to verify that municipalities and county councils apply the Act correctly. The SNAO's audit shows, among other things that it is unclear what the Swedish National Board of Health and Welfare's main focus regarding the Act should be. It also shows that the supervision exercised by county administrative boards is vulnerable and that there is variation as regards its focus and extent. Of the 2,800 municipal operations providing housing with special services for adults, only seven per cent have been subject to operational supervision by county administrative boards in 2004–2005. In half of the cases where supervision had resulted in formal complaints, follow-up of such complaints by county administrative boards has shown that municipalities had failed to remedy the shortcomings in question.

The Government's preparation and Statement of tax expenditure (RiR 2007:3)

The State may choose to provide support to companies and households in the form of tax exemptions and special tax rules. Such tax benefits are called 'tax expenditure'. The SNAO has examined the Government's preparation and statement of tax expenditure in 1996–2006. The cost of tax expenditure is made up of waived fiscal revenue, which makes it less visible in the State Budget than the cost of other support measures and grants. Nevertheless, tax expenditure has the same kind of impact on the balance of the State Budget as grants. Since the amount of tax expenditure is considerable and since certain types of tax expenditure have increased rapidly in recent years, there is a risk of negative effects on budgetary discipline. That is why it is important to make tax expenditure visible so that it can be examined in the State budgetary process in the same way as grants. The SNAO's audit shows that the Government's statement of tax expenditure is difficult both to survey and understand. Moreover, this statement does not function as a basis upon which budgetary work can be conducted.

Preparedness for nuclear accidents (RiR 2007:4)

The SNAO has examined whether the government agencies responsible are well prepared to manage the consequences of accidents at Swedish nuclear power plants. A good level of preparedness is important to limit the impact of a nuclear accident on people, the environment and property. Shortcomings in preparedness may lead to the consequences of an accident becoming more extensive than necessary; for instance, radioactive materials might spread to food. According to the SNAO's assessment, the ability of government agencies to manage urgent actions to be taken during a nuclear accident is largely good but has certain shortcomings. Exercises have shown there to be recurrent shortcomings, including the agencies' provision of information to the general public. The SNAO's assessment of the agencies' ability to manage the long-term consequences of an accident is that it is very inadequate. One county entirely lacks a decontamination plan, and the other two counties audited have only draft plans. Very few exercises and courses focusing

on decontamination have been conducted. The requirements placed on agencies by the Government are in part unclear. The Government has also failed to monitor and assess the preparedness of agencies.

The Government's tax forecasts (RiR 2007:5)

Sweden's fiscal policy is governed by overall quantitative restrictions and targets such as the expenditure ceiling of the State and the surplus target of the public sector. This means that there is a strong need for reliable documentation to underpin budgetary decisions in the form of forecasts relating to both the development of Sweden's economy and the revenue and expenditure of the public sector. The SNAO has examined the quality of the tax forecasts presented in the Government's 2000–2006 budgetary documents. If tax revenue is overestimated at the budgeting stage, this may lead to decisions on reforms which will later require cuts to be made so as to ensure that the surplus target is met. An underestimate of revenue may lead to unnecessary savings being made. Open and clear presentation of the uncertainty inherent in tax forecasts and forecasting methods will strengthen confidence in fiscal policy. The SNAO's audit shows that the accuracy of the Government's tax forecasts in 2000–2006 have been less than adequate, but that the overall accuracy of its forecasts has not been any worse than that of forecasts published by the Swedish National Institute of Economic Research and the Swedish National Financial Management Authority. The audit also shows that the presentation of forecasts can be improved, especially as regards the provision of explanations for revisions to forecasts and deviations relative to actual outcome. What is more, no comprehensive description of the forecasting methods used has been published.

The driving tests of the Swedish National Road Administration – equal for all? (RiR 2007:6)

Each year, over 100,000 people take the practical driving test organised by the Swedish National Road Administration which constitutes the final test required to obtain a driving licence. Test takers should be able to expect uniform assessment regardless of where they live and which of the Administration's traffic inspectors is responsible

for the test. The degree of difficulty of the test should also be as uniform as possible. Inadequate uniformity in the assessment of driving tests may lead to serious consequences. Road safety may suffer if some drivers lack the necessary theoretical and practical skills. People may be forced to retake the test even though they ought to have passed it. What is more, test takers have no way of appealing against a decision by an inspector. The SNAO's audit shows that there is inadequate uniformity in the driving tests organised by the Administration. The share of test takers who pass their test varies between different parts of Sweden, as well as between different local driving-test offices. There are also differences between inspectors at individual offices.

Life's biggest deals – Supervision of estate agents and dispute-settlement opportunities available to consumers (RiR 2007:7)

In 2005, approximately 100,000 dwellings were intermediated by estate agents. This corresponds to 80 per cent of all home sales. Buying or selling one's home is often the largest business transaction ever performed by a private individual. However, many consumers experience problems when they engage the services of an estate agent. The SNAO has examined whether the supervision exercised by the Swedish Board of Supervision of Estate Agents and the dispute settlement organised by the Swedish National Board for Consumer Complaints work in line with the aim of the Estate Agents Act. The purpose of the act is to provide individuals with satisfactory protection to ensure that they feel secure when they engage the services of an estate agent. The SNAO is of the opinion that this aim has not been fully realised. Among other things, the SNAO's audit shows that no requirement is placed on estate agents to record certain important elements of their intermediation task where problems often arise between the estate agent and the buyer or seller. This relates for instance to the extent of the buyer's duty of inspection and to the provision of information to the seller about all bidders and bids. Another example concerns the issue of which elements of the property description the estate agent must verify. The lack of written records makes supervision by the Swedish Board of Supervision

of Estate Agents and dispute settlement by the Swedish National Board for Consumer Complaints more difficult. In addition, the Swedish Board of Supervision of Estate Agents has been too passive and not sufficiently effective in its supervisory role.

The Government's preparation of its proposal in relation to the sale of six state-owned enterprises (RiR 2007:8)

The Government plans to sell state-owned enterprises worth a total of SEK 200 billion during its current term of office. In its budget bill for 2007, the Government announced its intention to carry out a review of all state-owned enterprises in which the arguments for and against participation by the State in the ownership of these enterprises would be weighed against each other. The SNAO has examined whether the Government has carried out such a review of the six enterprises it intends to sell. In addition, the SNAO has examined whether the Government has prepared Government Bill 2006/07:57 in a satisfactory manner as regards the review of enterprises and whether its preparatory work has been documented. The SNAO's assessment is that the preparation of the matter does not meet the requirements as to preparation laid down in the Instrument of Government (part of Sweden's Constitution). The Government has failed to carry out a review as advised in the budget bill of the six enterprises concerned. The SNAO's assessment is that the documentation produced by the Government to underpin its proposal for the *Riksdag's* decision is not sufficiently comprehensive for the *Riksdag* to be able to assess whether it would be appropriate to sell the enterprises. The documentation kept at the Ministry of Enterprise, Energy and Communications fails to meet the requirements as to documentation stated by the Committee on the Constitution of the *Riksdag*.

Safety of hydroelectric-power dams (RiR 2007:9)

The SNAO has examined how the State meets its responsibility for the safety of hydroelectric-power dams. So far, only a few minor dam failures have occurred in Sweden. However, a dam failure at one of the largest dams in the country would put people's lives and health in jeopardy and entail a risk of damage to property and the environ-

ment. In addition, a dam failure could disrupt the supply of electricity and thus many important functions of society. The State has taken measures which have enhanced and clarified responsibility for dam safety. The ultimate aim of these measures has been to improve the safety of hydroelectric-power dams. However, the SNAO's audit shows that, despite these measures, there are problems and deficiencies in the work on dam safety which it is possible for the Government, Svenska Kraftnät (the Swedish National Electricity Grid) and the county administrative boards to remedy.

Government control of information security work within the public administration (RiR 2007:10)

The SNAO has audited the direction exercised by the Government regarding information security work within the public administration. This audit was occasioned by the problems identified in the SNAO's previous audits of the work carried out by eleven government agencies to protect their information assets and IT systems. These audits showed that top management of agencies do not work in a sufficiently systematic way on information security and that this has led to serious incidents. The present audit shows that the Government has failed to follow up whether top management of agencies control information security at agencies well enough. The Government has failed to impose explicit requirements on agencies, and to provide them with adequate support in their work on information security. The Government's objective is for citizens to be able to carry out an increasing share of their interactions with government agencies over the Internet. This means that Internet-based services offered by society must work well both on an everyday basis and in critical situations. This places great demands on the information security of the agencies.

Measures taken by the State to promote entrepreneurship. Do they reach women and people with a foreign background? (RiR 2007:11)

The SNAO has audited whether the prioritisation by the *Riksdag* of women and people with a foreign background has had an impact on the measures taken by the State to promote entrepreneurship. The *Riksdag* sees these target

groups as constituting an untapped potential for the creation of more companies and the promotion of company growth. The audit shows that this prioritisation has had little impact. In the opinion of the SNAO, there is room for the Swedish Agency for Economic and Regional Growth, the state-owned enterprise ALMI Företagspartner AB and the Swedish National Labour Market Administration to include women and people with a foreign background in their programmes to a larger extent. For this reason, the SNAO is of the opinion that the State has not fully exploited the growth potential inherent in entrepreneurial activity in these groups. One important reason why the *Riksdag's* prioritisation has had little impact is that both the previous Government and the present one have failed to clarify how it should be interpreted and implemented. In the opinion of the SNAO, this has led to this prioritisation being neglected.

How is Swedish labour market policy prepared? An audit of the documentation underpinning the Government's decisions (RiR 2007:12)

The SNAO has audited the documentation underpinning the Government's decisions relating to rule changes and new programmes and measures in labour market policy. In addition, the SNAO has examined the extent to which new activities are evaluated and to what extent the evaluations made are used to inform about decisions to modify labour market policy activities. The audit shows that there are extensive shortcomings in the documentation underpinning decisions. The Government does not adhere to the principles which have been laid down for the preparation of matters, and the documentation used does not provide any information as to expected effects. The Government has failed to integrate follow-up and evaluation findings in the implementation of labour market policy activities. Pilot projects could provide a significantly better basis on which to assess the effects of planned activities. However, the Government has failed to use pilot projects as a foundation upon which to base the introduction of more extensive labour market policy activities.

Audit of the Central Government**Annual Report for 2006 (RiR 2007:13)**

Each year the Government presents an annual report on the operations of the Swedish State. This report should give the *Riksdag* an opportunity to gain insight into the finances of the State, and it should contain a statement of financial performance (income statement), a statement of financial position (balance sheet) and a cash-flow statement as well as information about the final outcomes of the income headings and appropriations included in the State Budget. In addition, the report should provide an overall view of the expenditure, revenue, assets and liabilities of the State, and it should facilitate the control, verification and evaluation of public finances. As a consequence, it is important that the report also provides a true and fair view in those respects which are not compulsory under the State Budget Act (SFS 1996:1059).

To supplement the audit carried out by its financial-audit function, the SNAO has also carried out a performance audit of selected portions of the Central government annual report for 2006. The aim of the audit has not been to assess whether the report as a whole provides a true and fair view. However, the SNAO finds that there are shortcomings in the Central Government Annual Report for 2006. The explanations given for the data presented are sometimes unclear and difficult to understand. There are differences in amounts stated between sections. The explanations given for such differences are sometimes incomplete, or there is no explanation at all, which reduces the information value of the report. Finally, in some cases there is a lack of clearly explained reporting on deviations from central objectives and on major deviations in budget estimates.

Riksrevisionen (the Swedish National Audit Office, SNAO) is an independent body whose task is to audit the operations of the Swedish State. Its independence is laid down in the Swedish Constitution. The SNAO carries out audits and reports on any shortcomings we identify in the Government's administration, in government agencies and in state-owned enterprises. The SNAO exercises influence by providing those responsible with information about how decisions taken have actually been implemented and by providing material which may form the basis for further actions. The result of the SNAO's work should lead to the efficient and effective use of taxpayers' money and the correct reporting of the uses to which it is put.



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