



SWEDISH NATIONAL AUDIT OFFICE  
ANNUAL AUDIT PLAN

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2020/21



SWEDISH NATIONAL AUDIT OFFICE

TO THE RIKSDAG

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## Swedish National Audit Office Audit Plan 2020/21

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# Contents

1	Introduction	5
2	Premises for audit operations	7
2.1	Remit and mandate of performance audit	7
2.2	Remit and mandate of financial audit	8
3	Audits in the coming year	11
3.1	Performance audit	11
3.2	Financial audit	21
	Annex 1. Ongoing performance audits	27



# 1 Introduction

The Swedish National Audit Office (Swedish NAO) is part of parliamentary control and is tasked with auditing central government activities. The audits are to contribute to economic use of public resources and effective and efficient public administration. Audit is performed through *performance audit* and *financial audit*.

The Swedish National Audit Office's instructions stipulate that the Auditor General decides on the main audit focus and that this is to be presented in an audit plan.<sup>1</sup>

Every year in the Swedish NAO's Audit Plan the Auditor General presents the main focus of operations, for the purpose of providing an overall picture of ongoing and planned audits within performance audit and financial audit.

On the basis of an overall strategic and risk analysis, the Swedish NAO has identified four main risks in central government, which form the basis of the audit focus in both fields of operation. These concern deficiencies in:

- quality of documentation and information to enable stable public finances.
- governance, follow-up and reporting of central government commitments.
- organisation, responsibility and coordination.
- skills supply.

For each main risk, concrete risk areas have been identified. The risk areas are described below.

The risk model means ordered management and follow-up of the audit operations, in that the two audit types consider the same main risks. These also recur in the Annual Report of the Auditor General, in support of the follow-up of the Annual Audit Plan.

The model also promotes a more coherent focus of audit work and, in the long term, allows for a more comprehensive, long-term analysis of central government effectiveness and efficiency. It is of interest, not least in view of the fact that many decisions are taken in relatively short-term perspectives, without any particular link to the overall and long-term objectives of central government. Sweden's commitment and efforts towards the 2030 Agenda targets may, for example, be an aspect of audits within and between different areas.<sup>2</sup>

The Swedish NAO develops the current risk model further by deepening the analysis of risks in the central government commitment, for example by

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<sup>1</sup>Section 4 of the Act containing Instructions for the Swedish National Audit Office (2002:1023).

<sup>2</sup> <https://www.regeringen.se/regeringens-politik/globala-malen-och-agenda-2030/17-globala-mal-for-hallbar-utveckling/>

illustrating and making use of synergies and thematic and operational relationships in strategic intelligence and planning of future audits.

## 2 Premises for audit operations

### 2.1 Remit and mandate of performance audit

The task of the Swedish NAO is to audit central government activities.<sup>3</sup> As part of the remit to conduct performance audits, the Swedish NAO may, under certain conditions, also audit activities conducted in the form of a limited liability company or a foundation. The Swedish NAO may also audit the use of central government funds received “in support of certain activities, if the funds are subject to accountability in relation to central government or if special provisions or conditions have been issued concerning how the funds are to be used.”<sup>4</sup> The performance audit mandate also covers audit of the processing of unemployment benefit by the unemployment insurance funds.<sup>5</sup>

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

#### Implementation of the audit

Performance audit shall primarily focus on circumstances related to the national budget and the implementation and results of central government activities and commitments in other respects, but may also relate to the work of central government generally. Fundamental to performance audit focus is that it is to “promote development, whereby the State, having regard to the general public interest, receives an effective return on its investments.” Performance audit is therefore required to focus chiefly on economy, efficient use of resources and effectiveness.<sup>6</sup> Performance audit applies, where relevant, International Standards for Supreme Audit Institutions (ISSAI).

The audit mandate means that performance audit focuses on audits of important societal issues referring to relations between objectives, funds and effects of central government activities and initiatives. A typical performance audit focuses on assessing whether the Riksdag’s objectives and intentions are fulfilled to the highest possible degree in the context of available resources and economy, efficiency and effectiveness.

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

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<sup>3</sup> Chapter 13, Article 7 of the Instrument of Government.

<sup>4</sup> Section 2 of the Act on Audit of State Activities etc. (2002:1022).

<sup>5</sup> Ibid.

<sup>6</sup> Section 4 of the Act on Audit of State Activities etc. (2002:1022).



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

The selection of audits is governed by risks of inefficiency and ineffectiveness in areas of central government activities that are of great importance for the central government budget from a principled or quantitative perspective.<sup>7</sup> Thus the audit is problem-oriented. The selection of audits is based on committee-specific analysis based on problems in the area of that are of importance from an economic or principled perspective. The added value, feasibility and timing of the audit also guide the choice of what is to be audited.

### Reporting of the audit

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

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

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

The most important findings of performance audit are collected in the Annual Report of the Auditor General, which is submitted to the Riksdag. In addition the Swedish NAO reports measures that have been taken as a result of performance audit reports in an annual follow-up report.<sup>8</sup>

## 2.2 Remit and mandate of financial audit

The Swedish National Audit Office is to audit public sector annual reports through financial audit. The audit is intended to assess whether the accounts and the underlying documentation are reliable and the accounting records true and fair, and whether the administration by the management complies with relevant provisions and special decisions.<sup>9</sup>

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<sup>7</sup> Committee report 2009/10: KU17, p. 25.

<sup>8</sup> See for example the Swedish National Audit Office Follow-up Report for 2019.

<sup>9</sup> No assessment of the administration by the management is made when auditing the accounts of the State, the Government Offices or the Palace Administration and the Royal Djurgården Administration (Sections 3 and 5 of the Act on Audit of State Activities etc. (2002:1022)).

The audit covers about 225 annual reports per financial year, the majority of which apply to administrative agencies under the Government.

Financial audit is conducted in accordance with generally accepted auditing standards. Generally accepted auditing standards for public sector audit are determined by the Auditor General and primarily entail the application by the Swedish NAO of ISSAIs (International Standards for Supreme Audit Institutions), which apply to financial audit. Financial audit of performance reporting and other information in the annual reports complies with the Swedish NAO's internal policy documents.

### Implementation of the audit

The audit focuses on the risk of material misstatement in the annual reports. Every year financial audit carries out a risk analysis and a materiality assessment of every agency. The purpose is to assess audit needs during the year and the most effective audit methods. A higher risk of material misstatement leads to more extensive audit.

Since the audit is based on the risk of material misstatement, the audit normally focuses on major or complicated items in the annual reports, often where there are material payment flows.

Important parts of the risk assessment are analysis of the Government's governance of the agency, the agency's internal control environment and the processes that are material for the agency's financial reporting in its annual report. The level of the agency's internal control also affects the choice of audit method

In the course of the audit, the Swedish NAO examines the agency's internal control activities and financial flows through various audit procedures. The audit is ongoing throughout the year.

### Reporting of the audit

The audit concludes with the Swedish NAO issuing an auditor's report for each agency to the Government and in some cases to the Riksdag. If there are material misstatements in the annual report the Swedish NAO issues a modified auditor's report. A modified auditor's report is often supplemented by an audit report to the agency management, with a copy to the Government.

The Swedish NAO also issues audit reports when there are significant deficiencies in internal control, even if the deficiencies have not led to material misstatements in the annual report. In the audit reports the Swedish NAO gives recommendations to the agencies to take various measures to rectify the deficiencies. The Swedish NAO follows up the agencies' measures.

The most important financial audit findings are reported in the Annual Report of the Auditor General. In addition, the Swedish NAO reports measures taken by the agencies in response to the audit reports and modified auditor's reports in the Swedish NAO's annual follow-up report.

## 3 Audits in the coming year

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

Sweden is still in a pandemic crisis, which has affected the risk analysis on which the audit measures presented in this annual audit plan are based. As described in section 1, the audit focus is based on four main risks in central government. The assessment by the Swedish NAO is that the risks remain and that in some respects have increased in light of the central government measures taken in connection with the crisis.

These concern risks of deficiencies in:

- quality of documentation and information to enable stable public finances.
- governance, follow-up and reporting of central government commitments.
- organisation, responsibility and coordination.
- skills supply.

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

### 3.1 Performance audit

During the ongoing pandemic crisis, performance audit has given great consideration to the fact that several organisations perform critical and urgent national functions within crisis management. This consideration also affects the selection of audits going forward. Performance audit essentially works retrospectively, and in order to disturb ongoing crisis management as little as possible, some audits will be undertaken only after society has returned to a more normal and transparent situation.

As part of parliamentary control, the Swedish NAO's audits must provide a basis for accountability and guidance on how central government efforts can be improved to provide greater benefit in relation to input of resources. Consequently, the choice of audits is based on an assessment of risks of ineffectiveness in the implementation and results of central government initiatives. The Swedish NAO's choice of audits is also based on the international standards developed and applied by the member countries of INTOSAI, including criteria for the choice of areas to audit.<sup>10</sup>

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<sup>10</sup> INTOSAI, the International Organisation of Supreme Audit Institutions, is the global umbrella organisation for supreme audit institutions, of which Sweden is a member.

One main task of the Swedish NAO is to provide added value for the Riksdag. This means that the Swedish NAO, on the basis of its mandate, is to take a broader audit perspective than other actors are able to. Broad-based audits of material societal issues therefore have priority.

Performance audits may include one or more activities, and an issue may be examined throughout the chain of command of divisions of responsibility within central government – from the Government to the actor or actors that ultimately perform various activities – and the ultimate impact on the business sector and citizens.

Audit of several agencies, which through various initiatives are to contribute to achievement of objectives within a larger area, such as integration, is another example of broad-based audit. In some cases this may refer to activities that are not always particularly extensive in individual agencies, but where the overall performance is highly significant, such as procurement. When conflicting objectives within and between different policy areas are part of the audit, decision-makers may also obtain support for well-informed trade-offs between different objectives.

Another indication of auditable areas is where the problem concerns a number of risk areas, which is common, since risk areas are linked and partly overlap.

For each main risk more specific, audit-related risk areas have been identified. Risks of ineffectiveness that affects the implementation and outcome of the central government commitment govern proposals and priorities for new areas to audit. These areas are described below, with examples of both already ongoing and planned audits and of more preliminary subjects for future audits.

In addition to the specific risk areas and audits presented below, there are other ongoing and upcoming audits. The Swedish NAO also always has the preparedness and flexibility to reorder its priorities and audit issues that are currently most material, regardless of whether they have been mentioned in the annual audit plan. The questions that will actually be audited will be determined on a current basis by the Auditor General. All the Swedish NAO's ongoing audits are presented in Annex 2.

## Public finances

Public finances are facing considerable challenges, not least in the existing crisis, with various major public health and financial needs. It is of the greatest importance that central government resources are used effectively and that fiscal policy at the same time supports long-term sustainable financial development. In particular in the context of the audit criteria on risk of material misstatement, the management of public finances is an area that the Swedish NAO continuously

follows and audits. The Swedish NAO therefore intends to continue to audit important aspects of the fiscal policy framework and the budget process.

A description is given below of two risk areas which will continue to be given particular attention in the audit operations in the coming year.

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

The fiscal policy framework is a tool to help ensure long-term sustainable and transparent fiscal policy. Transparency, effectiveness and adaptability in relation to long-term challenges are important questions to audit regularly, particularly in light of the dilemma that many actors have incentives to adopt a more short-term perspective, not least in the current pandemic crisis. This is not always conducive to effectiveness in relation to more long-term objectives and challenges, for example as formulated in Agenda 2030.

The fiscal policy framework consists of a set of objectives and principles for fiscal policy, as well as forms of monitoring, evaluation and transparency. The framework consists of the following components:

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

The Swedish NAO has regularly audited the application of the fiscal policy framework in the fiscal policy bills submitted by the Government to the Riksdag. Such audit is ongoing and also planned for the future.

When the expenditure ceiling was introduced as a budgetary policy target at the end of the 1990s, it was used as a direct policy instrument to create order in public finances and since 2000 it has been used to support the achievement of the surplus target. For several years public finances have been good, and it has not been considered necessary to use the ceiling operatively as a direct policy instrument for expenditure development. The economic crisis and the large budget deficits that appear to be following in the wake of the pandemic could increase the need in future to again use the expenditure ceiling in practice in fiscal policy. The conditions for this, and the application of the expenditure ceiling in the past 15 years, are currently being examined by the Swedish NAO.

*Risk of insufficient quality of forecasts and impact assessments*

Forecasts and impact assessments from the Government and its agencies provide important input for political decisions. If the quality and transparency of the supporting material is deficient, there is a risk that the Riksdag and the Government will make fiscal policy decisions based on material that is misleading.

Conversely, robust and clearly reported impact assessments facilitate the choice of effective policy options. They also contribute to the control and transparency of costs, impacts and side effects. Such analyses also provide referral bodies with better prospects of making qualified comments and allow those affected by the proposals to prepare themselves.

Avoiding unforeseen cost increases as far as possible is important for transparency and stability in public finances. It is also an important question of democracy since alternative decisions might have won a majority if the final costs of an initiative had been known from the start.

The Swedish NAO is planning to audit whether the decisions on fiscal policy measures during the corona pandemic were taken on the basis of reasonable decision-support, given the prevailing circumstances. The fiscal policy measures implemented to counteract the crisis and the later measures to ensure good order in public finances will be important audit areas in the future.

Each year employers and self-employed persons pay very large amounts in social security contributions, corresponding to SEK 600 billion. Risks in forecasting and reporting of social security contributions may thus be subject to future audits. Insurability of social security contributions may also be subject to audit. This applies not least to the pension system, which is very extensive.

Deficit and indebtedness in the local government sector may lead to difficulties in financing municipal activities. Ultimately this also risks leading to increased financial risk for the State, as the need for government grants increases when the State has overall responsibility for welfare policy. . The Swedish NAO recently initiated an audit of the central government and local government sector's finances where, among other things, central government claims on municipal finances are audited.

The Swedish NAO noted in the 2020 annual report that the final cost of various projects is often considerably higher than estimated, for example in the audit of the Swedish Transport Administration's procurement of road maintenance. A corresponding audit is now being conducted of the procurement of railway maintenance and an audit of cost control in infrastructure projects has recently been started.

The Riksdag has on several occasions expressed its views on the need for impact assessments, for example when the Government submits proposals for new legislation. The ability of central government to analyse consequences is of great importance for the ability to adapt such things as legislation and administration to new challenges. An audit of stable tax bases and the climate, as well as an audit of the Swedish Tax Agency's work on taxing the sharing economy is ongoing.

## Governance, follow-up and reporting

The Swedish NAO's performance audits are mainly focused on examining the implementation and outcome of initiatives determined by the Riksdag and Government. This normally also includes auditing the Government's governance of its administration. The Government's performance management and follow-up of agencies builds on delegated responsibility and trust, with regular feedback in the form of reporting. The Swedish NAO's repeated findings that are highlighted in the 2020 Annual Report, for example, show that governance needs to be improved. This applies to follow-up and evaluation of the effectiveness of initiatives, for example. The knowledge needs to be used subsequently to develop the activities and adapt them to the new conditions.

Several questions in this risk area may be relevant to audit in the future. For future audits, the Swedish NAO will be following, among other things, agency governance during the pandemic in 2020. Other areas where audits are planned include the Public Employment Service's report on the employment of vulnerable groups, central government initiatives to achieve equal and accessible health and medical care and the relationship between central and local government

Increased resources for an operation is another example of a policy instrument that the Swedish NAO audits. In this context, an audit of the work to strengthen army forces' capability is now being carried out.

A description is given below of three more areas of risk in governance, follow-up and reporting.

### *Risk of unclear objectives and low effectiveness*

The public commitment is often complex, with several actors with different objectives and roles. In some cases the objectives may be unclear or conflict with each other. Unclear objectives may lead to inefficiencies and low effectiveness if it is not clear to the individual agencies what they should achieve. If agencies make different interpretations of the objectives, it risks leading to a low level of effectiveness and mismanagement at a more overall level. The Swedish NAO noted this in its audit of inter-agency work against organised crime.

Conflicting objectives between different activities or parts of activities are common. Clear objectives and governance when striking a balance between different objectives and different time horizons for these objectives is important in order to achieve effective and well-balanced central government initiatives. The Swedish NAO audits the AP funds' (national pension funds) sustainability work and the Government's governance towards sustainable business in state-owned enterprises. The management of potential conflicting objectives that may be audited in the future can be found in a number of areas, such as the central government's efforts against eutrophication and protection against compulsive gambling and overindebtedness.



Indications that unclear, far too many or incompatible objectives could be contributing to ineffective measures may also lead to audit measures. Issues that the Swedish NAO monitors, for this or other reasons, are governance of the local government sector, strategy management of international aid and central government efforts to support rural municipalities.

The Swedish NAO often audits achievement of objectives and whether central government initiatives lead to effective measures. One ongoing audit with this focus relates to the effectiveness of the police in vulnerable areas. Another audit concerns whether central government co-financing for increased public transport has been effective. Central government administration is also the focus of another audit based on the objective of the Government and the Riksdag to increase central government core activities as a proportion of central government administration.

Central government continually takes steps to safeguard our society and provide security. The Swedish NAO audits the initiatives to strengthen national emergency preparedness and civil defence. Areas which are also of interest to audit are those relating to ensuring the availability of essential public resources, such as capacity problems in electricity supply.

#### *Risk of ineffective oversight and control*

Public oversight and control is to help to sustain fundamental values in society such as legal security, effectiveness and equivalence. Citizens should be assured that their interests are being safeguarded. Oversight and control issues also relate to the quality of public sector activities and in some areas may be crucial to life, health and the environment. It is therefore important to continue to audit whether oversight in key areas of society is effective and adapted also to the challenges faced by society and citizens. Previous audits have shown that central government oversight and control do not always function satisfactorily, while new problem areas are constantly coming into focus.

Oversight and control are exercised in a large number of areas of central government, which may give rise to broad audit measures. The various central government mechanisms of oversight and control should be effective so that errors are detected and pursued. This applies to errors that, for example, may lead to major costs to society or mismanagement. Deficiencies in oversight can also mean that important objectives are not achieved or that confidence is damaged.

Areas that may be relevant to audit are increased costs in the judicial system, for example for the control of compensation to legal counsel. Shootings and the availability of weapons, combined with the difficulty of maintaining security and control at borders, are other current issues that may be subject to continued audit. The Swedish Medical Products Agency's supervision of pharmaceuticals and

medical devices are also important areas for audit. The issue of medical protective equipment has also been raised in connection with the corona pandemic.

The Swedish NAO monitors activities that involve large amounts of money. The protection against fraud, for example within the central government wage guarantee, may be considered for audit. The country's foundations have a total of over SEK 165 billion at their disposal and the Swedish NAO is following the problems of repeated errors that the county administrative boards' oversight has drawn attention to.

During the pandemic, the importance of culture and sport to citizens has become more apparent than usual. The financial support provided by central government is important for culture and sport. Large parts of this support are not distributed directly, but through the agency of both agencies and other actors. It is important that the Government also monitors and follows up their activities, an issue that may be relevant to audit in the future.

#### *Risk of events that undermine public confidence*

In an international perspective, the Swedish administration has a high level of confidence among citizens. The absence of corruption is crucial for confidence and anti-corruption measures are central. Corruption must be considered broadly and, in addition to purely criminal behaviour, also refers to conflict of interest, improper benefit and violation of good business practice etc.

Risks of damage to confidence may arise unintentionally and in a number of areas. For example, the Swedish NAO audits Finansinspektionen's handling of conflicts of interest, the Broadcasting Commission's scrutiny of public service and automated decision-making in public administration.

Public procurement is often highlighted as a risk area to avoid corruption and ensure that the State can conclude good business transactions (see also the section on public finances above, the section on the Transport Administration's procurement). For future audit measures, the Swedish NAO also follows the Swedish Migration Agency's procurement and the role of central government in procurements in connection with the corona pandemic.

#### Organisation, responsibility and coordination

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

The tasks and obligations imposed by central government on municipalities and regions constitutes an important aspect of public organisation and division of responsibility. Central government governance needs to achieve a certain degree

of equivalence of public services regardless of where citizens live. At the same time, municipalities and regions need to be in a position to take responsibility for the compulsory tasks assigned to them by central government. In three audits the Swedish NAO has<sup>11</sup> addressed central government governance of health and medical care through targeted government grants. Now central government governance of elderly care through targeted government grants is being audited. Further on, an audit of central government's efforts to achieve equal and accessible health and medical care may be relevant.

The Swedish NAO also monitors the effectiveness of various organisational changes. This applies, for example, to changes in central government influence over organisations when markets are re-regulated. An audit is in progress of the re-regulation of the vehicle inspection market (road worthiness testing), and the Swedish NAO is also monitoring the development of the Swedish Public Employment Service and the National Government Service Centre ahead for future audits.

A broad and cross-cutting audit in progress highlights risks when coordination between agencies is deficient when there is shared responsibility. Three more specific risk areas in terms of organisation and responsibility are described below.

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

The Swedish administrative model is characterised by a large number of independent agencies with mandates in different areas. At the same time, there are many issues that concern several actors, creating a need for coordination and interaction. Insufficient conditions and weak governance of interaction can lead to unclear divisions of responsibility and inefficiencies. Within the area of coordination and outsourcing, action in several parliamentary committee areas may be subject to audit. This may concern issues where several agencies and other actors are to coordinate their efforts to achieve the objectives, or outsourcing as a form of organisation, or both.

The Swedish NAO highlighted shortcomings in coordination as one of the most important findings in the previous year's audits. This included central government work to get people who are not allowed to stay in Sweden to leave the country (return activities) where good coordination is crucial for efficiency and effectiveness. In the fight against organised crime, it has proved effective to hit the gangs' financial assets. The work of the Swedish Economic Crime Authority to combat serious and organised crime is therefore an important subject to audit.

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<sup>11</sup> The State and the Swedish Association of Local Authorities and Regions – final report on central government governance of health services (RiR 2017:3), State governance through targeted government grants in health and medical care (RiR 2016:29), Agreements between the Government and SALAR within health and medical care – voluntary participation but difficult to decline (RiR 2014:20).

A further perspective on interaction is when the positive effects of a measure in one system are cancelled out by adverse effects in another. This risk is significant in the context of large social security systems in the form of unemployment insurance and social insurance. There is risk that the intentions behind the design of sickness insurance and the pension system, for example, may be influenced by measures and actions within the surrounding transfer systems. The Swedish NAO is also following how the corona pandemic affects both financing of social insurance and the activities of the Swedish Social Insurance Agency.

Issues requiring action by several actors often lead to a great need for interaction and coordination. The Swedish NAO audits Swedish development aid through multilateral organisations, central government suicide prevention work and the investigation procedures of the Swedish Migration Agency and missions abroad in cases based on personal ties.

An audit of central government initiatives to deter labour exploitation announced in last year's annual audit plan is now ongoing. The area poses practical challenges with the need for coordination and information transfer between agencies. This is a problem that was highlighted in the Swedish NAO's annual report as one of the most important findings in the previous year's audits.

Interactions in central government are usually between agencies, but municipalities, stakeholder organisations, international organisation and companies can also be actors. Such interaction may have advantages, but also poses certain challenges in terms of transparency, division of responsibility and various actors' incentives. In some areas, there is a shared responsibility between industry and central government where liability issues may be unclear.

One specific situation leading to challenges is when central government outsources activities to another provider. This is usually done for the sake of efficiency, but it is important for the agency to ensure that the provider complies with the regulatory requirements applicable to central government activities. Outsourcing can lead to difficult trade-offs when dealing with security-sensitive activities. It is therefore important that such activities be appropriately protected.

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

The ongoing process of digitalisation aims at creating benefits through new or changed ways of organising and working using digital technologies. There are significant efficiency gains for the administration if it can take advantage of the opportunities offered by digitalisation. This includes adapting working methods to the potential of digital solutions.

Citizens now expect to be able to conduct business and interact with authorities digitally. In addition, a major element of manual steps in a process indicates working methods that do not fully use the potential of digitalisation. The Swedish

NAO audits automated decision-making in public administration and the work of agencies to ensure efficient and equivalent services when these are digitalised. Questions concerning information society policy and other digitalisation matters are planned, such as protection of sensitive information. One question raised in connection with the corona pandemic is the aim of increasing the proportion of travel-free meetings in central government.

*Risk of deficient reception and integration*

High levels of migration to Sweden are a challenge to public administration and public finances. It is of utmost importance for the legitimacy of migration policy and for the asylum seekers that the administration is capable of managing reception in a way that meets the requirements of public service.

The integration of newcomers to Sweden is important. Conversely, segregation can lead to exclusion, social problems and lack of legitimacy for migration policy, which may ultimately increase costs to society. The activities of the authorities immediately responsible are important for the outcome of migration policy and as such are of interest to audit.

Central government efforts to deter labour exploitation and whether the Act on the reception of certain newly arrived immigrants for settlement has lived up to intentions. Questions monitored by the Swedish NAO for future audit measures are challenges as a result of changes in the Swedish Migration Agency's appropriations, the long-term establishment of persons not in need of protection and the due process of law in the handling of cases for long-term residents.

Central government responsibility for and internal need for skills supply

Central government has a responsibility to meet the needs of the labour market for skilled labour. Increased and changing skills requirements in working life require effective matching processes and the ability to adapt the education system. There is a risk that both the private and the public sector will face difficulties in meeting their mandates if the supply of skills is not functioning. In a wider perspective this poses major challenges at the societal level, as well as individually for those who are not in work. The long-term risk is reduced growth and impaired stability in public finances.

A more specific risk area is described below.

*Risk of shortages in skills supply*

Already today, many organisations have acute staff shortages. Securing and utilising skills is central to the positive development of the business sector and the public sector. It is crucial for maintaining the quality of welfare and public

services. Insufficient skills and staff shortages can lead to direct problems of efficiency and effectiveness for the activities concerned.

The pandemic crisis may change the conditions in the labour market in both the short and long term. There are risks of deficient skills supply in health and social care, schools, defence and police forces, among others. Central government initiatives to train key groups and otherwise counteract labour shortages are of interest for audit. The Swedish NAO is now auditing the expansion of higher education programmes in shortage occupations and the effectiveness and governance of higher vocational education. The drop-out rate from higher education may also be relevant to audit in future, as well as the Swedish Public Employment Service measures for weak groups.

## 3.2 Financial audit

Financial audit examines government agencies' annual reports. The audit is based on the risk of material misstatement in the respective annual reports. This means that the Swedish NAO focuses the audit on items or information in the annual report where there is a high risk of misstatement, but also that the Swedish NAO audits areas with low risk if they involve material amounts. If there are no changes in the agencies' activities between the years, the audit focus is often the same over time. In cases where the agencies are given new assignments or if there are external changes that affect the agencies, new risks may arise and previous risks disappear. This year's pandemic is such an example.

The Swedish NAO has identified four main areas of risk in central government. Annual audit includes a risk analysis for each agency for the audit of the 2020 annual reports. The audit plan summarises the most important audit-related risks that financial audit sees, sorted under the four main risk areas.

### Public finances

#### *Risks linked to collection*

For about ten agencies, the Swedish NAO has identified a high risk of misstatement linked to the collection of taxes and public law fees. These include the Swedish Tax Agency, the Swedish Enforcement Authority and the Swedish Transport Agency. Tax collection often involves large case volumes and extensive financial flows in complex IT systems. This entails risks and financial audit focuses on ensuring that the collection revenues are complete and correct in the annual reports.

The tax revenue for the budget year, in the central government annual report, is calculated using a special method, called accrual accounting.. As the method is based on estimates and manual work, the Swedish NAO sees a risk of incorrect accounting.

### *Risks linked to the Riksbank's asset management*

The Riksbank manages a large amount of assets. Consequently, financial audit focuses in particular on how the Riksbank ensures that accounting, valuation and financing of the assets is fair. In spring 2020 the Riksbank also took a number of measures as a result of the corona pandemic. This means that they manage new financial instruments, which in turn means that new items will be recognised in the balance sheet. This will be included in the Swedish NAO's audit.

## Governance, follow-up and reporting

### *Risks linked to transfers*

For some twenty agencies, the Swedish NAO considers that there is a high risk of misstatement in the annual report linked to transfers. These include larger agencies such as the Swedish Social Insurance Agency, as well as county administrative boards that pay out several different types of grants. The reason that there are often risks associated with transfers is that:

- there are extensive or complex regulations that govern grants.
- there are major IT dependencies in the handling and payment processes.
- there are extensive amounts paid out, which can increase the risk of fraud.

The financial audit examines both the agency's compliance with current rules governing the use of appropriations, and whether the funds are presented fairly. This often means that we audit the agencies' procedures for both deciding on and following up the grants.

Several agencies will pay out new types of grants as a result of the corona pandemic. In some cases, this entails increased risks of misstatement, since the agencies cannot handle the grants within their regular systems and processes. For example, this applies to grants in the cultural field and short-term lay-off support that the Swedish Agency for Economic and Regional Growth pays out. In these situations, agencies must implement new processes at short notice and in some cases cannot carry out the same type of controls as they usually do. For example, the Swedish Agency for Economic and Regional Growth has had to reorganise and employ temporary staff to fulfil its remit. The Swedish Tax Agency has also had to make adaptations. Among other things, they pay out new reorientation support to companies and have had to adapt IT systems and reduce priority for other activities. The new grants being distributed by agencies as a result of COVID-19 will be included in the Swedish NAO's audit if they constitute material amounts.

### *Risks linked to order authorisations*

Several agencies have authorisation to make commitments linked to their appropriations, which means that they have the right to enter into commitments that entail expenditure in future budget years. This primarily applies to

appropriations for transfers and infrastructure investments. For about ten agencies, the Swedish NAO considers that there is a high risk of misstatement linked to authorisations. This involves both the risk of agencies exceeding their authorisation frameworks and the risk of accounting errors, for example as a result of manual processing of the commitments.

Previous audits by the Swedish NAO have shown lack of clarity in the Government's governance of authorisations, which gives rise to lack of clarity at the agencies, which in turn may lead to misstatements. There have also been cases of agencies without authorisations entering into commitments and thus exceeding their powers.

The Swedish NAO's audit has shown that shared responsibility between agencies increases the risk of exceeding the authorisation frameworks. One example of shared responsibility can be found in Sida's annual report, where Sida is to report commitments undertaken by the Government and the Government Offices.

#### *Risks linked to fee-based activities*

Many agencies finance parts of their activities with fees. The economic objective for fee-based activities is full cost coverage, unless otherwise decided by the Riksdag or the Government. This means that agencies are to calculate fees so that, in the long term, the revenues cover all costs. For several agencies, the Swedish NAO considers that there is a risk that the agencies will not achieve full cost coverage for the activities in the long term, which means that large surpluses or deficits may arise in these activities. In some cases this is due to lack of clarity in the governance of the agencies.

There are also other risks within fee-based activities that may lead to material misstatements in the annual report. For example, how the agency allocates its costs or a complicated model for calculating the fees.

The Swedish NAO considers that there is a high risk of a financial deficit in the Swedish airports and air navigation services provider LFV, due to COVID-19. This is because they are largely financed by airline fees. LFV will find it difficult to meet the Government's profitability and debt to equity targets. The Swedish Maritime Administration and the Swedish Transport Agency are also financed by aviation revenues and are subject to the same problems, but to a lesser extent.

#### *Risks linked to multi-funded activities – appropriations, grants and fees*

It is common for agencies' activities to be financed via several sources of funding, i.e. appropriations, grants and fees. It is also common for appropriations to have financial conditions that may be both extensive and unclear. These include, for example, temporary appropriations that the agencies may use for special purposes or the possibility of financing administrative costs with targeted appropriations. An agency with multi-funded activities or funding with financial conditions needs



to have clear procedures to ensure that appropriations and other revenue are properly used and finance the right costs.

For some thirty agencies the Swedish NAO considers that there is a high risk of misstatements in the annual report that are linked to the agencies having mixed funding or extensive or unclear appropriation conditions. For these agencies, the Swedish NAO audits whether they use and report appropriations and other revenue correctly

#### *Risks linked to recognition of fixed assets*

Some agencies acquire and manage fixed assets for large amounts, for example the Swedish Transport Administration and the Swedish Armed Forces. These mainly refer to real property, infrastructure and contingency assets. For these agencies, the Swedish NAO considers that there are risks linked to valuation of the assets and recognition of ongoing investments. For some agencies there are also risks linked to procurement of the assets. In the real property area there may also be special risks linked to the sale of properties. Financial audit focuses on the risks that are relevant to the respective agency.

The Legal, Financial and Administrative Services Agency is responsible for reporting central government holdings in wholly and partly owned companies. As of 2020 the Legal, Financial and Administrative Services Agency will report these holdings using a new valuation principle. New accounting policies may mean an increased risk of misstatements and the Swedish NAO will audit whether the holdings are fairly presented in the annual report.

#### *Risks linked to recognition of liabilities and loans*

Some agencies report and manage large debts. These include for example central government debt reported by the Swedish National Debt Office and pension liabilities reported by the Swedish Pensions Agency, the National Government Employee Pensions Board and the public enterprises. For these agencies, the Swedish NAO often sees risks that are linked to valuation of the debts, and financial audit will therefore focus the audit on that. The aim is to ensure that the valuation is correct and the annual report true and fair. CSN (Swedish Board for Study Support) reports liabilities and receivables linked to student loans that constitute large amounts. Here too, the Swedish NAO assesses that there are risks related to valuation and focuses its audit on these.

Some agencies report liabilities for remediation of contaminated land. The reporting is often subject to multiple uncertainties and is largely based on estimates. This increases the risk of misstatements and the Swedish NAO audits the agencies' valuation of these commitments if they constitute material amounts.

*Risks linked to complex accounting rules*

Some agencies conduct operations that are subject to complex accounting rules. This applies for example to accounting for insurance at guarantee agencies and the National Government Employee Pensions Board Insurance accounting often involves large elements of estimates and advanced calculations that take place in complex IT systems. The risk of misstatements in the annual report is therefore often high for agencies with this type of activity. This accounting affects several different parts of the annual report and is included in the audit.

Another area with complex regulatory frameworks is the management of EU funds that takes place at the Swedish Board of Agriculture and the Council of the European Social Fund in Sweden (ESF Council). This accounting also affects several parts of the annual report and is therefore included in the Swedish NAO's audit of the agencies.

*Risks linked to certain accounting policies*

For some organisations that are included in the financial audit remit, and that are not subject to the Annual Reports and Budget Documentation Ordinance (2000:605), the Swedish NAO assesses that there are risks linked to accounting policies. For example, it may be that the normative framework is unclear or that the organisations do not fully apply the accounting rules. This may lead to the annual report not being complete and fair, which in the long run may provide poorer decision support for the recipient of the annual report. The Swedish NAO takes these risks into account when auditing these organisations.

Another type of risk concerns payments made by the Swedish Agency for Economic and Regional Growth to various actors that build up and administer funds. The funds are to provide venture capital to borrowers who are unable to obtain venture capital in other ways. The payments are in the nature of both grants and capital contributions, and therefore there is a risk that they are not reported transparently.

## Central government responsibility for and internal need for skills supply

*Risks linked to relocation and staff turnover*

In many agencies internal control is dependent on key individuals with various skills that may be difficult to retain or recruit. Retirements can also contribute to the disappearance of key skills. In the case of relocation, there is always a risk that staff with the necessary skills will not opt to relocate, which may entail a risk of prolonged losses of skills and a risk that the agency's internal control does not function as intended.

The financial audit data collection and risk analysis for individual agencies take this into account as part of assessing whether the agency has the skills and resources to prepare an annual report that presents a true and fair view. This year the Swedish NAO has assessed that there are elevated risks links to relocation and staff turnover in five agencies.

## Annex 1. Ongoing performance audits

Ongoing performance audits are presented below as at 1 October 2020. The expected year of publication is stated in brackets. Both title and year of publication are subject to change.

### Riksdag Committee on the Labour Market

Older unemployed – work incentives and the strategic work of the Swedish Public Employment Service for the target group (2020)

Central government initiatives to deter labour exploitation (2020)

Audit on whether the Act on the Reception of Certain Newly Arrived Immigrants for Settlement has lived up to intentions (2021)

### Riksdag Committee on Finance

The fiscal policy framework – application by the Government in 2020 (2020)

The expenditure ceiling – a means and an end (2020)

Automated decision-making in public administration (2020)

Shared responsibility between agencies – a problem of effectiveness and efficiency? (2020)

Stable tax bases and the climate (2020)

The AP Funds' sustainability work (2021)

More space for core operations through reduced administration (2021)

Agencies' efforts to ensure effective and equivalent service when digitalising services (2021)

Central government and local government economy (2021)

Finansinspektionen's management of conflicts of interest (2020)

### Riksdag Committee on Defence

Funding of national emergency preparedness, appropriation 2:4 (2021)

The work of strengthening army forces' capability (2021)

The Swedish Armed Forces' recruitment of soldiers and sailors (2021)

### Riksdag Committee on Justice

Police effectiveness in vulnerable areas (2020)

Effectiveness of the Policy Authority's provision of information to crime victims (2021)

Police work against sexual exploitation of children and young people (2021)

### Riksdag Committee on the Constitution

Audit of the Swedish Broadcasting Commission's review of public service (2020)

### Riksdag Committee on Environment and Agriculture

The Swedish Board of Agriculture's District Veterinary Officer Service (2021)

### Riksdag Committee on Industry and Trade

Central government agencies' outcome evaluations of economic policy initiatives (2020)

The Government's development of sustainable business practice in state-owned enterprises (2021)

The transport grant (2021)

The energy performance certificate system (2021)

### Riksdag Committee on Taxation

The Swedish Tax Agency's efforts to tax the sharing economy (2021)

### Riksdag Committee on Social Insurance

Investigative procedures of the Swedish Migration Agency and missions abroad in cases based on personal ties (2020)

Preventing sick leave through social insurance benefits (2021)

The Swedish Social Insurance Agency's control function in the sicklisting process (2021)

Transition at the Swedish Migration Agency (2021)

Activity compensation for prolonged schooling (2022)

### Riksdag Committee on Health and Welfare

Central government governance of elderly care through targeted government grants (2020)

The work of the Dental and Pharmaceutical Benefits Agency on pricing and subsidisation of pharmaceuticals (2021)

Open comparisons in social services (2021)

Central government suicide prevention work (2021)

### Riksdag Committee on Transport and Communications

Operation and maintenance of railways – extensive cost deviations (RiR 2020:17)

Central government co-financing for increased public transport (2021)

Cost control in infrastructure projects (2021)

Re-regulation of the vehicle inspection market (2021)

### Riksdag Committee on Education

Expansion of higher education programmes in shortage occupations (2021)

Effectiveness and governance of higher vocational education (2021)

Research and development at central government agencies (2021)

Do the Government and the National Agency for Education ensure reliable selection of pupils for the PISA survey? (2021)

### Riksdag Committee on Foreign Affairs

Sida's guarantee operations (2020)

Swedish aid through multilateral organisations (2021)

### Relevant to several committees

Tax expenditure targeted at older workers (2020)