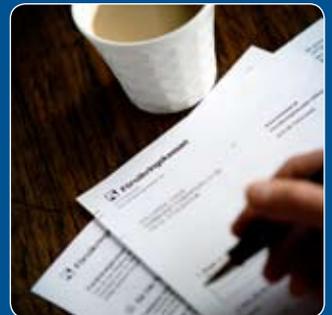




*Annual Report of the
Auditors General*

2009



RIKSREVISIONEN

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Annual Report for 2009 of the Auditors General

Under Section 12 of the Act on the Audit of Government Activities (SFS 2002:1022), the most important findings made by performance and financial audits are to be gathered in an annual report. Our Annual Report for 2009 is hereby submitted to the Government and concurrently to the Board of *Riksrevisionen* (the Swedish National Audit Office, SNAO).

Auditors General *Eva Lindström*, *Karin Lindell* and *Claes Norgren* have had the right of decision regarding this report. Audit Director *Anders Berg* has been responsible for the presentation of material. Chief Operating Officer *Anette Wik*, Assistant Chief Operating Officer *Inge Danielsson*, Audit Director *Astrid Hofslagare* and Process Owner *Anders Rånlund* have participated in the finalisation of the report.

Eva Lindström

Karin Lindell

Claes Norgren

Anders Berg



Annual Report for 2009 of the Auditors General

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Riksräkningen (the Swedish National Audit Office, SNAO) is an authority reporting to the Swedish Parliament (Riksdag) whose task is to scrutinise the operations of the central government. Our independent position and our ability to examine the entire chain of implementation allow us to provide a picture of how well central government operations function. We want our audit work to provide a basis for debates, decisions and accountability. Our work should also provide a basis upon which to improve operations and help ensure that taxpayers' money is efficiently used and correctly accounted for.

In their annual report, the Auditors General present the most important finding made during the past year. These conclusions are based on our audits of the annual financial reports of government agencies as well as on our performance audits of central government operations.



Preface

Our annual report is an opportunity for us to view audit work from a broader perspective and to draw overall conclusions from the various findings that have been made in both financial and performance audits. In this year's report we have chosen to focus on two themes.

The first of these concerns *how new requirements and special circumstances affect government agencies' ability to ensure that their annual financial reports provide a true and fair view of their financial position and their operations*. The findings we have chosen to illustrate this theme concern agencies' handling of new requirements laid down in ordinances and the impact of changes to the organisational circumstances in which agencies perform their operations.

The second theme concerns *how the Government and the agencies concerned deal with increasing internationalisation*. We shed light on this theme from three perspectives: the policy instruments of the EU and the Swedish administrative model; the impacts of increased international mobility in the population; and the framework of fiscal policy during the economic crisis.

We see once again that our aim to perform several interlinked audits gives us an opportunity to draw conclusions at a different level from what the individual audits allow us to do.



Eva Lindström
Auditor General



Karin Lindell
Auditor General



Claes Norgren
Auditor General

Introduction

The annual report shall provide the Government and the Swedish Parliament (Riksdag) with overall timely information about material findings from the past year's audits.

This Annual Report is based primarily upon two main sources of information:

- financial audit reports;
- performance audit reports.

The annexes of this annual report provide brief summaries of all financial audit and performance-audit reports completed during the year. The purpose of the description and analysis presented in the body of the report is to create an overall picture of material trends during the year, which is why we break down our various findings into themes. There are a number of important components in this analysis. Firstly, the conclusions drawn from the audit programmes completed during the year, where overall findings can now be presented relating to audits conducted over a period of several years. Secondly, this report synthesises findings made in our audits in relation to important trends, rule changes or individual events in the past year. And thirdly, findings from financial audits are synthesised in a way that makes it possible to gain an overview and to make comparisons with findings from performance audits. The latter aspect is an important element of our endeavour to ensure the greatest possible synergies from our involvement in both performance and financial auditing.

The findings presented in the report thus build on a selection of our audits. In previous years our main focus was to report on audit programmes that had been completed. This year, however, no programme has been completed. Instead we focus on presenting observations based on two themes.

Recommendations previously issued on the basis of findings made are normally not repeated. However, the synthesis and analysis performed in the annual report may give rise to a synthesis of findings, which may in turn occasion special recommendations of importance to the Government and the Riksdag.



The framework of fiscal policy during an economic crisis

A fiscal policy framework consists of a set of targets and rules for the preparation, adoption and implementation of budgetary policy. A well designed framework strengthens confidence in the stability and sustainability of public finances – provided that it is applied in practice in the policy pursued. This is particularly important at a time of international turbulence, given the close links that bind the economies of the world together. In the autumn of 2008 the financial crisis grew much more serious, and the fall of Lehman Brothers in September sent a shockwave through the global financial system. Many markets ceased functioning entirely, and the impact was soon felt in Sweden as well. The Government and the public agencies responsible, primarily the Swedish Central Bank (Riksbank) and the National Debt Office, had to take powerful action to maintain financial stability.

One priority task for us as Auditors General in recent years has been to examine the Government's application of the framework of fiscal policy. This we have done in a series of reports. We regularly monitor how the framework is applied and how compliance with the targets is presented in the Government's fiscal policy bills and in the Central Government Annual Report.

The deep economic crisis creates an even greater need for a well-functioning framework of budgetary and fiscal policy. In future, fiscal policy will be characterised by a balancing act between stimulus measures to mitigate the economic downturn and respect for the targets of budgetary policy. This is a classic case of a conflict between short-term and long-term objectives. One important purpose of the fiscal policy framework is that it should help the Government and the Riksdag to strike the right balance. Another is to make explicit what deviations from a long-term sustainable orientation of fiscal policy may be necessary in the next few years. The framework will thus now be seriously tested for the first time in a deep economic downturn. We consider that explicit targets for public finances and a clear presentation of deviations from those targets may help prevent short-term actions that risk leading to an unsustainable long-term development of the public sector deficit and the Government debt. Explicit targets and a clear presentation will strengthen confidence in fiscal policy. The targets and restrictions included in the framework may also help ensure that the consolidation of public finances after a deep downturn will take place in a disciplined way so that negative impacts on the tax levy and welfare spending can be limited.

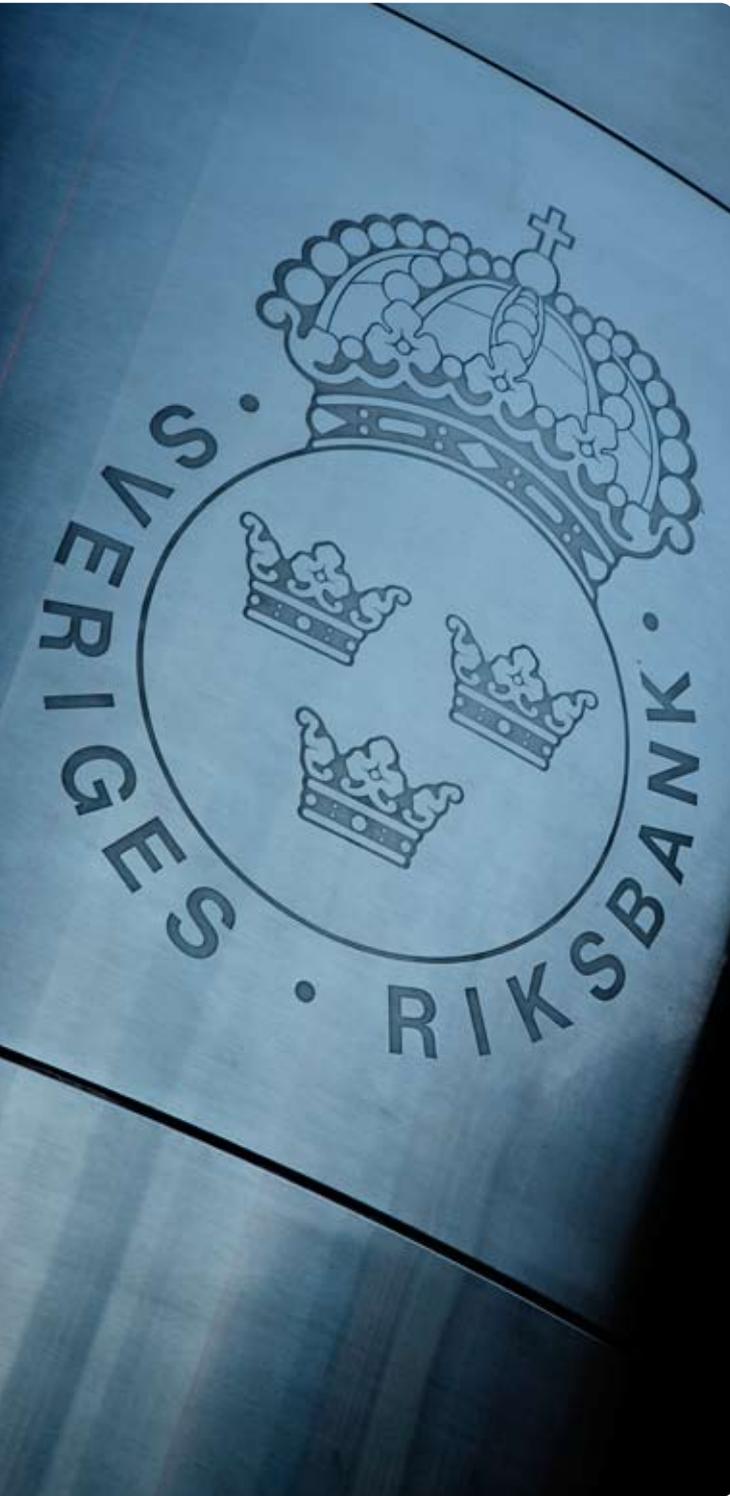
It is therefore important to improve the framework in a number of respects. The Government should ensure, among other things, that monitoring of compliance with the surplus target is improved, that the reasons given for the level of the expenditure ceiling are made clearer and that the presentation of budgetary effects is made more easily accessible. We also consider that the Government should take a number of actions to ensure a stricter application of the rules for supplementary budgets. We will continue to carefully monitor the functioning of the fiscal policy framework during the economic crisis and the action taken by the main central government actors.

THE CRISIS MAKES DEMANDS ON CENTRAL GOVERNMENT ACTORS

The financial crisis forced responsible actors to take measures to stabilise the situation. Both the Riksbank and the National Debt Office contributed to the maintenance of liquidity in the financial system by expanding their balance sheets. The Riksbank mitigated the situation by offering Swedish banks longer-term loans against mortgage-backed securities as collateral. It also gave banks the opportunity to borrow in US dollars. This led to a rapid expansion of the Riksbank's assets, from about SEK 200 billion at the beginning of the autumn to about SEK 700 billion at the end of the year. The National Debt Office also took extraordinary action to ensure that the money and credit markets would function. Among other things, it issued Swedish treasury bills in an amount exceeding the central government borrowing requirement.

Two cases of liquidity support from the Riksbank that attracted particular attention during the autumn are those





provided to Kaupthing Bank Sverige AB and to Carnegie Investment Bank AB. In the former case, the support was paid back to the Riksbank when Ålandsbanken acquired Kaupthing in early 2009. In the latter case, ownership of the company passed to the National Debt Office. The takeover was financed from the stability fund created by the Government in the last quarter of 2008. This fund is managed by the National Debt Office, and the Government transferred SEK 15 billion from the central government budget to the fund. The fund's assets are intended to reach 2.5% of GDP as it receives revenue from a stability fee that will be imposed on Swedish credit institutions starting in 2009.

Our audits of the annual financial reports of the National Debt Office and the Riksbank were of course also influenced by the dramatic events taking place in the autumn of 2008. The risk analyses that determined the focus of our audits during the audit year were regularly updated as the crisis unfolded. In our audit of the Riksbank, we point out that the description given in the annual report of its work to maintain a secure and efficient payment system uses certain key concepts without explicitly defining them. For example, concepts such as 'financial stability' and the 'resilience' and 'earning capacity' of a credit institution are not defined. We have therefore called on the Riksbank to clarify key concepts and assumptions to enable an overall assessment of financial stability. As regards the National Debt Office, we have reported on our findings relating to the support given to Carnegie Investment Bank AB. As can be seen from the annual report, Carnegie challenged the National Debt Office's right to assume ownership of companies whose shares were pledged as collateral for the support loan. The report also shows that the National Debt Office's valuation of the collateral and the timing of its sale were questioned by Carnegie. With the assistance of a legal consultant, we have carried out a review of the support loan and security agreements. A legal assessment, laid out in a classified report, has been made by this legal consultant. We have recommended that the National Debt Office should consider the detailed factual issues dealt with in the consultant's report.

THE FRAMEWORK FUNCTIONS WELL BUT HAS CERTAIN SHORTCOMINGS

A well-functioning fiscal policy framework is a prerequisite for managing financial crises without jeopardising the stability of the financial system. The main components of the Swedish fiscal policy framework are the following:

- A target, decided by the Riksdag, under which the public sector should have an average financial surplus of 1% of GDP over a business cycle (the 'surplus target');
- A ceiling for central government spending decided by the Riksdag three years in advance (the 'expenditure ceiling');
- A statutory requirement for municipal and regional (county council) administrations to display sound

financial management and draw up their budgets in such a way that revenues exceed expenditures (the 'balance requirement');

- A Budget Act specifying the Government's reporting duties in relation to the Riksdag;
- Decision-making rules for the Riksdag under which decisions about overall expenditure frames are made before decisions about individual appropriations.

Like most national and international commentators, we are of the opinion that the fiscal policy framework in all essential functions well and has contributed to the stable development of public finances in Sweden. Even so, a number of our performance audits have identified shortcomings in the framework and in the Government's application of it. Work is ongoing at the Ministry of Finance to review both the framework and the Budget Act. Certain steps of this review have been presented in budgetary documents and in a recent proposal for the modification of the Budget Act. We consider that this review is urgent and should be accelerated.

Follow-up regarding the surplus target is unclear

The surplus target is the key target for the orientation of fiscal policy. It entails that the average surplus in public finances – i.e. the central government, the pensions system and the local governments collectively – must be 1% of GDP over a business cycle. For this target to be able to govern budgetary policy, deviations from it must be clearly reported and the Government must indicate how policies should be modified to correct any deviations. Positive deviations from the surplus target indicate scope for reform while negative ones point to a need for the budget to be strengthened.

However, the Government has failed to specify the length of a business cycle, i.e. the period over which compliance is to be assessed. Instead the Government uses three indicators to describe deviations from the target. Since the various indicators may point to both positive and negative deviations at the same time, there is a risk that follow-up will become unclear. It will then be more difficult to determine how fiscal policy must be corrected in order for the surplus target to be achieved.

One of the target indicators is structural net lending, i.e. net lending after correcting for cyclical effects on public finances. Structural net lending is calculated on

Like most national and international commentators, we are of the opinion that the fiscal policy framework in all essential functions well and has contributed to the stable development of public finances in Sweden.

the basis of an estimate of the economy's underlying productive capacity, or 'potential GDP'. The difference between actual GDP and potential GDP provides a rough estimate of the economic situation, and is used by the Government to adjust public finances for the effects of the business cycle. Potential GDP is therefore an important variable for fiscal policy analysis. However, estimates of potential GDP are frequently revised, while almost no reasons for the revisions are given in the fiscal policy bills.

The reasons given for the level of the expenditure ceiling are unclear

The expenditure ceiling is central to the budgetary process and to the conduct of fiscal policy. According to the Government, the main purpose of the expenditure ceiling is to help ensure that the surplus target is achieved, so that there will be a proper basis for long-term sustainable public finances.

We have stressed, in several reports, the importance of providing clear and detailed reasons for the very precise proposals as to the level of the expenditure ceiling presented in the budget bills. Indeed, the Government has progressively clarified the principles underlying its proposals for the level of the expenditure ceiling. However, there is still no quantified description of the link between the expenditure ceiling and the Government's long-term strategy for the revenues and expenditures of the public sector.

The Budget Act does not require the Government to propose an expenditure ceiling to the Riksdag. However, the Government has now suggested that such a requirement should be introduced. We welcome that proposal. Such a change would help strengthen the framework of fiscal policy and ensure the long-term focus of the budgetary process.

A ceiling decided in advance by the Riksdag for the next two budget years constitutes a powerful restriction on the

expenditure side of the central government budget and highlights the need to prioritise when preparing the budget. It may be necessary for a variety of reasons to adjust the expenditure ceiling in order to ensure that it maintains the same level of strictness relative to public spending and the surplus target. This may for example happen when technical changes are made to the accounting methods used in the central government budget. We have pointed out that the principles governing such adjustments should be made explicit. Given the strong focus on the expenditure ceiling characteristic of the budgeting process and the associated documents, there is a risk that fiscal policy 'leakage' will occur unless the technical adjustments to the ceiling are made in a consistent way.

The presentation of budgetary effects is difficult to understand

The Government's budget bills contain a large number of tables and an extensive quantitative material, describing among other things the impact that the Government's proposals will have on the finances of the central government and general government sectors. For this presentation to be comprehensible, it must be very clear and be accompanied by adequate explanatory texts. We are of the opinion that the Government's presentation fails to meet this requirement. The terminology used in tables differs across sections of the bills, and it is sometimes unclear how various tables are linked to each other. We find that relatively simple changes would be sufficient to enhance the quality of the information significantly.

The statutory requirements on the Central Government Annual Report should be developed

We have pointed out in various contexts that the existing statutory requirements placed on the Central Government Annual Report (CGAR) need to be standardised. At present, the only statutory requirements are those laid down in Section 38 of the Budget Act. This Section specifies that the CGAR must include an income statement, a balance sheet, a cash flow analysis, information about final outcomes for the revenue headings and appropriations of the central government budget, and information about the planned date of submission. More specific rules for the content of the CGAR are laid down only in a Government decision on norms for delimitation and forms of presentation. We consider it doubtful in principle that

the Government is able to determine its own reporting duties in relation to the Riksdag.

We also wish to emphasise that the CGAR as presently designed does not contain only the information required under Section 38 of the Budget Act. It is also used, alongside Government bills and written communications, to account for targets and results achieved by virtue of Section 2 of the Budget Act. We take a positive view of this development since we are of the opinion that it increases the Riksdag's opportunities to obtain a full picture of central government operations. However, if the intention is that future CGARs will also include performance reporting, we consider that it would be appropriate for the Riksdag to adopt a decision to that effect.

From our audit of the Government's accounting for tax deferment, it further emerges that the CGAR does not account for tax deferments or for the accumulated tax asset that they have given rise to. In our opinion, rules should be drawn up for how tax deferments are to be accounted for in the CGAR.

Given the importance that the Working Committee on Constitutional Reform has attached to the CGAR, and considering that we have shown in several performance audits that the Government's reporting on results achieved in central government operations has been incomplete and misleading, we are of the opinion that more explicit rules relating to the CGAR should be laid down. These rules should relate not only to the financial components currently referred to in Section 38 of the Budget Act but also to the Government's presentation under Section 2 of information about targets and results achieved in various areas. In our opinion, the CGAR should be the key reporting document in which the Government provides the Riksdag with information about central government operations. Making the rules governing the CGAR more explicit should therefore be among the objectives of the review of the provisions of the Budget Act that the Government has announced.

Stricter application of rules on supplementary budgets is desirable

Once the Riksdag has adopted the central government budget, the state funds are at the disposal of the Government. Two factors that may undermine budgetary discipline are; first, the extent to which the budget as adopted is – and is perceived to be – binding on



the Government; and, second, the ways in which the Government may respond to changed circumstances. How binding the Riksdag's budget decision is depends upon the opportunities that exist to change appropriations during an ongoing budget year as well as a number of other factors.

Our review of 15 supplementary budgets adopted in 1998–2008 shows it to be a common occurrence that proposals to increase spending are submitted during an ongoing budget year without concurrent financing proposals involving the reduction of other spending. The average total amount of such proposals is just over SEK 4 billion per supplementary budget. Unfinanced proposals are more common in the autumn supplementary budget than in the spring one.

There are relatively few rules for supplementary budgets, meaning that the strictness and budgetary discipline of the budget-implementation phase are largely determined by how the Government chooses to exercise its opportunity to submit proposals as part of supplementary budgets. The audit shows that the Government makes use of the existing scope for a continuous budgetary process. This risks making the overall budgetary process less strict. What is more, there is a lack of holistic assessment in the preparatory

work relating to proposals included in supplementary budgets, and the reasons given for such proposals are inadequate. More restrictive use of supplementary budgets and clarification of the Government Offices' internal guidelines are necessary, in our opinion, to add the requisite strictness to the Government's work on supplementary budgets.

This chapter is based on findings made in the following audits and statements:

Application of the framework of fiscal policy: The Government's presentation in the 2008 spring fiscal policy bill (RiR 2008:15)

The Government's handling of supplementary budgets (RiR 2008:17)

Audit of the Central Government Annual Report 2007 (RiR 2008:20)

Application of the framework of fiscal policy: The Government's presentation in the budget bill for 2009 (RiR 2008:30)

Tax deferred accounting of housing deferral and pension savings deductions (RiR 2009:3)

Audit Report for the Riksbank (Ref. No. 32-2008-0578)

Audit Report for the National Debt Office (Ref. No. 32-2008-0578)

Statement of opinion on the report 'A Reformed Constitution' (SOU 2008:125) in the context of a consultation procedure

(Ref. No. 15-2009-0103)

Consequences of increased international mobility

Globalisation is a rapidly increasing phenomenon. The exchange of goods and services between countries is constantly rising, as is people's cross-border mobility. Freedom of movement for workers is one of the cornerstones of European cooperation. The number of people immigrating or emigrating has increased significantly since the start of the millennium. In 2008, 101,171 persons immigrated to Sweden while 45,294 emigrated. This can be compared with 58,659 immigrants and 34,091 emigrants in 2000.

Increased mobility across Sweden's borders makes higher demands on public administration. The fundamental principles and rules that govern public administration largely came into existence in an era when international dependence was considerably weaker. In our audits we regularly come across problems and inefficiencies in central government operations which are the result of a failure by the Government and government agencies to adapt adequately to increased international mobility.

In this chapter we discuss a few concrete cases from the past year's audits where we have observed problems due to excessively weak and slow adjustment to a globalised world. While we do not claim to provide the full picture, we do consider that these examples indicate that many government agencies still work on the basis of a mainly national perspective and have not adapted sufficiently to the new conditions.

We are of the opinion that the Government must take greater account of the consequences of international mobility when designing and reviewing the direction it exercises over the work of government agencies. It may sometimes be necessary to find new and more complex solutions to meet the challenge of internationalisation. One example could be to consider whether developing an integrated solution for agencies' handling of foreign claims would be more efficient than having each agency find its own model.

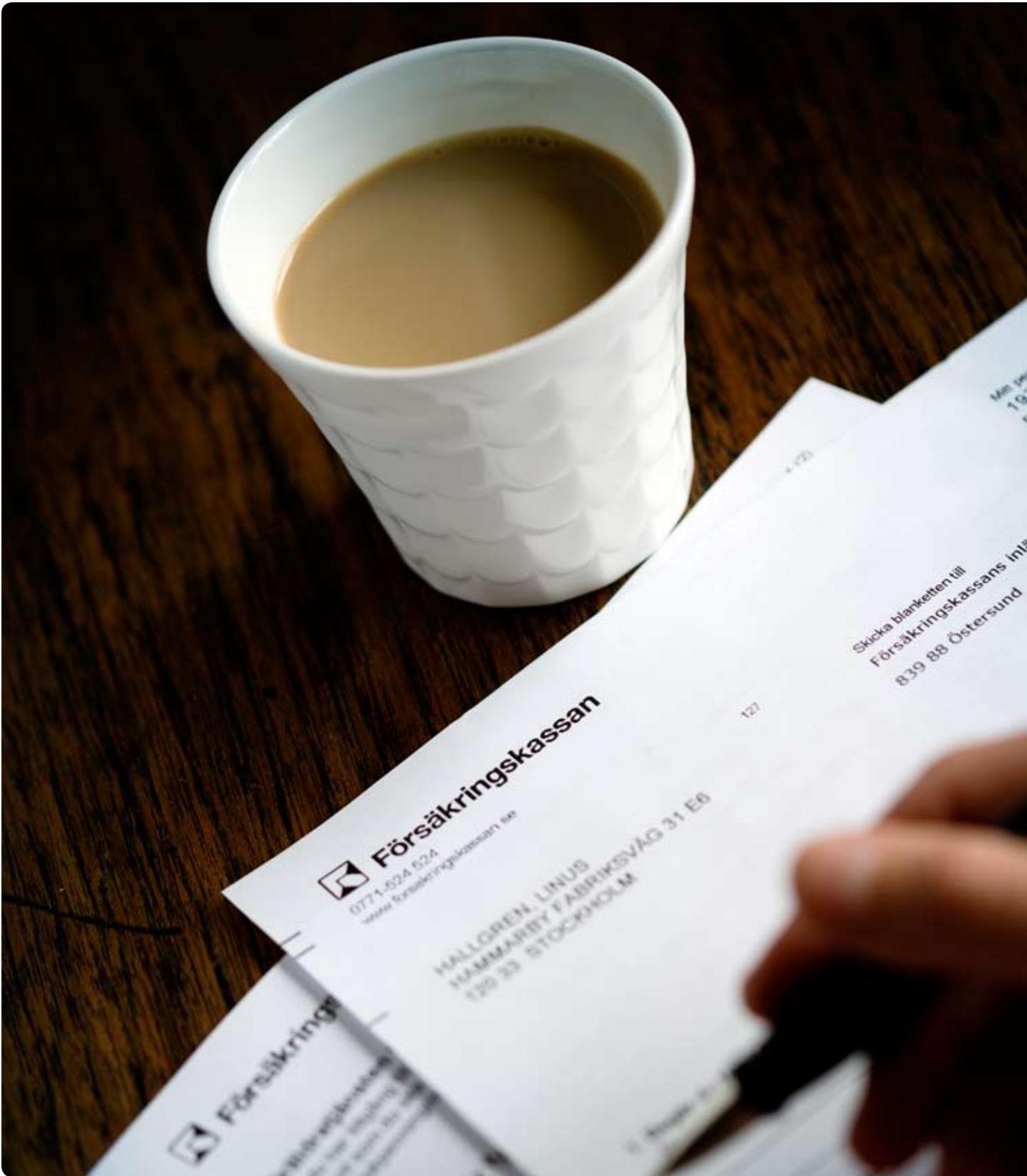
GOVERNMENT AGENCIES ARE STILL CHARACTERISED BY A NATIONAL PERSPECTIVE

Increasing international mobility and the commitments following from Sweden's membership in the EU impose new requirements on government agencies. Foreign citizens in Sweden and Swedish citizens abroad are to varying degrees entitled to benefits from the Swedish social welfare systems.

One agency affected by this development is the Social

Insurance Agency. Its payments to people living abroad increase progressively, amounting to SEK 5.2 billion in 2007. But even though the amounts involved are considerable, the Agency has insufficient knowledge about beneficiaries abroad. It lacks adequate information about their number. One obvious risk in this context is that decisions to grant benefits will be made on an inadequate basis. This may entail both that people who should not receive benefits do so and that people who are entitled to benefits do not receive them. A further consequence of its inadequate controls is that the Agency has difficulty dealing with incorrect payments made to people living abroad. Its claims on people resident in other countries have doubled in recent years, and only 10% of debtors pay what they owe. Even so, the Agency takes no action to collect the debts.

Another area which is strongly affected by internationalisation is higher education. The recruitment of international students is increasing strongly; the number of students arriving in Sweden has tripled over the past ten years and reached almost 28,000 in the 2006/2007 academic year. In addition, many Swedish students travel abroad to study. Both categories of students are eligible for Swedish student aid (grants and loans). The large flow of students entering and leaving the country makes increased demands on several government agencies. Admission to Swedish higher education takes place through a single national admissions system. However, this system is not fully adapted to the many instances of manual handling necessitated by foreign applications. As a result, higher-education institutions as well as the National Agency for Services to Universities and University Colleges and the Swedish Migration Board have a significant extra burden of work imposed on them by international applications. Our audit also shows that the work they do is often in vain because a large share of these applications are eliminated during the admission process.





When it comes to student aid, the Swedish Board for Study Support is responsible for annual payments of almost SEK 2 billion to slightly fewer than 28,000 people studying abroad. There is a high risk of incorrect payments in connection with studies abroad. The basis for the decision to grant student aid largely consists of information provided by the applicant and there are limited opportunities to verify it. Our audit also shows that, of former student-aid beneficiaries with a repayment obligation who are living abroad, one-fourth are grossly negligent in relation to their commitments. The total student debt of these negligent people amounted to SEK 2 billion in 2007. Even though these problems have been known for a long time, very little has previously been done to enhance control and reduce risks. In recent years, however, the Board has become slightly more active as regards debt collection. Even so, last year it succeeded in collecting only 5% of the amount due, and our conclusion is that significant amounts of student debt are likely to be written off because of the statute of limitations in the next few years.

Another field where internationalisation has created problems is taxation. For example, tax reductions for private individuals entailing that the time of taxation is deferred for a long time may be problematic. This is the case for the deferment of capital-gains tax on home sales and for the tax deduction for pension savings. The link between such deferment of tax payments and the trend for more people to move abroad – not least after retirement – increases the risk that tax revenue will be lost. There is thus a greater need for effective tax enforcement. What is more, Sweden's adaptation to EU law has entailed that people living throughout the European Economic Area are eligible for home-sale deferments and pension deductions. Taken together, this means that the demands placed on the enforcement actions of the Swedish Tax Agency increase as internationalisation progresses.

RULES AND POLICY INSTRUMENTS ARE NOT ADAPTED TO INTERNATIONALISATION

The findings we have made of shortcomings in the ability of the Board for Study Support, the Social Insurance Agency, the Tax Agency and other agencies to handle a more internationally mobile population, however, do not represent the whole picture. To a large extent, the problems



are also related to the resources and tools made available to these agencies to fulfil their duties in new circumstances. How the rules are adapted to a globalising world, and how fast, is the responsibility of the Government.

One of the conclusions drawn in our audit of tax deferral is that the Government, by choosing to adapt the Swedish rules to EU law simply by geographically extending the deferral system, did not make a serious attempt to handle the risk that outstanding tax credits will in practice become permanent tax deductions. No alternative solutions to reduce the risks were proposed. Another case where the Government abstained from taking account of the risks associated with increased internationalisation is Sweden's tax agreements with other countries. Since these agreements largely allow Swedes who move abroad after retirement to evade taxes on their pension savings, increased enforcement problems arise here as well. In the longer term, this may undermine confidence in the tax system.

A further example where the rules have failed to keep pace with developments relates to the handling of loans by the Board for Study Support. If the Government gave the Board better opportunities to draw up special promissory notes, to cancel loans in their entirety and to reinforce the requirement to provide a correct address, the Board would be better able to safeguard a larger

proportion of student aid.

Ensuring that the rules are adapted to the increasingly global environment, however, is only one part of the Government's responsibility. In the regular direction it exercises over government agencies, it must also identify and highlight the importance of internationalisation. We find that the Government has failed to discuss the problem of unpaid debts in the context of the direction it exercises over both the Board for Study Support and the Social Insurance Agency. We also find no special requirements for follow-up to determine how higher-education institutions' recruitment of international students helps to promote cultural understanding or how these activities affect the operations and financial circumstances of those institutions.

This chapter is based on findings made in the following audits:

The recruitment of international students to Swedish higher-education institutions (RiR 2008:22)

Swedish social-welfare systems abroad: Payments and claims management at the Swedish Social Insurance Agency and the Swedish Board for Study Support (RiR 2008:31)

Tax deferral: The Government's reporting on deferral of capital-gains tax on home sales and deductions for pension savings (RiR 2009:3)

Implementation of EU decisions by government agencies

Since Sweden joined the EU on 1 January 1995, it has been subject to EU law, which concerns a range of sectors of society to a varying extent. This means that the EU institutions may legislate instead of national parliaments in various areas. Legislation adopted at the EU level takes precedence over national legislation. A national law which is contrary to applicable EU law must not be applied. A second way for the EU to achieve common objectives is by means of its budget. Sweden's 'membership fee' to the EU amounts to just over SEK 31 billion. Almost half of this money is returned to Sweden, above all as grants from agricultural and structural funds. EU funds are also provided for research and other EU programmes.

In recent years we have examined a number of areas that are largely governed by EU law. The audits in question have concerned, among other things, regional aid, the control of structural funds, actions for sustainable fisheries, controls on cross-compliance in EU farm support, the introduction of energy declarations for buildings and the assessment of noise in the planning and construction process. 'Cross-compliance' means that beneficiaries of farm support must comply with requirements relating to the environment, animal welfare, food safety and other fields. Energy declarations are a policy instrument intended to promote the reduction of the energy consumption of buildings. Agriculture, fisheries and other sectors in Sweden also receive grants from the EU's agricultural and structural funds.

Sweden's accession to the EU changed the conditions under which the Government and the central government agencies operate. More than a decade after Sweden joined the EU, however, our audits show that the central government agencies and the Riksdag have failed to make effective use of the legislation and support measures offered by the EU system in several important areas. In the areas that we have examined, the Government has not adequately analysed the extent of national discretion allowed by the EU legislation and support measures in order to determine how best to use these rules and measures to improve compliance with objectives. The Swedish model of public administration, with far-reaching delegation of powers, independent public agencies and municipal autonomy, makes heavy demands on the direction to be exercised by the Government.

We Auditors General are of the opinion that, prior to the implementation of new EU decisions, the Government should make it clear not only what actions

Sweden must take but also what options are available within the framework of the rules and support measures. A further important issue that the Government must clarify is how to exercise direction over activities subject to EU law which are managed by municipalities.

INADEQUATE STRATEGIC AND LEGAL ANALYSIS

In fields largely governed by joint EU decisions, it is important for the Government to analyse what policy instruments can, must and should be used to ensure that objectives are met. This is predicated upon the Government determining the extent of national discretion, i.e. what Sweden is allowed to do under EU law, and the appropriate orientation of various support measures to help ensure increased compliance with objectives.

The Government's strategic work should also include a clear division of responsibility as well as coordination among the government agencies that are to carry out the efforts. The autonomy of Swedish municipalities makes it even more important for the division of responsibilities to be clear, particularly in areas where municipalities are expected to assume responsibility for implementation. Sweden has repeatedly attracted criticism from the European Commission for failing to comply with EU rules, as regards both the fisheries sector and farm support. When it comes to the action for sustainable fisheries, the lack of an overall legal analysis of the extent of national discretion has led to a system which, while largely complying with the letter of the law, does not contribute to better compliance with objectives.

The audit of farm support showed that the investigation into the control model to be used had several shortcomings. The Government had not adequately investigated what the controls would entail



for municipalities and government agencies. This was part of the reason why the controls subsequently did not function as intended.

In the audit of work on genetically modified organisms, one finding was that the Government had failed to supplement the legislation in important ways. Rules relating to coexistence, environmental liability and damages were missing. The Government had also failed to elaborate on how the requirements for risk assessment laid down in the Swedish Environmental Code and in EU law would be met.

The audit of energy-performance certificates shows that the Government and the agencies responsible have not created adequate conditions for the objective of the certificates to be achieved. Sweden's implementation of the EU Directives has resulted in a system which has been delayed, is unnecessarily complex and includes several unclear rules. The points that are unclear include the concept of 'inspection' and the circumstances in which a certificate should recommend energy-saving measures. These unclear rules have contributed to inadequate effectiveness when it comes to achieving the objectives set by the Riksdag and at the EU level.

The audit of the central government's work on the assessment of noise in the planning and construction process shows that the requirement under EU law that transparent assessment criteria must be used in the granting of permits has not been met. As a result of the inadequate direction exercised by the Government, there is no consensus in the central government about how noise should be assessed in the planning and construction process.

SHORTCOMINGS IN THE DIVISION OF RESPONSIBILITY

It is also important that the division of responsibility among government agencies is clear, so that operations are efficient and characterised by equality before the law. In a number of cases, including that of energy-performance certificates, an unclear division of responsibility resulting from the Government's failure to make it clear who will do what has made it less likely that the objectives set will be attained. Our audits of fisheries policy, energy-performance certificates and other fields show that responsibility has been divided among several actors. This has contributed to inefficient implementation, doubtful compliance with objectives and shortcomings in supervision.

As regards controls on cross-compliance in EU farm support, the Government never specified the duties of the various government agencies involved. This contributed

to major shortcomings in implementation. Among other things, the Government had failed to ensure that the Riksdag would place responsibility for cross-compliance inspections on municipalities. As a result, 40% of municipalities did not report inspection findings to county administrative boards and expert agencies.

Further, by exercising inadequate direction over government agencies the Government has failed to make it clear how noise is to be assessed in the planning and construction process. This has led to inadequate co-ordination between the general guidelines drawn up by agencies and the regulations governing building and construction. Several agencies issue regulations and general guidelines that municipalities and developers must take into consideration when planning and building in locations exposed to noise. This has made the task of assessing noise more difficult for both municipalities and county administrative boards.

One problem identified in the audit of the supervision of chemical products is that both municipalities and county administrative boards have other, more specific areas of responsibility to which they give higher priority.

EU LAW ENTAILS CHALLENGES TO MUNICIPAL AUTONOMY

In several fields, municipalities play an important part in the performance of supervision and inspections governed by EU law. In Sweden, the environmental and other fields are governed by framework laws that lay down the orientation of policy and principles for the conduct of supervision, etc. The practical supervisory work to be carried out and the decisions to be made, however, are largely up to the political committees of the individual municipalities. This makes supervision one task among many, meaning that there may be large differences in practice between municipalities in the extent of supervision actually undertaken.

The main instrument allowing the Government and the Riksdag to exercise direction over municipalities is legislation. When new EU legal acts are to be implemented, it is therefore particularly important that the Government should also use legislation to specify, via the Riksdag, what role the municipalities are to play. Shortcomings on the part of municipalities, for example in supervision, may lead to Sweden being formally criticised by the European Commission and having to pay fines for inadequate control.

When the Government and the Riksdag identify

problems in municipalities' implementation of legislation, one course of action available to them besides enacting stricter legislation is the transfer of responsibility to the central government. In 2008, for example, the control organisation for cross-compliance in farm support was changed in such a way that county administrative boards are now to perform the inspections that municipalities were previously expected to carry out. Even so, however, municipalities retain responsibility for supervision in the same areas by virtue of the Environmental Code. This means that the system is still characterised by a complex division of responsibility and the involvement of a large number of agencies.

Supervisory guidance is another way, besides legislation, for the Government to exercise direction over municipalities. If the Government wishes to ensure uniform supervision, the supervisory guidance provided by government agencies must meet high standards. Our audits of the supervision of chemical products, of farm support controls, of waste incineration, of the direction exercised by the Government over the Environmental Protection Agency and of energy declarations have all shown that guidance from the Government in regard to supervision is often inadequate.

A LACK OF OVERVIEW IN REPORTING

Government agencies whose operations are regulated entirely by national legislation typically have a duty to report all information relevant to their operations in their annual financial reports. This means that the Government and the Riksdag have the opportunity to receive all of this information at one time and in one document. However, operations subject to EU law must often also be reported on directly to the European Commission and sometimes to specific sections within the Commission. This means that reporting takes place in different channels and at different times, which may lead to the fragmentation of information and deprive decision-makers of an overview.

In our audit of the fisheries sector we concluded that the various reporting requirements have not been integrated into the reports that the Board of Fisheries submits to the Government. This has given rise to differences, including in definitions, which undermine opportunities to analyse and monitor the central government's actions in relation to the objectives for fisheries. Similar problems were found in our audit of work on genetically modified organisms. There are several forms of reporting, meaning that there are limited opportunities to obtain an overview of the actions taken in the area.

INEFFICIENT STRUCTURAL SUPPORT AND POOR CONTROLS

Several of the audited activities which are governed by EU rules are also financed in part by the EU. Our audits show that the Government and the government agencies have not identified and prioritised the intended results of the support that Sweden has received for these activities. In several cases there has also been inadequate monitoring and follow-up of the outcome and impact of activities.

Where the applicable rules allow a wide spectrum of actions, it is particularly important for the direction, orientation and prioritisation of support funds to be clear. Two such cases are structural support for fisheries and regional support for sustainable development. Our audits show that the Government has not explicitly indicated the orientation of such support by prioritising beneficiaries or achievements. This has led to inefficient use of support and poor compliance with objectives. Shortcomings in control functions have also led to incorrect payments being made. In addition, we have found shortcomings in the monitoring of support outcomes. Our audit of controls on cross-compliance in farm support shows that farmers may have received full farm support even though they did not meet the conditions.

This chapter is based on findings made in the following audits:

Control of structural funds (RiR 2004:29)

Environmental toxins from waste incineration: – are supervisory systems effective? (RiR 2005:4)

Focus on sustainable growth? Government funding for regional projects (RiR 2005:28)

The Government's control of the Environmental Protection Agency (RiR 2006:2)

More chemicals and inadequate

Control – supervision of manufacturers and importers of chemical products (RiR 2006:4)

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

Controls relating to cross-compliance obligations in the EU Single Payment Scheme (RiR 2008:11)

The central government's actions for sustainable fisheries (RiR 2008:23)

An efficient and transparent planning and construction process?

Energy-performance certificates: Poor value for money (RiR 2009:6)

Government agencies' adaptation to new circumstances

One important conclusion from last year's annual report was that internal control at government agencies works relatively well so long as conditions are stable. However, when major changes take place, whether internally in agencies' own operations or in external conditions, the risk of misstatements in the financial statements increases significantly. New or unclear requirements on agencies' operations thus constitute an important factor in the risk analysis we perform prior to audits.

In conjunction with this year's audits we identified a number of risk areas, all of which were linked to new requirements or changed conditions for relatively large groups of agencies. New requirements have been introduced through ordinances as regards internal control and electronic invoice processing at agencies. However, we have also identified risks linked to organisational issues. One example is the problems associated with structural changes at agencies.

In the following pages we will present some key findings from this year's audits of government agencies' work on their financial statements, especially in the abovementioned areas. Our presence at all agencies makes it possible for us to contribute with an overall view of the situation in central-government financial administration.

FINANCIAL STATEMENTS OF GOVERNMENT AGENCIES

One of the SNAO's main tasks is to investigate how government agencies report to the Government on their financial and operational performance. Each year we therefore examine the financial statements of all agencies to assess whether these reports and the documents underlying them are reliable and whether the agencies' accounts give a true and fair view. Our examination of financial statements also includes an assessment of whether top management at each agency has complied with the applicable provisions and decisions in its administrative work. These financial audits take as their starting point generally accepted auditing practices under international audit standards.

The task of the financial audit function is to assess whether financial statements provide a true and fair view of the agencies' finances and operations. We

take preventive action to help agencies provide the Government with the best possible information. We only modify the opinion in our auditor's reports if we find material misstatements in an agency's financial statements. Material misstatements are those that may have an impact on decisions to be made by the Government and other stakeholders on the basis of the information provided by the agency. The auditor's report is submitted to the Government, and the agency concerned receives a copy.

Agencies' financial statements are of good quality

This year we have audited and submitted auditor's reports on 257 agencies. In five of them we found the financial statements to include material misstatements prompting us to modify the opinion in our auditor's report. This is half the number of modified opinions in relation to the previous year, but we do not wish to exaggerate the importance of this reduction. Relative to the total number of agencies audited, the important conclusion to be drawn is that only a few financial statements contain material misstatements. Whether the number of reports containing a qualified or adverse opinion in a given year is five or ten depends to some extent on chance. What we wish to emphasise is that the number of auditor's reports containing qualified or adverse opinions remains at a fairly constant and low level over time, indicating that the overall quality of agencies' accounting is good. We also see this as a satisfactory result of our aim to ensure that misstatements are discovered and pointed out before they can affect the financial statements.

In the event of a modified opinion in an auditor's report, as well as when we also make other material findings during our audit that we think should be pointed out to top management, we draw up a





management letter. There we elaborate on the reasons for our criticism and usually suggest remedial action. The management letter is addressed to the board of the agency, or to its director general if it has no board. It is also submitted for information to the Government. Our audits of operations in 2008 have led to 84 management letters being submitted to 72 agencies. Annex 1 contains a summary of major misstatements and shortcomings dealt with in those management letters.

At present, the Government's main sources of information about findings made in audits of agency financial statements are our auditor's reports and management letters. We are of the opinion that there may be grounds for considering a different type of reporting more specifically suited to the Government's needs, which is why we have begun work to further develop our reporting on audits of financial statements.

CHANGED REQUIREMENTS AS REGARDS INTERNAL CONTROL

On 1 January 2008, a new Internal Control Ordinance entered into force. This Ordinance applies to all agencies that must have an internal-audit function – 56 agencies in 2008. It entails a duty to establish a special process ensuring that the agency has reasonable certainty that it will be able to meet its administrative responsibility under the Agency Administration Ordinance. The notion of 'administrative responsibility' means that

top management is responsible for ensuring that operations are conducted efficiently and in compliance with applicable law, that they are reliably accounted for and that state funds are used in an economical manner. The Government has also introduced a requirement, in the Financial statements and Budget Documentation Ordinance, that top management of agencies must make a statement in the financial statements on whether internal control is satisfactory. This requirement also applies only to agencies with an internal audit function.

The changes made to the requirements imposed by the Government on agencies' processes and reporting in the field of internal control entail an increased focus on these issues. It was therefore natural for us to include this in our audits in 2008. The aim was to assess how far each agency had progressed in its work to establish the requisite process, which consists of risk analysis, control measures, follow-up and process documentation.

Our final examination of financial statements focused on ascertaining whether top management of the agencies had had an adequate basis for testifying to the quality of internal control as required under the Financial statements and Budget Documentation Ordinance. When assessing whether the basis was adequate, we considered not only the documentation required under the new Internal Control Ordinance but also any other information that top management

may have used to underpin its statement. Since top management's statement is included in the financial statements, it must give a true and fair view of the actual situation as regards internal control.

The decisions to change the requirements of internal control were taken rapidly and agencies have had little time to prepare. Our audit also shows that there is a great deal of variation among agencies, with many of them having much work left to do. Various shortcomings have been identified at the majority of the agencies. For some agencies, the auditor in charge found that the shortcomings were adequately addressed following an oral report to the agency. However, for a fairly large number of agencies – 25 out of the 56 that must comply with the Ordinance – we have drawn up management letters on various types of shortcomings in the application of the Ordinance, such as incomplete risk analyses and insufficient commitment on the part of top agency management. Even in these cases, however, we still found the financial statements to give a true and fair view in all material respects, meaning that we consider that top management's statement on internal control also gives such a view. Only for the Swedish International Development Cooperation Agency (Sida) did we find this not to be the case and therefore submitted a modified opinion in the auditor's report.

It is too early to draw any far-reaching conclusions about whether the new Ordinance will lead to better internal control. Even so, we can conclude that the shortcomings identified so far are consistent with the inherent weaknesses of the Ordinance that we highlighted in our comments at the draft stage.

We consider that top management cannot make a statement about internal control unless there are explicit rules specifying the responsibilities of top management at a Government agency. Even though the new Agency Administration Ordinance (Ordinance) has clarified the responsibilities of top management, there remain points that are not clear – as is evident, for example, from our audit of the form of management called 'boards with full responsibility'. We also consider that there is no established standard against which internal control can be evaluated. The Internal Control Ordinance is based on a Swedish version of the international COSO framework for assessing internal control in organisations. The Swedish version, however, includes only parts of the international framework.

Our audit also shows that there is a great deal of variation among agencies, with many of them having much work left to do. Various shortcomings have been identified at the majority of the agencies.

The lack of standards and an established framework covering all elements of internal control creates a risk of subjectivity in assessments and non-uniformity in the application of the Ordinance. In our opinion, it cannot be excluded that the large variation found in how agencies have so far applied the Ordinance may be a result of these weaknesses in the system of rules.

Risk analyses are incomplete

There are deficiencies in risk analysis at just over two-thirds of the agencies to which a management letter was addressed. One common problem is that the risk analysis which has been performed is incomplete. In some cases, parts of an agency's operations are not covered by the analysis; for example, there may be no risk analysis of administrative support processes. In other cases, not all organisational parts are included. Several agencies have performed a risk analysis only on an overall level. Failing to include certain parts of an agency in the risk analysis or restricting the analysis to the overall level is serious because this may imply that not all material risks have been identified. One frequent problem is that there is an inadequate link between the objectives of an agency and the risk analysis it has performed. This may mean that not all risks capable of jeopardising the achievement of the operational objectives are identified and addressed. A further problem which may lead to the view of risk being incomplete is that many agencies have performed their risk analysis only on risks for which there are no control measures, i.e. only on risks not addressed by existing risk control. This approach presupposes that existing control measures actually work, so that the risks in question have already been dealt with. However, several of the agencies have not actively investigated whether the measures they have decided work as intended. This means that the view of risk may be too narrow if measures do not function. The agencies should analyse

all risks and link their analysis to the control measures decided, so that they obtain a comprehensive idea of the risks.

Control measures are not based on the risk analysis, and follow-up is inadequate

The idea underlying the risk management process is that the risk analysis should identify the risks to which the agency is exposed. The analysis should lead to decisions being made about appropriate control measures to counteract risks in those cases where top management has identified a need for risk management. At several agencies there is a weak link between risks identified and control measures decided, which may lead to important risks not being appropriately managed. Top agency management should take an explicit position on the management of the risks identified – whether they are to be accepted, minimised or avoided. Such explicit positions have not been taken at some of the agencies audited.

Just under half of the agencies to which a management letter was addressed fail to follow up on whether the control measures they have decided upon actually work. This may lead to two consequences: the perception of risks may be incorrect, and the measures decided may not be implemented. It is also unclear how follow-up is to be carried out and who has operational responsibility for doing so.

Shortcomings in documentation

Over half of the agencies to which a management letter was addressed do not comply with the documentation requirements laid down in the Ordinance. This is because their documentation is not explicit enough to allow tracking of the entire process, i.e. – from risk analysis, control measures and follow-up to the basis for top management's determination on the quality of internal control. Their documentation also does not show to what extent they have actually followed up and evaluated control measures.

Drawing up appropriate documentation is also important in that it would give top management better opportunities than at present to take an overview. Several agencies lack a clear description of their structure for internal control, which makes it difficult for top management to form an overall idea of the existing control structure. It is very important for risk management documentation to be part of an agency's overall view of internal control. Having access to the full picture makes

it easier for top management to relate to the information, which will then also be the dynamic and relevant support for top management that it is intended to be.

Inadequate conditions and resources

At the majority of the agencies having received a management letter, there are shortcomings in conditions and resources for work on the Internal Control Ordinance. Several agencies lack explicit rules specifying how operational work relating to the Ordinance is to be carried out or who is to do it. The resources allocated for this purpose are sometimes insufficient. Documents to guide this work are often lacking or unclear. At certain agencies, knowledge about the process is concentrated in too few people. Another important prerequisite is that top management must be committed to the issue. In several cases this commitment was too weak, too unclear or too late. To ensure that the information used in work on internal control is adequate, top management should be more explicit when requesting such information from the various organisational entities. In addition, top management should decide at an earlier stage what information it needs in this context.

THE SHIFT TO ELECTRONIC INVOICE PROCESSING

Starting on 1 July 2008, all central government agencies are to process invoices from their suppliers and customers electronically. The idea is for the flow of physical paper invoices to be replaced, in due course, with electronic invoices. Where an agency needs to handle incoming paper invoices, these are scanned and then processed electronically. The objective of the relevant ordinance is to make the administrative handling of invoices more efficient.

A new requirement, applicable to public administration in its entirety, concerns the move to electronic invoice processing. The scope of this change makes it a fairly obvious risk area, and we have focused particularly on it in our audits since the autumn of 2008. Above all, we have looked at how government agencies have worked on organisation and internal control in their implementation of electronic invoice processing. Our audits show that virtually all agencies have acquired systems to process electronic invoices. However, we have found that several major problems remain to be solved before electronic



invoice processing can truly be said to have been implemented in public administration. These problems include shortcomings in internal control, for example as regards access management and the division of responsibility for authorising and approving financial transactions. We have also found that the exchange with private actors thus far remains very limited.

We believe that the introduction of electronic invoice processing in public administration will create opportunities for improvements to internal control and to the efficiency of invoice processing. At the initial stage where the agencies still remain, however, it is important for them to continue analysing how the implementation of electronic invoice processing will affect the need for changes to their internal-control structure and how they may ensure adequate control in a secure and cost-effective manner. The fact that the reform has now been implemented must not be interpreted to mean that the efficiency improvements enabled by it have already been achieved. We therefore consider that the Government must monitor developments carefully over the next few years, taking any actions required to ensure that the reform achieves its full potential.

Internal control has not been ensured

The implementation of electronic invoice processing will entail changes in work procedures and in the division of responsibility as regards the handling of financial transactions. The agencies have therefore, to a varying extent, added new controls into different stages of invoice processing. However, our audits show that several agencies have not been sufficiently active in their work to ensure a good level of internal control.

Problems that have occurred in the scanning of invoices include the misinterpretation of amounts, the entry of credit invoices as debit invoices, and the loss of important invoice information. In addition, several agencies have had inadequate control over the access rights granted to handle transactions in their systems. For example, officials have been given the opportunity to handle financial transactions on their own, with no second-person checks of any kind, or to perform tasks that should not normally be within their authority.

Limited exchange of invoices with private actors

Another of our findings is that many agencies have so far had only a very limited exchange of electronic

invoices with private counterparties. Likely causes could be, first, that private companies may not use the same technical standard as the central government sector and, second, that the quality of the information contained in companies' invoices may be too poor. These problems generate unnecessary extra work for agencies, thus reducing opportunities to bring about the efficiency gains that the reform makes possible.

THE DYNAMIC NATURE OF THE PUBLIC ADMINISTRATION

Each year a number of Government agencies are established or closed down. The number concerned can be estimated at 25–30 agencies per year, or about 10% of all Swedish agencies. Changing the organisation of public administration is an important administrative policy tool, which means that it is natural for public administration to be in a state of organisational flux. Changes in political priorities and the need to enhance the efficiency of central government administration are among the main reasons why the Government may choose to modify the overall structure of agencies.

It is important for public administration to change constantly, so that it adapts to the development in society. To maintain confidence in public administration, however, this change must take place in such a way that it contributes to the objective of efficient and democratic administration characterised by equality before the law. The winding-up of government agencies has proved to be a particular source of difficulties. In our audits of agencies' annual financial reports, we have therefore devoted particular attention to problems associated with the winding-up of agencies. Our examination of the financial statements for 2008 gave us reason to report on findings in a management letter, in some cases also issuing a modified opinion in the auditor's report to four agencies which are being restructured. We have identified a number of problems associated with the Government's work to change the organisation of public administration.

We Auditors General have previously stated that any proposal to establish a new agency should be subject to careful consideration. When new operations are established, various organisational solutions should be investigated. Based on our findings of agencies that are being restructured, we conclude that there is scope for making the implementation of windings-up

more efficient, thus facilitating future organisational changes in public administration. Windings-up and restructurings lead to problems that cannot always be foreseen. This is why it is important to draw upon lessons learned from windings-up and avoid repeating the same mistakes. We are of the opinion that the Government has not done enough to collect experiences in a systematic way. As we have previously stated, the Government should consider establishing a special function for the winding-up of agencies at one of the 'support agencies'. This function could then constitute the formal winding-up authority when there is a need for one. This function should also strengthen the support, advice and guidance given to the agencies concerned and be responsible for ensuring that experiences from completed windings-up are collected and made use of.

The Government has failed to create adequate conditions for the agencies

The shortcomings we have identified are due in part to the Government's failure to ensure that the government agencies concerned enjoyed the conditions they needed to implement the winding-up in an efficient manner. We have found frequent cases of delayed, unclear or incomplete decisions by the Government or the Riksdag. For example, the Government has failed to adjust the winding-up period to suit the operations of the agencies, and decisions about who would take over responsibility for operations have been delayed. Further, the direction exercised in matters of financial management has not been sufficiently explicit. The appropriation directions issued by the Government to the agencies are often unclear and sometimes also difficult to comply with. It has also emerged that in several cases the Government did not carry out problem and impact assessments ahead of decisions to wind up agencies.

Particular accounting problems arise

The winding-up of agencies also leads to particular accounting problems. For example, it may be unclear how to assess reserves or value remaining assets. It is also difficult to identify and quantify all of the additional costs associated with a winding-up operation.

Points that are not clear in winding-up guidelines

The Government has drawn up guidelines to be followed when agencies are wound up. However, our audits show

that some points remain unclear. For example, it is unclear whether appropriation savings should be at the disposal of an agency being wound up and how appropriation credits are to be dealt with. Further, it is not clear whether agencies may use money linked to the Job Security Foundation or money intended for skills development. At one agency we also found that it was unclear who would be the counterparty under agreements previously concluded when operations were to be transferred to another agency. Some agencies turned out to lack a credit framework even though they retained credit-funded fixed assets.

Winding-up leads to competence problems

It is natural for some staff to leave before the legal retirement age when an agency is wound up. However, this often leads to negative consequences. For example, we have seen that the agencies concerned often have limited competence in the field of financial administration as key staff have left. However, it is particularly important to have access to such competence during a winding-up operation. Among other things, this has led to increased dependence on consultants.

Experiences from windings-up are not made use of

During a winding-up there may arise problems which could hardly have been foreseen but which it may be valuable to know ahead of future windings-up. We find that experiences from earlier windings-up have not been collected and made use of in a systematic way. This is true both of the Government Offices' work and of the agencies' work.

This chapter is based on findings made in the following audits and statements:

Management letters relating to the 2008 budget year.

These are summarised in Annex 1. (For the section on the implementation of electronic invoice processing, audit memorandums have also been used.)

Government agency boards with full responsibility (RiR 2007:25)

The winding-up of government agencies (RiR 2008:18)

Statement on 'Internal control in the central government:

Proposal for a common framework' (Ds 2006:15) in the context of a consultation procedure (Ref. No. 15-2006-0932)

Conclusions

In our Annual Report for 2009, we Auditors General have presented our findings under two themes which are in fact based on the same perspective: How well does the Swedish public administration meet the requirements for equality before the law, efficiency and democracy when operational conditions change? The first theme relates to the changes that the Government makes to its requirements through new ordinances, an increased element of e-government and the ongoing structural transformation of the central government. The second theme is about the increasing rate of internationalisation and the extent to which the Government and the government agencies succeed in managing and developing public administration against that background.

The central-government accounts for a very large part of Sweden's economy today. Its budget amounts to more than SEK 1,000 billion. The deep economic crisis has made it clear that there must be a well functioning framework for budgetary and fiscal policy. Most commentators today agree that the fiscal policy framework is a large part of the reason why Sweden's overall situation in the present financial crisis is relatively more stable than that of many comparable countries. Explicit targets and clear accounting for deviations from them will counteract short-termist actions that could lead, in the longer term, to an unsustainable development of the budget deficit and the national debt. For this to happen in reality, however, there is a need for improvements both to the Government's application of the framework and to the framework as such.

It is also crucially important for the agencies in charge of managing state funds to have good internal control. In the past year we have examined the implementation of the new Internal Control Ordinance. For 25 of the 56 government agencies that must comply with that Ordinance, we have reported on various deficiencies in implementation. These deficiencies relate to incomplete risk analysis, poor documentation and weak links between the risks identified and the control measures taken. Examples of explanations for these deficiencies

include an unclear division of labour within agencies and insufficient commitment on the part of their top management. Even so, we find that the vast majority of the agencies provide good-quality financial reporting. Their annual financial reports give a true and fair view – including of any shortcomings that may exist in various fields.

Public administration is less static than it may have been perceived to be. At present, public administration is characterised by ongoing structural transformation. Agencies are being relocated, merged and closed down. At the same time, new agencies are created. These organisational changes may have a variety of reasons but share the aim of ensuring better operational conditions. So far, our audits have shown that these changes require both resources and skills, and that it is common for key staff to leave in conjunction with such changes. We also see that experiences from earlier changes are not made use of to a sufficient extent. In many areas, the wheel is being invented over and over again.

Membership of the EU has brought fundamental changes to the conditions in which Swedish public administration operates. The Swedish model of public administration, with its small Government Office (ministries collectively) and large, fairly independent government agencies, makes heavy demands on the direction to be exercised by the Government. Our audit shows that there are shortcomings in a number of areas. The Government has failed to perform adequate analyses of ramifications and national discretion ahead of the implementation and application of EU legislation. There are also unclear points in the division of responsibility among agencies. Controls are sometimes inadequate. We also see a lack of overview in agency reporting. Management of fisheries policy is one area which manifests all of these shortcomings. This results in various measures counteracting each other and in poor compliance with objectives. In short, it results in inefficient use of taxpayers' money.

The exchange of goods and services between countries has risen constantly, as has people's cross-border

mobility. Our audit shows that both the Government's and the agencies' work on certain issues is still characterised by a narrowly national perspective. One example is the handling of the repayment of loans and of grants incorrectly disbursed to people who no longer live in Sweden. Such debts amounting to a couple of billion kronor are likely to be written off in the next few years because of the statute of limitations. Another example is tax deferment. Given the present control measures and double-taxation agreements, the fact that more and more people move abroad will increase the risk of losing tax revenue.

The SNAO's task is to examine the operations of the central government operations from the perspective of materiality and risk. It is therefore natural for us to focus on risks and to highlight the shortcomings that we identify. At the same time however, it is a fact that a great many things in the central government work well. Our task is also to contribute to good resource utilisation and efficient administration in the central government. This we do, among other things, by making recommendations. Based on this Annual Report for 2009, we Auditors General address the following recommendations to the Government:

- *Increase the pace of the ongoing review of the fiscal policy framework;*
- *Give clearer reasons for the level of the expenditure ceiling as proposed in budget bills;*
- *Make monitoring of compliance with the surplus target clearer, so that it can be determined what adjustments to fiscal policy may be required to achieve the target;*
- *See to it that the announced review of the Budget Act includes proposals for rules on the extent and other aspects of the Central Government Annual Report;*
- *Consider establishing a special function for the winding-up of government agencies at one of the support agencies;*
- *Ensure that analyses of the extent of national discretion are performed in conjunction with the implementation and application of EU legislation and grants, so that the relevant objectives can be achieved at the lowest possible cost;*
- *Ensure that the supervision and verification of EU funds functions well;*
- *Consider an integrated solution to ensure effective and efficient handling of agencies' foreign claims;*

- *Carefully monitor developments in the field of tax deferment and be prepared to change the rules or renegotiate double-taxation agreements;*
- *Monitor agencies' work to comply with the Internal Control Ordinance.*

To conclude, we wish to stress that it is important for the Government to follow up what actions agencies take in connection with the SNAO's findings. The Agency Administration Ordinance as currently worded states only that an agency which has received an auditor's report containing an adverse or qualified opinion must account for the actions it has taken. However, the SNAO also provides information about shortcomings both in audit reports from the financial-audit function and in reports from the performance-audit function. Against this background, we address one more recommendation to the Government:

- *Consider developing the mechanism of agency reporting so that agencies must report to the Government on the actions they have taken in connection with the findings of both the financial-audit and the performance-audit functions of the SNAO. This may require an amendment to the Agency Administration Ordinance.*

The Working Committee on the SNAO has proposed an arrangement whereby the Riksdag would ask the Government to account for the actions that have been taken or are planned in connection with a performance-audit report. The Government would have to present such an account no later than three months after receiving the report. A change in agency reporting would also contribute to the creation of appropriate procedures for such a future arrangement.

Annex 1 Audits of annual financial reports for 2008

In the context of our audits of government agencies' financial statements for 2008 we have drawn up 84 management letters. These management letters have been submitted to the top management of the 72 agencies concerned. This annex summarises the more significant misstatements and shortcomings dealt with in those management letters. Where a misstatement is so serious that the opinion in the auditor's report for the agency concerned is modified, this is explicitly indicated. Findings are presented for individual agencies, ordered by the ministry to which they report – except that we conclude with the central bank (Riksbank), which reports not to the Government but to the Swedish parliament (Riksdag).

MINISTRY OF EMPLOYMENT **Swedish Public Employment Service** (Ref. No. 32-2008-0669)

A follow-up audit of the handling of matters relating to 'new-start jobs' (a programme to help long-term unemployed people return to the labour market) shows that the previously identified shortcomings remain. As a result of these shortcomings, decisions specifying the duration of the support period are often incorrect. Only one of the local employment agencies examined had a quality-assurance procedure to monitor the quality of handling using documented checks of random samples.

MINISTRY OF FINANCE **Swedish Fortifications Agency** (Ref. No. 32-2008-0566)

The Fortifications Agency has shortcomings in the internal control of its payroll processes, both in terms of staffing and dependence on key staff and in terms of inadequate controls to detect incorrect payments.

Moreover, the Agency has not implemented electronic invoice processing, thus failing to comply with the requirements laid down in the Bookkeeping Ordinance.

Harpseud Committee (Ref. No. 32-2008-0567)

The Harpsund Committee has failed to use the sentence required by virtue of the Financial statements and Budget Documentation Ordinance when signing its financial statements.

Blekinge County Administrative Board (Ref. No. 32-2008-0585)

In conjunction with a project relating to a representative office

in Yunnan, China, the County Administrative Board (CAB) has failed to present guarantees that financing from the regional-policy appropriation will amount to no more than 50% of the total cost, as required by virtue of the Grants for Project Operations under the Regional Growth Policy Ordinance. For example, the CAB has not concluded any written agreements with the other financiers.

Gotland County Administrative Board (Ref. No. 32-2008-0586)

The SNAO finds that the County Administrative Board (CAB) still lacks the internal procedures necessary to ensure a good internal-control environment at a more general level, such as procedures for drawing up the financial parts of the financial statements, established procedures for project management, procedures for financial reconciliation and procedures to ensure that payments are not made on an inadequate basis.

The audit shows that there is no handbook specifying how externally funded operations are to be handled administratively. This increases the risk that the work carried out in various parts of the CAB will lack uniformity and be of varying quality.

The audit further shows that no breakdown has been made for fixed assets. Other items also lack a breakdown. In addition, the financial statements lack notes explaining material changes in financial outcome between years.

In two previous reports, the SNAO highlighted shortcomings in relation to procurement procedures. These shortcomings remain in part. The audit shows that policies and guidelines have not been updated to comply with changes in the Public Procurement Act. Combined with the fact that procurement transactions are decentralised, this increases the risk that the Act will not be complied with.

Jämtland County Administrative Board (Ref. No. 32-2008-0531)

The County Administrative Board is working on its compliance with the provisions of the Internal Control Ordinance. However, the county governor has not yet been able to show in a satisfactory manner that the Ordinance is fully complied with.

The SNAO finds that there are several shortcomings. For example, there is no explicit strategy to manage the risks identified. The existing schedule for the implementation of control measures is too general in nature. There is no documented decision entrusting a person with responsibility

for the work to implement the Ordinance. The position taken by the county governor in conjunction with her signing of the financial statements has not been documented.

Norrbottn County Administrative Board

(Ref. No. 32-2008-0532)

The County Administrative Board (CAB) has not updated its inventory of fixed assets to a sufficient extent. For example, several of the snowmobiles recorded in the inventory are no longer in the possession of the CAB. Further, the CAB has chosen to write off snowmobiles directly instead of recording such purchases as assets in the balance sheet. The SNAO finds that, as a result, the fixed assets are underrated by about SEK 1.2 million.

Stockholm County Administrative Board

(Ref. No. 32-2008-0533)

The SNAO's audit shows there to be shortcomings in internal control as regards the internal-audit function of the County Administrative Board. As per the end of September, there were no established guidelines for reporting by that function or for its powers, responsibilities, role and working methods. Moreover, no audit plan for 2008 had been drawn up. The SNAO finds that this inadequate control and follow-up makes it less likely that top management will become aware of material findings and operational risks, meaning that top management's ability to follow up and take actions will deteriorate.

Uppsala County Administrative Board

(Ref. No. 32-2008-0535)

The SNAO's audit shows that a considerable number of shortcomings identified last year still remain. It should be clear from the financial statements what taxable remuneration and other benefits have been paid during the budget year and what future commitments have been agreed for each of the members of the Council of the County Administrative Board (CAB) and the high-level officials who have been appointed by the Government. The financial statements should also indicate any commissions for other government agencies and any service on the boards of directors of limited companies undertaken by such people. No such information is provided in the CAB's financial statements. Material items have not been adequately reconciled. The procedure to ensure the quality of the financial statements has not worked.

There is no project handbook specifying how projects are to be handled administratively. There are also no clear internal directives, which has led to a lack of uniformity and the absence of a common perspective in performance reporting. The information provided to meet certain reporting requirements consists only of a presentation of a

fairly large number of activities, with no detailed description of how those activities have influenced targets or reporting requirements. Finally, some documentation necessary to meet reporting requirements is lacking.

Västerbotten County Administrative Board

(Ref. No. 32-2008-0537)

The SNAO has carried out a follow-up audit of the observation reported last year as regards additional pay granted to the county director. By virtue of an earlier decision made by the county governor, the county director has obtained a lump-sum addition of SEK 2,250 per month since 2002 for the cost of renting overnight accommodation. According to the Government's rules for county administrative boards, the Government makes all decisions to employ county directors, including as regards their salary and any perquisites. It is clear from the relevant Government decision that the county director should enjoy no perquisites in addition to a regular salary.

The County Administrative Board has at its disposal certain funds made up of fees paid to it by organisations whose operations involve interventions in watercourses (dam operators, etc.). These funds are to be used to prevent or mitigate damage caused by such interventions. The accounting procedure for these funds is inadequate. As a result, not all money received has been recorded as revenue, meaning that the item 'Allocations to/withdrawals from funds' in the financial statements is incorrect. This has also had an impact on the item 'Change in capital for the year', which is overrated by SEK 4.7 million.

Swedish National Debt Office

(Ref. No. 32-2008-0572)

The SNAO has examined the support provided by the National Debt Office to Carnegie, a company, under the Government Support to Credit Institutions Act and as authorised by the Government, as well as the security obtained by the Office as collateral for that support.

As can be seen from the financial statements of the Office, Carnegie challenged the Office's right to assume ownership of companies whose shares have been pledged as collateral for the support loan. The financial statements also show that the Office's valuation of the collateral and the timing of its sale were questioned by Carnegie. With the assistance of a legal consultant, the SNAO has carried out a review of the support loan and security agreements. A legal assessment, laid out in a classified report, has been made by this legal consultant. The SNAO recommends that the Office should consider the detailed factual issues dealt with in the consultant's report.

National Property Board (Ref. No. 32-2008-0573)

The National Property Board should improve the effectiveness of its internal control. Among other things, its board of directors should elaborate an overall risk analysis as a basis for internal control. A documented risk analysis should also be performed of the commercial part of House of Sweden, the Swedish embassy building in Washington, D.C. Further, the financial statements should be improved through the introduction of a correct signature sentence and better reporting on compliance with objectives. Finally, internal control in the processing of electronic invoices should be enhanced through the introduction of 'two-person handling' for modifications to pre-set data and other sensitive data.

National Government Employee Pensions Board (Ref. No. 32-2008-0559)

The bases for actuarial provisions according to the financial statements are not entirely correctly described. The audit shows that the National Government Employee Pensions Board does not fully comply with the 'prudent-person rule' as laid down in the Occupational Pensions Directive. The Board should investigate and decide how to approach the concept of a 'prudent person'. It should also reinforce its internal control as regards actuarial calculations. This applies above all to the documentation of such calculations.

Top management of the Board has not yet laid down in a governance document how work to ensure compliance with the Internal Control Ordinance is to be carried out. Further, the memorandum describing how the work relating to that Ordinance has been carried out should be given a clearer structure so that readers can more easily obtain a clear overall picture of controls at the Board.

Statistics Sweden (Ref. No. 32-2008-0574)

The audit shows that Statistics Sweden lacks adopted written internal governance documents describing how programme changes are to be decided, managed and documented. The SNAO finds that the lack of adequate governance documents has contributed to serious miscalculations in a statistical product of key importance to society.

The audit of the financial statements for 2008 identified a number of shortcomings indicating the existence of manifest deficiencies in Statistics Sweden's procedures for ensuring the quality of decisions included in the financial statements, the quality of its performance reporting to the Government and the quality of its financial reporting. Even though, after submitting its financial statements, Statistics Sweden submitted first a correction and then a supplement, the balance sheet still includes obviously illogical outcomes which the internal quality-assurance function has failed to

identify. Moreover, the signature sentence required under the Financial statements and Budget Documentation Ordinance is not included in the financial statements.

Swedish Customs (Ref. No. 32-3008-0580)

The SNAO has examined quality measurement at Swedish Customs, i.e. the measurement on the basis of which it is assessed to what extent the amounts of taxes, duties and other fees that have been determined were paid in full and in time (the 'collection error'). The audit shows that there are shortcomings in the implementation process which increase the risk that the outcome and the analysis of the quality measurement will be misleading. For example, the documentation of the quality measurement has shortcomings such as a lack of transparency in assessments. Further, the audit shows that collection errors and other errors have occurred without being addressed in the quality measurement and thus without being reported, and that not all collection errors identified have led to the relevant amount being charged and the relevant decision being reviewed. The SNAO finds that Swedish Customs' procedures for implementing its quality measurement are inadequate. The shortcomings concerned entail an increased risk of accounting errors.

The audit shows that Swedish Customs should continue developing its work on implementing the Internal Control Ordinance. The risk analysis is not directly based on the risk that the operational objectives will not be achieved, and it is not process-oriented. Instead, the analysis is more based on an overall, general perspective. The SNAO therefore finds that the requirements laid down in the Ordinance are not fully complied with. Top management has prioritised four risk areas to be considered in planning. This choice has been documented in a decision. However, the audit shows that there are no established criteria for when an area should be deemed prioritised or sensitive. Swedish Customs has worked in a process-oriented way for a number of years, drawing up extensive process descriptions for parts of its operations. There are built-in controls in the processes and in the systems used in its operations. However, the SNAO's audit shows that Swedish Customs has failed to document the most material controls in the various processes. What is more, Swedish Customs has also failed to document its regular work to monitor whether these controls work satisfactorily. Swedish Customs has also failed to develop a procedure for summarising and reporting on control measures taken during the year.

Finally, top management at Swedish Customs has decided that all managers who provide information intended to underpin the financial statements must certify that their information provides a true and fair view. However, the

audit shows that top management has not determined what these managers are to take into consideration when making the related assessment. As a result, such assessments will be based on subjective judgements which may vary across information providers within the organisation.

Swedish Customs' estimate of the 'tax error', i.e. the proportion of total levies (taxes, duties and fees) charged which the scrutiny of import declarations has shown to be incorrect, is not based on a statistically validated method. Rather, this estimate is the result of subjective assessments and discussions at Swedish Customs. In other words, the estimated value is very uncertain. Swedish Customs largely relies on the tax error when assessing, in its financial statements, the extent to which it has achieved its objectives. The present method should be reviewed and evaluated.

Quality measurement should be reviewed and Swedish Customs should address the issue of the theoretical approach taken in its method to ensure that the outcome will give as true and fair a view as possible.

Swedish Administrative Development Agency (Ref. No. 32-2008-0581)

The bases for assessments and estimates made in work on the financial statements were unusually uncertain because, at the time of submission of the financial statements, the Government had not yet decided whether other agencies would take over parts of the operations of the Administrative Development Agency (which is to be wound down) and the associated assets and liabilities. For assets whose future use is uncertain, the SNAO finds that there may be some degree of over-valuation in the financial statements.

MINISTRY OF DEFENCE Defence Materiel Administration (Ref. No. 32-2008-0644)

The SNAO has identified certain shortcomings in how the Defence Materiel Administration has implemented the Internal Control Ordinance. Among other things, the documentation of the risks identified and the associated control measures, follow-up and evaluation was not kept entirely at the Legal Division, which is in charge of risk management. What is more, only a limited number of individuals at the Administration, such as risk coordinators and the managers responsible had knowledge about the process.

Swedish Armed Forces (Ref. No. 32-2008-0655)

The Armed Forces should enhance control and follow-up of its real estate management. This includes obtaining a better overview of its present and future needs for buildings as well as reinforcing incentives to control its real-estate activities so

as to reduce costs and gain other advantages.

The Armed Forces has not fully complied with the Government's requirement to implement electronic invoice processing. Specifically, it has failed to introduce, in a number of cases, possibilities to accept electronic invoices from other government agencies; it has not processed invoices from customers electronically in any part of its operations; and the operations of its logistical units have not been covered by the transfer to electronic form of incoming paper invoices from suppliers outside the public sector. The Armed Forces has also failed to request exemptions for these deviations.

The Armed Forces should improve control and follow-up of its fee-funded operations. Among other shortcomings, there is no comprehensive approach to fee-funded operations as regards the existing agreements, the estimates underlying those agreements and the Armed Forces' methods of ensuring that estimates are followed up in the case of major contracts.

The Armed Forces should consider taking supplementary action to ensure that its reporting and utilisation of appropriations comply with the applicable rules. In the SNAO's opinion, responsibility for assessing the need to allocate accrued costs to different periods and for verifying the correctness of the holiday-pay liabilities reported can be assumed only by the unit concerned, which possesses knowledge about the factual issues involved.

The interim report should have contained information about the ongoing work to upgrade a number of JAS Gripen fighter aircraft, because this work will lead to major changes in the book value of these assets.

The Armed Forces should clarify how it handles VAT issues when selling services to Luftfartsverket (the former Swedish Civil Aviation Administration).

It should also improve its procedures for ensuring the quality of its financial reporting and reinforce control over the drawing-up of performance reporting.

The SNAO finds that there are shortcomings in the financial statements of the Armed Forces. Its findings include that the procedure for providing information about material events should be improved, that the procedures for ensuring the quality of performance reporting should be further developed and that a more explicit division of responsibility should be established. Because of these shortcomings, the allocation of costs per type of expenditure for the various operational branches does not give an entirely true and fair view, and the indicators of efficiency and sound financial management are not fully comparable across different years. Further, quality assurance of financial reporting should be strengthened to ensure that it will comply with the applicable rules and provide top management with correct information on which to base its decisions. Two of the areas concerned

are reporting on provisions for future commitments and the handling of fixed assets. Finally, the Armed Forces should continue developing its system for internal control.

Because of limitations to expenditures laid down in the appropriation directions for 2008, the Armed Forces has renegotiated SEK 432 million worth of equipment deliveries from the Defence Materiel Administration, thus reducing the charge against appropriations compared with planned deliveries. No information about this is provided in the financial statements.

The SNAO reported earlier in the year that there was a risk of incorrect reporting on salaries and other remuneration. Those risks of misstatement remain.

In its financial statements, the Armed Forces identifies five areas with a high level of risk of material shortcomings in internal control. However, it is not clear from the information presented in conjunction with the statement on internal control whether – and, if so, how – the shortcomings reported have affected the financial parts of the financial statements or performance reporting.

Swedish Defence Research Agency

(Ref. No. 32-2008-0602)

When its interim report was examined, the Defence Research Agency had not investigated how some of the financial ramifications of its restructuring should be reported. This means that the financial ramifications have not yet been fully dealt with in current reporting.

National Service Administration

(Ref. No. 32-2008-0603)

The SNAO finds that the National Service Administration has managed its leases in an inadequate way, such that it will be bound by double leases during a three-year period and may have to pay about SEK 6.5 million a year for unused buildings. This should have been noted in the financial statements for 2008 since it constitutes material information.

In the audit of the financial statements, it was found that there was no overall documentation to underpin the Administration's performance reporting to the Government. The Administration should have a quality-assurance procedure to ensure that the documentation is complete and that the information reported agrees with the documentation on which it is based.

MINISTRY OF INTEGRATION AND GENDER EQUALITY

National Board for Youth Affairs

(Ref. No. 32-2008-0720)

The SNAO has identified shortcomings in internal control as regards the procedure for the allocation of grants in the policy area of 'Integration, Gender Equality, Popular

Movements and Minorities'. The National Board for Youth Affairs has decided to disburse grants in cases where the information provided by applicants was inadequate or even inexistent. The SNAO's audit has found that the shortcomings identified in the information provided by applicant organisations were so serious that the applications should have been rejected. There is thus a risk that incorrect decisions may have been made. For some matters relating to grants, the SNAO found it difficult to follow their handling and to establish what controls were established during their processing. The Board should clarify the follow-up aspect of its grant process and draw up recovery guidelines.

MINISTRY OF JUSTICE

Swedish Police

(Ref. No. 32-2008-0596)

The risk analyses performed and action plans established by virtue of the Internal Control Ordinance have not been aggregated into a decision, applicable to the Police in its entirety, laying down what risks and actions should be given priority. There are risk analyses and action plans for the individual county police authorities and for the National Police Board. However, the risk analyses and action plans of the three largest police authorities are not complete. The SNAO considers that the risk analysis should more explicitly include areas such as public procurement and financial and payroll management. No follow-up to determine whether the internal control process works as intended has been carried out in 2008.

The Police's reporting on fee-funded operations – mainly relating to passports and to the service of process – has shortcomings. Half of the county police authorities have failed to perform quality assurance on the documentation underpinning their reporting on fees. As a result, neither the Police nor external parties can make a complete assessment of whether the financial performance and situation of these operations have been reliably reported. Among other things, the reporting of time spent on these operations should improve.

As regards performance reporting, the documentation and the quality assurance process have shortcomings in several areas and should improve.

Finally, the SNAO has identified and reported on problems in the management of penalties and fines for several years. The cumulative amount of penalties and fines which have been paid to the Police but which the Police has not succeeded in matching to the correct administrative sanctions was SEK 4.5 million at the end of 2008.

National Board of Forensic Medicine (Ref. No. 32-2008-0654)

The National Board of Forensic Medicine exhibits shortcomings in the handling and follow-up of granted funds such that the incorrect coding of transactions has had an impact both on the change in capital for the year and on the change in capital carried forward.

MINISTRY OF AGRICULTURE Swedish Board of Fisheries (Ref. No. 32-2008-0610)

The Board of Fisheries has submitted incomplete interim financial statements to the Government. The presentation in the interim report of how appropriations have been used contains no information about outcomes in relation to the revenue headings allocated; this is where the Board should account for any revenues that are not used, but should be forwarded to the state treasury. (*Modified opinion in auditor's certificate*)

The Board exhibits shortcomings in the procedures for current reporting and reconciliation intended to enable it to ensure that it complies with the applicable regulations. Two examples are that there remain doubts about the way in which the Board used fishing-fee funds to finance fixed assets, and that in July 2008 the Board exceeded the credit limit set by the Government for its interest bearing account.

The Board should further develop the analysis of objectives and impacts in its performance reporting, in line with the requirements laid down by the Government in its appropriation directions for the Board. Clarity should be strived for as regards any target levels and as regards the analysis and presentation of relevant trends so as to improve the picture of how operations develop over time.

The Board should continue working on the previously identified shortcomings in its IT operations, such as the completion of the management plan for the technology platform and the implementation of procedures for continuity planning.

Further, the Board should develop procedures to analyse and present material information in the financial statements as regards top management's statement on the quality of internal control. It should have elaborated on the potential additional consequences of the shortcomings identified and on the action taken to address the shortcomings. The SNAO further finds that the Board has not yet completed the verification of control measures and the follow-up of risks identified.

Finally, the Board should take further action to obtain satisfactory procedures in the field of financial administration. For example, development should be undertaken as regards procedures for operations funded by fees and grants; for the inventory of fixed assets; for the

reconciliation of loans taken out to buy fixed assets; and for the reconciliation of the development of the balance on the interest-bearing account. The Board should also review its procedures for handling accounts payable; for reporting on outstanding commitments within the authorisation framework; and for applying exchange rates when valuing EU-related claims and liabilities.

Swedish Forest Agency (Ref. No. 32-2008-1017)

The SNAO's audit of the interim report shows that there are still shortcomings in internal control at the Forest Agency. Costs of intangible property incorrectly entered as assets and inadequate reporting of termination costs remain since the 2007 financial statements. In addition, the SNAO finds that the quality of current accounting is inadequate and that there are no documented analyses and no quality assurance of outcomes in the income statement or as regards ongoing projects.

Further, the Agency is under financial strain. This entails a need for well-developed analyses to underpin forecasts of contract-based operations.

The Agency has not fully met the requirements of the Internal Control Ordinance in 2008. What is more, its board of directors made a statement in the financial statements highlighting shortcomings in internal control. The SNAO therefore deems it important that resources should be allocated to the reinforcement of internal control and that the related work should continue in 2009. The risk analysis has been performed at an overall organisational level and covers overall operational risks. In-depth risk analyses have been performed only for financial-administration procedures and for contract-based operations. No evaluation has been carried out to determine whether the existing control measures are effective in relation to the risks identified. Moreover, no follow-up or evaluation as required under the Internal Control Ordinance has been carried out in 2008.

The Agency engages in contract-based operations which are subject to a requirement that revenues should fully cover costs. In the past two years, these operations have run a deficit. The SNAO considers it important that the Agency should take action to address these deficits.

MINISTRY OF CULTURE Swedish Museum of Architecture (Ref. No. 32-2008-0724)

The financing of the sale of goods kept in stock has changed through a decision included in the Government's appropriation directions. The Museum of Architecture has failed to perform a correction made necessary by that change, and as a result the appropriation savings carried forward are under-reported by SEK 1 million.

Living History Forum
(Ref. No. 32-2008-0632)

The Living History Forum needs to improve its control of purchasing and procurement. The SNAO's audit has identified one case where departures were made from the Public Procurement Act and from internal procurement rules. Departures from the Act may have occurred in yet another case.

Institute for Language and Folklore
(Ref. No. 32-2008-0660)

The Institute for Language and Folklore has stocks of publications worth an estimated SEK 2 million. The value of these stocks is not reported in the balance sheet, which constitutes a material misstatement. This misstatement has also affected the agency capital by the same amount. *(Modified opinion in auditor's report)*

Gaming Board for Sweden
(Ref. No. 32-2008-0635)

The 'Information' operational branch of the Gaming Board for Sweden will be funded by fees in future. The Government's appropriation directions specify that the financial objective is for revenues to cover costs fully. However, exemptions may be made in individual cases from the requirement of full coverage of costs. The extent of fee-funded operations within this branch is very small. For this reason, it is not justifiable for the appropriation directions to set the objective of full coverage of costs for the entire branch. The Board should raise this issue in its dialogue with the Government.

Some employees on temporary appointments had fairly large amounts of remuneration due at the end of the year. The SNAO deems it important to ensure that the payment of remuneration already earned is not postponed to the next year.

National Museum of Fine Arts and Prince Eugen's Waldemarsudde
(Ref. No. 32-2008-0743)

The financing of the sale of goods kept in stock has changed through a decision included in the Government's appropriation directions. The National Museum of Fine Arts has failed to perform a correction made necessary by that change, and as a result its claim against the Prince Eugen's Waldemarsudde Foundation has been over-reported by about SEK 1.5 million.

National Heritage Board
(Ref. No. 32-2008-0751)

In 2008 there have been shortcomings in internal control at the National Heritage Board as regards current

reconciliations and quality assurance of the financial statements document. Misstatements have also arisen in Hermes, the information system that supports budgeting, follow-up and evaluation in relation to the various central government operations.

National Archives and regional archives
(Ref. No. 32-2008-0787)

Fee-funded operations subject to a requirement that revenues must fully cover costs should be presented separately from the appropriation, so that it can be determined whether full coverage of costs is attained. Further, the National Archives should request a clarification from the Government as to whether there is in fact a requirement for full coverage of costs.

Swedish Arts Council
(Ref. No. 32-2008-0717)

The interim financial statements of the Arts Council were submitted too late. The Government received it on 3 September 2009, i.e. 19 days late, which has been deemed to constitute a material delay. *(Modified opinion in auditor's certificate)*

Swedish Biographical Dictionary
(Ref. No. 32-2008-0662)

The Swedish Biographical Dictionary had not yet implemented electronic invoice processing by August 2008. An application for an exemption was filed with the National Financial Management Authority. Later in the autumn, the Government decided that the Swedish Biographical Dictionary was to become part of the National Archives, and so it has become. As the National Archives has introduced electronic invoice processing, the Swedish Biographical Dictionary has done so as well given that it is now part of the National Archives.

Swedish Library of Talking Books and Braille
(Ref. No. 32-2008-0663)

In this year's audit, the SNAO has found shortcomings in the quality assurance performed by the Library of Talking Books and Braille in relation to its financial statements. This has given rise to a number of deficiencies both in financial reporting and in performance reporting; among other things, no signature sentence was added to the financial statements – even though that particular deficiency was put right after the submission of the report. Further, the performance report contains a number of minor misstatements in calculations and tables. Finally, the balance sheet lacks an item, and some supplementary information and notes lack certain text sections. Those shortcomings have also been put right after the submission of the report. The SNAO recommends that

the Library should reinforce its process for quality assurance of the financial statements prior to its adoption.

MINISTRY OF THE ENVIRONMENT Swedish Mapping, Cadastral and Land Registration Authority

(Ref. No. 32-2008-0738)

The audit of how the Mapping, Cadastral and Land Registration Authority has complied with the Internal Control Ordinance shows that there are shortcomings in its work and documentation that need to be remedied. Among other things, the description of the risks should be made more specific and the risks should be linked more closely to the requirements laid down in the Agency Administration Ordinance and to the Authority's objectives for its core and support processes. Further, the documentation kept by virtue of the Internal Control Ordinance is not organised in such a way that the board of directors of the Authority can easily obtain an overview of the risks that may jeopardise the achievement of operational objectives.

The SNAO has also identified shortcomings in how the Authority manages, follows up and reports on development projects. The SNAO recommends that the procedures for reporting expenditure relating to development projects should be more explicitly linked to the Authority's project-management model. The shortcomings identified have been corrected in the financial statements.

Finally, the SNAO finds that there have been shortcomings in the quality assurance of financial reporting.

Swedish Radiation Protection Authority (Ref. No. 32-2008-0625)

(financial statements as per 30 June 2008)

On 1 July 2008, the Swedish Radiation Protection Authority and the Swedish Nuclear Power Inspectorate merged to form the Swedish Radiation Safety Authority. Unused grants intended to finance fixed assets are incorrectly included in the change in capital carried forward, which is therefore about SEK 14 million larger than it should be. Correct reporting in accordance with generally accepted accounting principles would have yielded a negative change in capital carried forward of about SEK 3.7 million.

(Modified opinion in auditor's report)

MINISTRY OF ENTERPRISE, ENERGY AND COMMUNICATIONS

Svenska Kraftnät (Ref. No. 32-2008-0607)

The board of directors of Svenska Kraftnät, a state utility operating power grids, has not presented information proving that it has fulfilled the requirements of the Internal Control Ordinance. The information presented does not

indicate whether the board of directors of Svenska Kraftnät has determined how it wishes to carry out work on internal control at the state utility. There is no documented and formally adopted process for this work. What is more, the board of directors has not allocated appropriate resources or given priority to work on internal control. The board has also not formally entrusted anyone with responsibility for carrying out the practical work involved.

A follow-up audit of its work on information security shows that Svenska Kraftnät needs to take additional action to reinforce its information security. The SNAO further finds that the link between management of operations and management of IT activities should be made more explicit by means of formally adopted documents specifying the orientation of work and by means of clearer objectives for the IT activities. In addition, the SNAO has noted shortcomings as regards the documentation of responsibility for remedying material risks as identified in the risk analysis; the absence of a formally adopted structured process for evaluating and testing continuity plans; and a lack of documented follow-up of service agreements between the utility and the IT Department.

Swedish Companies Registration Office (Ref. No. 32-2008-0767)

The Companies Registration Office's handling of the termination of the lease on its old premises has led to significant additional costs corresponding to almost one year's rent. The SNAO finds that the Office failed to fulfil its administrative responsibilities in conjunction with the termination of the lease, thus causing itself to sustain significant costs.

Luffartsverket (Ref. No. 32-2008-0615)

The board of directors of Luffartsverket (the former Swedish Civil Aviation Administration) has not presented sufficiently detailed information proving that it has fulfilled the requirements of the Internal Control Ordinance. Luffartsverket's risk analysis needs to be supplemented with control measures for all identified risks, with reasons given for and positions taken on the planned measures. It is not entirely clear from the documentation drawn up by Luffartsverket to what extent follow-up and evaluation have been carried out.

National Post and Telecom Agency (Ref. No. 32-2008-0617)

The National Post and Telecom Agency has been entrusted by the Government with the task of awarding a contract for certain basic payment services. The SNAO considers that the procurement process for these services could

have been better. Among other things, notes should be taken during negotiation meetings. Further, the contractual provisions should have laid down a requirement for the supplier regularly to provide explicit reports to the Agency on how funds allocated by the Agency are being used in the supplier's operations.

Swedish National Space Board (Ref. No. 32-2008-0780)

The National Space Board has exceeded the authorisation framework set by the Government for Appropriation 28:12 by SEK 265 million. This appropriation is mainly used to pay fees for Sweden's participation in joint space activities organised by the European Space Agency, of which Sweden is a member.

The SNAO has pointed out in previous reports that since September 2003 the Board has had an employee who receives a full salary but does not carry out any work and is not present at the workplace. The Board has not yet taken any action to remedy this situation.

European Social Fund Council in Sweden (Ref. No. 32-2008-0693)

The SNAO considers that the European Social Fund Council in Sweden (ESF Council) has had inadequate internal control and follow-up as regards the acquisitions made during the year of fixed assets developed by the ESF Council itself and the associated loans. As a result, a loan application made by the ESF Council was rejected in December 2008. The ESF Council has breached the Capital Procurement Ordinance. Under that Ordinance, the total amount of loans recorded in the financial statements must not deviate materially from the book value of the corresponding assets, and repayments on loans must be made at least twice a year. Such repayments are to be charged against appropriations to the extent that they relate to assets used in appropriation-funded operations. If the ESF Council had made repayments in line with the Ordinance, the total appropriation expenditure recorded in its financial statements for 2008 would have been SEK 3.2 million higher.

In previous reports, the SNAO has emphasised the importance of quality assurance in relation to the information presented in the financial statements. In this year's audit, the SNAO found that the documentation and quality assurance of the information in the financial statements are not yet satisfactory. The ESF Council should ensure that adequate resources exist for documentation and quality assurance of its financial statements.

The SNAO has examined and followed the work undertaken to implement the new process for internal control. We consider that there is a need to develop the working method and the documentation to ensure that the

ESF Council will fully comply with the requirements laid down in the Internal Control Ordinance. One shortcoming is that risk analysis has been performed for core operations but not for support operations. Material administrative risks have not been identified and assessed. Top management made no formal decision on control measures in 2008.

MINISTRY OF HEALTH AND SOCIAL AFFAIRS Swedish Council for Working Life and Social Research (Ref. No. 32-2008-0542)

The authorisation framework has been exceeded for two appropriations. The Government decided to change the authorisation framework after receiving a letter from the Council for Working Life and Social Research, but even so the framework was exceeded. The SNAO recommends that the Council should improve its procedures for making estimates of commitments made.

Swedish Social Insurance Agency (Ref. No. 32-2008-0552)

The Social Insurance Agency should continue developing its work on implementing the Internal Control Ordinance. The risk analysis should be improved so that account is taken of all major risks. Further, the Agency should ensure that all major control measures that have been decided work as intended, and its top management should obtain a clearer overall picture of the control structure. Internal control should be reinforced as regards public procurement, the quality of decisions in individual insurance matters and the follow-up of decided controls. The Agency should ensure that it has the ability to follow up and control the quality of its decisions on a regular basis, and it should reinforce the role played by its purchasing function. Finally, the Agency should improve the process for drawing up its financial statements, including quality assurance of the information on which it is based.

Medical Responsibility Board (Ref. No. 32-2008-0544)

The SNAO finds that the Medical Responsibility Board fails to comply with the fundamental rules on the handling of matters laid down in the Administrative Procedure Act as regards the recording of information (Section 15), the right of parties to be informed (Section 16) and notification (Section 17). What is more, no information about the unclear legal situation is given in the financial statements.

(Modified opinion in auditor's report)

Medical Products Agency (Ref. No. 32-2008-0548)

The SNAO has examined the information management programme of the Medical Products Agency. The audit

showed that there was no long-term, specific decision as to the purpose of this programme as a whole when its budget for 2008 was decided. There were also no estimates of the impact that the programme would have on the financial performance or liquidity of the Agency during the life cycle of the programme. The nature of the programme is such that decisions in this matter should have been made by the board of directors. It is not clear from the minutes of board meetings whether any such decisions have been made, but the SNAO has received information to the effect that the board was informed orally. Finally, there is a lack of appropriate follow-up and reporting in relation to the programme.

National Board of Institutional Care (Ref. No. 32-2008-0558)

During the SNAO's audit in the autumn of 2008, it emerged that much remains to be done at the National Board of Institutional Care when it comes to implementing the Internal Control Ordinance; for example, no risk analysis has yet been formally adopted.

The Board is undertaking work to implement the Ordinance, but the SNAO finds that there are areas which need to be developed. For example, there is no link between control measures, evaluation and follow-up in relation to a risk analysis covering all 'gross risks', i.e. all risks that the Board may be exposed to unless its internal control functions well. Further, the Board's documentation does not fully comply with the requirements laid down in the Ordinance. Finally, work on the Ordinance has been carried out only at the overall level, addressing only 'net risks'. Net risks are the risks that remain once the existing internal-control arrangements have been taken into consideration. The Board should find methods to ensure that its work on the Ordinance will have a suitable impact at all levels of its organisation, and a person should be given responsibility for future work on the Ordinance.

MINISTRY OF EDUCATION AND RESEARCH

University of Gothenburg (Ref. No. 32-2008-0696)

The SNAO has examined collaborative efforts undertaken through centres of research and excellence, the University's engagements in external organisations, and the University's relationship with its holding company as well as its engagements in associations formed under private law. The audit shows a number of shortcomings. Among other things, the University should develop the directives it issues in its capacity as owner, so that it can exercise more explicit direction over its holding company, and the basis for its financial transactions with the holding company should be formalised. The University should also continue its work to ensure that the Public Procurement Act is applied

correctly. Finally, the University should complete the work it has started to request the Government's permission for engagements in associations formed under private law, and it should draw up guidelines for these types of engagements. The Government's attention should also be drawn to any need that may exist to update the articles of association of the holding companies as well as their engagements in associations formed under private law.

Halmstad University College (Ref. No. 32-2008-0674)

The SNAO has repeatedly pointed out over a number of years that Halmstad University College needs to develop the process for quality assurance of its financial statements. This year's audit shows that the shortcomings remain. The SNAO finds that the University College has failed to allocate adequate resources to ensure that the financial statements will be drawn up in compliance with the applicable rules and appropriation directions, that the information underpinning the financial statements will be satisfactorily documented and that the shortcomings previously identified will be remedied. Examples of shortcomings in the financial statements include the lack of an overall documented basis for performance reporting, misstatements in the breakdown of revenues and expenditures per operational branch, and a failure to present information fully in compliance with the reporting requirements laid down in the Government's appropriation directions.

University College West (Ref. No. 32-2008-0679)

The Vice Chancellor of University College West and the Chairman of the Board of Directors of the University College are a member and assistant chairman of the boards of directors of Innovatum AB, a company, and Stiftelsen Innovatum, a foundation, respectively. The Government has decided that government agencies must not undertake such engagements without the Government's permission. The University College lacks such permission from the Government. Cooperation agreements have been entered into with various companies. The SNAO finds that a number of circumstances indicate that the organisation under whose aegis cooperation takes place may be an association formed under private law, which would require the Government's permission; the University College lacks such permission.

Karlstad University (Ref. No. 32-2008-0697)

The SNAO considers that there is a need to develop the process and improve the documentation to ensure that the University will comply with the requirements laid down in the Internal Control Ordinance. Among other things, the board of directors has not decided how the work on internal

control is to be carried out, even though that issue has been discussed by the board on a few occasions. Further, a more comprehensive description of the existing arrangements for internal control should be drawn up for the benefit of the board. In several cases, the risks are described as 'net risks', meaning that the description takes account of the existing internal-control arrangements. As a result, the existing arrangements for internal control are not fully described in an explicit way and the risk analysis is based on the assumption that the existing control measures actually work. There is a lack of an explicit link between risk analysis and objectives as required under the Agency Administration Ordinance. Risks in the University's support processes are dealt with only to a very limited extent. Finally, it is not clear from the documentation how the findings and recommendations of external auditors have been taken into consideration.

The SNAO has found that the University has paid an amount to Stiftelsen Drivhuset, a foundation, which is larger than the amount accepted by the Government.

The SNAO has concluded that the Public Procurement Act is applicable to purchases from closely associated legal persons. The University should assess how this circumstance will affect its future procurement activities and its relationships with its holding company, including its subsidiaries, and with Akademiska Hus, a state-owned real-estate enterprise.

Karolinska Institutet (Ref. No. 32-2008-0736)

The SNAO considers that there is a need to develop the process and improve the documentation to ensure that Karolinska Institutet, a medical university, will better comply with the requirements laid down in the Internal Control Ordinance. By meeting the requirements of the Ordinance and improving documentation in line with the Ordinance, the board of directors will have access to an overall integrated basis for assessing internal control. The SNAO's audit has identified the following shortcomings: there is no explicit link between the risk analysis and the objectives, as required under Section 3 of the Agency Administration Ordinance; the risks identified are not broken down according to core and support processes; and the risk analysis does not state whether individual risks should be accepted, mitigated, shared or eliminated. Finally, the risks are described as 'net risks', meaning that only activities with inadequately managed risks are presented. As a result, the description of the existing arrangements for internal control is not clear in all respects.

Royal College of Music, Stockholm (Ref. No. 32-2008-0686)

The SNAO has concluded that the Public Procurement Act

is applicable to purchases from closely associated legal persons. In 2008, the Royal College of Music entered into an agreement with Academus AB, a subsidiary of Stockholm University's holding company. This decision was not preceded by a public-procurement process on the part of the College. It has also emerged that the College has certain shortcomings in its current procurement procedures. The College should therefore take action to ensure that the Public Procurement Act is applied correctly.

Royal Institute of Technology (Ref. No. 32-2007-0780)

The SNAO considers that there is a need to develop the process and improve the documentation to ensure that the Institute will comply with the requirements laid down in the Internal Control Ordinance. Among other things, more comprehensive integrated documentation should be drawn up to describe the existing arrangements for internal control. Further, the risks associated with the core processes are described from an overall perspective and in most cases described as 'net risks', meaning that the descriptions take account of the existing arrangements for internal control. As a result, the existing arrangements for internal control are not fully described in an explicit way. What is more, the risk analysis is based on the assumption that the existing control measures actually work. Finally, risks in the Institute's support processes are dealt with only to a limited extent.

Linköping University (Ref. No. 32-2008-0698)

The board of directors of Linköping University has not presented information proving that it has fulfilled in all respects the requirements of the Internal Control Ordinance. Among other things, the SNAO has found that the board has failed to document the process for future work on internal control and to adopt a formal decision establishing that process. The positions taken by the board in relation to risks identified and any actions planned should be informed by risk analysis to a greater extent. Material administrative risks have not been identified and assessed. Further, top management has made no formal decision on control measures in 2008. Finally, it is not clear from the documentation whether and to what extent control measures have been followed up and evaluated.

The SNAO has examined the University's relationship with its holding company, concluding that owner's directives should be drawn up and adopted by the annual general meeting of the company. The University should also obtain Government approval for its service-concession agreement with the holding company. Since the terms of this agreement are not commercial, it can be deemed to be in breach of the Capital Procurement Ordinance.

The SNAO has concluded that the Public Procurement Act is applicable to purchases from closely associated legal persons. The University should assess the impact of this on its future public procurement activities.

Finally, the SNAO finds that the University has not allocated adequate resources to analyse and follow up the information from various departments which constitutes the basis of the financial statements or to document all relevant information underpinning the financial statements. The supporting documentation of the financial statements has extensive shortcomings.

Malmö University College (Ref. No. 32-2008-0677)

When taking a position on the process for internal control according to the new Ordinance, the board of directors should specify what documentation it requires for the assessment of internal control that it must make, by virtue of the Financial statements and Budget Documentation Ordinance, before signing the financial statements. The documentation should be drawn up in such a way that it forms an integrated basis for assessing whether the arrangements for internal control are satisfactory.

In the balance sheet, expenditures of SEK 2.6 million relating to a project have been allocated to different periods under the heading of accrued revenue from grants. There is no documentation showing that there exists agreed financing for the project. Under the Financial statements and Budget Documentation Ordinance, accrued revenue from grants may be recorded only if there is a written agreement. The item in question is thus over-valued.

Swedish Agency for Advanced Vocational Education (Ref. No. 32-2008-0705)

The Agency for Advanced Vocational Education has exceeded its appropriation credit and the authorisation framework for its grant appropriation by SEK 8.9 million and SEK 12.3 million, respectively. The SNAO recommends that the Agency should review its procedure for monitoring that the financial restrictions laid down in the Government's appropriation directions are not breached.

Mälardalen University College (Ref. No. 32-2008-0732)

The existing arrangements for internal control at Mälardalen University College are described to some extent in the documentation provided to its board of directors, but a more comprehensive description should be drawn up to inform future financial statements. To achieve a more complete presentation, it is also necessary for the control measures implemented to be followed up during the course of the year, so that the University College will obtain an overall

picture of the results of the existing arrangements for internal control. In several cases, the risks are described as 'net risks', meaning that the description takes account of the existing arrangements for internal control. What is more, risks in the support processes of the University College are dealt with in the risk analysis only to a very limited extent. Finally, the documentation provided to the board of directors is not comprehensive in the sense of the Internal Control Ordinance.

Regional Ethical Review Board, Lund (Ref. No. 32-2008-0747)

The financial statements were submitted too late.
(*Modified opinion in auditor's report*)

Swedish Institute for Special Needs Education (Ref. No. 32-2008-0712)

(financial statements as per 30 June 2008)
Termination costs were recorded as expenditures in an amount which is about SEK 2.8 million too low, meaning that those costs are instead charged to the winding-up authority.

National Agency for Special Schools for the Deaf and Hard of Hearing (Ref. No. 32-2008-0722)

(financial statements as per 30 June 2008)
Termination costs were recorded as expenditures in an amount which is about SEK 4.7 million too low, meaning that those costs are instead charged to the winding-up authority.

National Agency for Education (Ref. No. 32-2008-0713)

The SNAO considers that the documentation required under the Internal Control Ordinance is not on its own a sufficient basis for assessing internal control at the National Agency for Education. To comply with the requirements laid down in that Ordinance, the Agency must therefore develop the process and improve the basis for assessment. Among other things, the Agency should base its risk analysis on all of its objectives and on 'gross risks', i.e. the risks it would be exposed to without functioning arrangements for internal control. In addition, control measures should be identified and followed up.

Stockholm University (Ref. No. 32-2008-0761)

Stockholm University has not decided upon any owner's directives for its holding company. It has, however, begun to draw up such directives. There is also a need to make the relationship between the University and its holding company more business-like. In fact, there is a risk that the managing director of the holding company may not always

be independent, given that he is also an employee of the University. The managing director should not deal, in his capacity as a University employee, with matters relating to the holding company of such a nature as to make it possible to question his independence. Finally, the SNAO has concluded that the Public Procurement Act is applicable to purchases of services from holding companies owned by the purchaser and to construction projects subcontracted to Akademiska Hus AB, a state-owned real-estate enterprise. The University should ensure that the Act is applied correctly.

Swedish University of Agricultural Sciences (Ref. No. 32-2008-0760)

The board of directors of the University of Agricultural Sciences has not presented information proving that it has fulfilled the requirements of the Internal Control Ordinance. Among other things, the board has not established and adopted methods for its work on internal control in 2008. The risk analyses drawn up do not specify how risks should be assessed or what risks are so important that they must be dealt with by the board and what ones can be dealt with at other organisational levels. Further, no explicit reasons based on the risks identified are given for the control measures identified. Finally, it is not clear from the documentation whether and to what extent follow-up and evaluation have been carried out.

The SNAO has concluded that the Public Procurement Act is applicable to construction projects subcontracted to Akademiska Hus AB, a state-owned real-estate enterprise. It is recommended that the University should investigate how this fact will affect its future procurement activities, in part considering that the University intends to enter into agreements about the construction of new premises.

Södertörn University College (Ref. No. 32-2008-0735)

Södertörn University College decided in 2007 to move the undergraduate education and research carried out in Haninge to the central campus in Flemingsberg and to close down the library in Haninge at the same time. The University College has an obligation to pay rent for the premises concerned until 31 May 2010.

To provide a complete picture of the University College's costs of premises, the cost of premises not used by it should be recorded in the balance sheet as accrued expenses. The corresponding amount should also be recorded in the income statement as costs of premises.

In 2009, the University College should record the rent for the unused premises in Haninge as a non-recurring cost. It should estimate its costs pertaining to the terminated premises and record all costs of premises attributable to that financial year.

Växjö University (Ref. No. 32-2008-0700)

The board of directors of Växjö University has not presented information proving that it has fulfilled the requirements of the Internal Control Ordinance. Among other things, the board has not established and adopted methods for its work on internal control. The board has also not formally adopted the risk analysis and the risk-assessment model. The risk analysis should be developed as regards the administrative processes. Further, no control measures have been identified, been determined by the board or had an impact with an identifiably direct link to the risk analysis. It is not clear from the documentation whether and to what extent the control measures have been followed up and evaluated. Finally, there is no integrated documentation of the activities included in the internal-control process; such documentation should form the basis of the board's statement in the financial statements on the quality of the arrangements for internal control.

The process to document, follow up and analyse the financial statements should be strengthened to ensure that reporting to the Government will be correct and that the applicable rules will be complied with.

The SNAO has concluded that the Public Procurement Act is applicable to purchases from closely associated legal persons. The University should assess the impact of this on its future procurement activities.

The SNAO has repeatedly pointed out over a period of several years that the University needs to settle its debts relating to teachers' overtime. The University needs to reach a settlement with its creditors and pay off its debts.

Örebro University (Ref. No. 32-2007-0745)

The examination of how Örebro University has complied with the Internal Control Ordinance shows that there are certain shortcomings in its work and documentation that need to be put right in 2009. Among other things, its board of directors has not taken an explicit position specifying the reporting and documentation it needs in order to make the requisite statement in the financial statements as regards the quality of internal control. The existing arrangements for internal control are described to some extent in the reports made to the board, but a more comprehensive description should be drawn up. The board has not taken a position on how risks should be assessed nor on what risks are so important that they must be dealt with by the board and what ones can be dealt with at other organisational levels. Further, there is a description of overall control measures to counteract the most material risks, but for the other risks there are only limited descriptions of the existing arrangements for internal control. The University should more explicitly document the

control measures that have been implemented, are lacking or are being planned for the various risks identified, so that the board will be better able to assess whether the control measures taken are sufficient. Further, it is not clear from the University's documentation whether and to what extent follow-up and evaluation have been carried out. Finally, the documentation underpinning the board's assessment of the quality of internal control should be enhanced so that it constitutes integrated comprehensive documentation.

The SNAO has examined the University's procurement of goods and services; it has found shortcomings in the procurement procedure. Among other things, the public-procurement rules are not up to date, there are no procedures to ensure that procurements are carried out in a business-like manner, and there are no procedures to ensure that maximum amounts are not exceeded. Further, there are no templates or other documents to guarantee the quality of the procurement process. The SNAO's audit shows that the rules of the Public Procurement Act are not being complied with. For some acquisitions, no procurement procedure was carried out; and there are several contracts which date back several years or are based on tradition. There are also cases where the University carried out a procurement procedure even though there was an applicable framework agreement and without informing the National Financial Management Authority of the reasons for doing so. The SNAO has also concluded that the Public Procurement Act is applicable to construction projects subcontracted to Akademiska Hus AB, a state-owned real-estate enterprise. The University should consider how these conclusions will influence its procurement process.

MINISTRY FOR FOREIGN AFFAIRS

Folke Bernadotte Academy

(Ref. No. 32-2008-0597)

The SNAO considers that the process used by the Folke Bernadotte Academy to draw up its performance reports has shortcomings. The SNAO finds that the Academy did not fully apply the process as decided when drawing up its financial statements for 2008 and that this contributed to the shortcomings found in the financial statements. Shortcomings in performance reporting were noted as regards failures to comply with reporting requirements, the extent of reporting, a lack of comparisons with previous years and an inadequate basis for reporting.

Swedish International Development Cooperation Agency

(Ref. No. 32-2008-0638)

The SNAO finds that the Swedish International Development Cooperation Agency (Sida) has not satisfactorily applied its chosen method of using audits and investigations as its control method for the granting of aid in 2008. As a result

of the shortcomings in Sida's internal control, Sida fails to make adequate assessments of the risks associated with individual contributions and fails to obtain information to a sufficient extent from the auditors who have examined the aid beneficiaries. Sida does not make sufficiently extensive assessments of the focus, outcome or quality of the audits and investigations carried out. Moreover, Sida does not take action to a sufficient extent when errors or shortcomings are identified in aid beneficiaries.

The SNAO finds that the shortcomings described in the report are the result of Sida's inadequate system to follow up its internal control. **(Modified opinion in auditor's report)**

Swedish Institute

(Ref. No. 32-2008-0600)

The Swedish Institute has exceeded its authorisation framework by SEK 1.7 million. By way of explanation, the Institute has stated that it has had a generous attitude to changes in study and research periods. The authorisation framework has doubled for 2009. The Institute should undertake follow-up to ensure that the authorisation framework allocated is not exceeded; and if there are reasons for exceeding it, the Institute should apply to the Government for an extension to its framework.

AGENCIES REPORTING TO THE RIKSDAG (PARLIAMENT)

Riksbank (central bank)

(Ref. No. 32-2008-0578)

It is not entirely clear and explicit from the financial statements how the Riksbank defines certain important concepts in the section about a secure and efficient payment system. It also does not emerge in an entirely clear and explicit way from the texts what the Riksbank's conditions are as regards earning capacity and credit losses. Further, there is no explicit description of how the various factors have been weighed together to arrive at the Riksbank's overall assessment of financial stability. This means that there is a risk that it may be difficult to interpret the Riksbank's conclusions and assessments.

The SNAO has noted that the Riksbank was allegedly unable to obtain an external legal opinion on third-party securities lodged by foreign companies, thereby exposing itself to the risk of making decisions on an incorrect basis.

Annex 2 Performance-audit reports published since the 2008 Annual Report

The SNAO has published 28 performance-audit reports since the Annual Report of the Auditors General for 2008. This annex includes brief summaries of the contents and main findings of each report.

Controls on cross-compliance in EU farm support (RiR 2008:11)

The SNAO has examined how the Government and the government agencies concerned have managed controls on 'cross-compliance' in EU farm support. The EU pays almost SEK 6 billion of farm support each year to Swedish farmers. This support constitutes an important part of the revenues of Swedish farmers. To be eligible for support, however, farmers must meet a number of conditions. They must ensure that their agricultural land is taken care of and that they comply with the applicable laws in the fields of the environment, public health, animal health, plant protection and animal protection. A large number of government agencies are involved in the system of 'cross-compliance controls' to check that they do so, including the Board of Agriculture, county administrative boards and municipalities. If a farmer fails to meet one or several cross-compliance obligations, a corresponding deduction is to be made from the amount of farm support. The SNAO's overall finding is that there are major shortcomings in cross-compliance controls. For example, the requirement of a minimum number of inspections has not been met. The audit also shows shortcomings in the conditions for inspections provided by the Government as well as shortcomings in the responsibility of the Board of Agriculture as the coordinating authority. For example, the Board of Agriculture has made support payments, based on decisions by county administrative boards to grant support, even though there was inadequate documentation as regards cross-compliance controls.

The Government's sale of 8% of the shares in TeliaSonera (RiR 2008:12)

In the spring of 2007, the Government sold 8% of the shares in TeliaSonera, a company, for SEK 18 billion. That sale was the first step in the Government's plan to reduce the central government's shareholdings in state-owned enterprises. The SNAO has examined how the Government planned, carried out and followed up the sale and how it reported on it to the Riksdag. One of its findings is that the Government obtained a reasonable price considering its level of ambition and the briefness of the period during which the transaction was implemented. However, the discount – i.e. the

difference between the price obtained and the stock-market price – was relatively large. The Government could have improved the likelihood of a lower discount by exercising more active direction over the banks that carried out the transaction. The SNAO's recommendation is that ahead of future sales, the Government should establish and follow the relevant best practice. In particular, the SNAO considers that the Government should ensure that Government Offices staff have adequate skills in the field of placing such orders and that a proactive approach is taken relative to the advisors and banks entrusted with the task of carrying out the transactions. It is also important in the context of future sales that issues relating to the discount are taken into consideration both during preparations and during the actual implementation and follow-up of the transaction.

Swedish for immigrants: An activity without known impacts (RiR 2008:13)

Swedish for immigrants (SFI) is a type of adult education aiming to provide students with basic Swedish-language skills. One important aim of SFI is to enhance participants' opportunities to find a job and obtain an income. The SNAO has examined whether the Government has evaluated the impact of SFI on participants' labour-market situation and investigated whether conditions are such that impact evaluations can be performed. Its audit shows that the impact of SFI has never been evaluated, either as regards the labour-market situation of participants or in other respects. The audit also shows that the impact of SFI cannot be evaluated on the basis of the existing statistics and using traditional methods. The Government has failed to create conditions in which an evaluation could be carried out. In its report, the SNAO presents two proposals to facilitate the evaluation of the impact of SFI.

Cultural grants: Effective control and good conditions for innovation? (RiR 2008:14)

The SNAO has examined the award of grants by the Swedish Arts Council and the Swedish Arts Grants Committee. The audit shows that the Arts Council has improved the internal control of the grant process in recent years. Even so, there remain shortcomings in the grant-awarding activities of both the Arts Council and the Arts Grants Committee. One example is that the criteria governing those activities are unclear. The audit also shows that while there is some turnover of beneficiaries, each year most of the money

awarded by the Arts Council goes to beneficiaries who have obtained grants for several years. This may be a sign of deficiencies in the review of grants and thus an indication that the innovation objective of cultural policy is not being achieved. The SNAO recommends that the Government and the cultural agencies should make their follow-up and evaluation stricter, both as regards individual beneficiaries and as regards various categories of grants, so that they will have a better-documented basis in the context of the grant system for reviews and for work to promote innovation.

Application of the framework of fiscal policy: The Government's presentation in the 2008 spring fiscal policy bill (RiR 2008:15)

The SNAO has examined the Government's application of the framework of fiscal policy in the 2008 spring fiscal policy bill. From 2008, the spring fiscal policy bill has a new structure in line with the Riksdag's wishes. It should no longer contain specific proposals for new reforms but instead explicitly indicate the overall orientation of fiscal policy. The framework of fiscal policy has a key role when it comes to ensuring a long-term sustainable fiscal policy. This framework consists of quantitative targets and restrictions such as the surplus target, the expenditure ceiling and the municipal-balance requirement. The SNAO's audit shows that the Government has improved its presentation compared with previous fiscal policy bills. Even so, the monitoring of the surplus target and the assessment of the scope for reform remain unclear. The Government's estimates show that the surplus in the public finances is large and growing, and that it greatly exceeds the target of 1% of GDP. However, it is not clear from the bill how much scope there really is for reform. Nor does the Government present a plan describing the long-term adjustments needed to bring the large surpluses in line with the surplus target.

Lower social-security contributions: For whom and at what cost? (RiR 2008:16)

The SNAO has examined whether the reduction of social security contributions is a cost effective measure and whether it leads to higher employment. The SNAO has examined the 'regional reduction' targeted towards parts of the interior of northern and central Sweden, a general reduction for small companies (the '1997 reduction') and a reduction for employees aged 18–24. The SNAO's overall finding is that the regional reduction has yielded no employment effects and had a limited impact on business. The 1997 reduction has also had a very limited employment effect. The cost per job created was extremely high. According to the SNAO's impact analyses, the reduction of social-security contributions for young people has had limited employment effects and large deadweight effects. Like all impact analyses, however,

the SNAO's estimates are associated with a certain level of uncertainty. It is therefore important to further evaluate the reduction for young people. Given the Government's plans to implement an even larger reduction of social security contributions for young people, this appears particularly urgent. The SNAO proposes that the Government should discontinue the regional reduction of social security contributions and that it should evaluate without delay the reduction of such contributions for young people.

The Government's handling of supplementary budgets (RiR 2008:17)

The SNAO has examined the Government's handling of supplementary budgets in the 1996–2008 period. Once the Riksdag has adopted the central government budget, the state funds are at the disposal of the Government subject to any relevant decisions made by the Riksdag. Unforeseen spending needs may arise during the course of the budget year and the Government must be able to handle those. One way of doing so is to draw up a supplementary budget. Since a supplementary budget is submitted to the Riksdag during the financial year to which it applies, the Riksdag effectively lacks the possibility of considering other options. How the Government handles and presents the proposals included in supplementary budgets is therefore important. The SNAO's audit shows that only one in five of the almost 600 proposals examined met the criteria for being included in a supplementary budget. The audit also shows that the proposals in supplementary budgets are often drawn up without overall assessments being made and on the basis of inadequate information.

The winding-up of government agencies (RiR 2008:18)

The SNAO has examined whether the Government has wound up government agencies in an efficient manner and whether the objectives of restructuring have been attained. The audit includes the following former agencies: the National Institute for Working Life, the Animal Protection Agency, the Institute for Psychosocial Medicine, the Swedish Integration Board and the National Board for Public Procurement. The SNAO has not found any serious shortcomings. However, the audit has identified a number of minor errors and shortcomings that have reduced the efficiency of the winding-up operations. There is reason to highlight the issue of the need for flexibility in the organisation of public administration. The audit shows that the winding-up of a government agency entails significant costs and that these costs remain for a few years after the date of termination. Based on its audit, the SNAO finds that there is scope for making winding-up operations more efficient, which would facilitate future organisational changes in public administration.

High quality in higher education? (RiR 2008:19)

The SNAO has examined the Government efforts to obtain knowledge about the state of quality and quality trends. The audit shows that there are shortcomings in the Government's efforts to obtain knowledge and that its reporting to the Riksdag has not been comprehensive. In its audit, the SNAO has assessed the quality of a number of undergraduate study programmes. This assessment shows that the quality of Swedish undergraduate education is good but not consistently high. It indicates that there is a significant potential for improvement in most of the study programmes examined. However, the findings do not support the frequent claims that there are widespread quality problems in higher education. The SNAO recommends that the Government should improve its reporting to the Riksdag and reinforce its work to obtain knowledge about the quality of higher education.

Audit of the Central Government Annual Report 2007 (RiR 2008:20)

Each year the Government submits an annual report on the operations of the central government to the Riksdag. One of the main purposes of this report is to give the Riksdag insight into the finances of the central government. The annual report must include an income statement, a balance sheet, a cash flow analysis and information about final outcomes for the central government budget revenue headings and appropriations. It must also give an overall picture of the central government's expenditures, revenues, assets and liabilities, and it must facilitate the direction, monitoring and evaluation of the central government's finances. It is therefore crucial for the presentation given in the report to provide a true and fair view, including as regards parts of the report that are not compulsory under the Budget Act. To supplement its financial-audit function's scrutiny of the Central Government Annual Report 2007, the SNAO has also carried out a performance audit of certain parts of that report. The SNAO finds that the presentation has improved in several respects compared with the 2006 annual report but that shortcomings remain. It considers that the presentation of the outcome as regards net lending is unclear and in part misleading. Compliance with the surplus target is monitored using indicators that are partially made up of forecasts, and there is no explicit assessment of the size of the deviation from the surplus target. Not all 'technical adjustments' made to the expenditure ceiling in 2007 are reported. Finally, no explanations are given for the large deficit of the pension system in 2007 and no comments are made on the development of the asset–liability ratio of that system.

The central government's work to ensure the quality of private care for the elderly (RiR 2008:21)

The SNAO has examined whether the central government has created the requisite conditions for good quality and transparency in privately run care for the elderly. An increasing number of elderly people receive care from private providers. In 2006, 13,000 (14%) of the elderly lived in special housing run by private providers, and 15,000 (11%) of those who received home-help services did so from private providers. The SNAO's audit shows that the Government has failed to obtain sufficient knowledge about whether the market for elderly care works satisfactorily. The National Board of Health and Welfare has not made sure that it knows how the agreements between municipalities and private providers work. A special-housing undertaking must apply for a permit from the county administrative board unless it has concluded an agreement directly with a municipality. The SNAO's audit shows that permits were in many cases granted on an inadequate basis; this is true for each of the county administrative boards having issued such permits. Taken together, this means that there is a risk that the quality of privately run care for the elderly will be affected.

The recruitment of international students to Swedish higher education institutions (RiR 2008:22)

The SNAO has examined whether the Government and the individual higher-education institutions have exercised direction over, implemented and followed up the recruitment of international students in line with the Riksdag's and the Government's aims and objectives. The Higher Education Act lays down that universities and university colleges should promote understanding of other countries and of international conditions. In addition, the Government has stated that the number of international students should increase. There are two reasons for increasing the recruitment of foreign students: it will help develop teaching and enhance its quality, and it will help strengthen the international environment and diversity. The SNAO's audit shows that neither the Government nor the higher-education institutions have assessed how increased international recruitment contributes to the aim of promoting cultural understanding or how developments affect the utilisation of resources at higher-education institutions. It also shows that international recruitment has entailed a need for more work to be devoted to processes relating to admission and student-residence permits. An increasing proportion of the resources allocated to higher education is being devoted to international students.

The central government's actions for sustainable fisheries (RiR 2008:23)

The SNAO has examined whether the action taken by the

central government has been effective in promoting the intentions of the legislation governing fisheries policy and whether the Government and the various government agencies have fulfilled their obligations under that legislation. The over-capacity of the fishing fleet is an important reason why several fish stocks are over-fished today. This means that fishing must be reduced to more sustainable levels to give fish stocks a chance to recover. The objective of the EU Common Fisheries Policy is to ensure an exploitation of living aquatic resources that provides sustainable economic, environmental and social conditions. The SNAO's conclusion is that, overall, the action taken by the central government has been ineffective. In several material respects Sweden is moving away from the objectives even though the problems concerned have been known for a long time, many policy instruments are being used and public spending for this purpose is high. The Government and the agencies have also failed to ensure full compliance with legislation. This audit was carried out in collaboration with the supreme audit institutions of the other countries in the Baltic Sea area, using common audit questions to some extent.

Support for people starting their own company (RiR 2008:24)

The SNAO has examined whether support for people starting their own company is an efficient programme of labour-market policy. It has also examined how the Public Employment Service has monitored and evaluated this support. The audit shows that the support constitutes a successful programme even though it causes negative effects as well. People who have received such support are more likely to be employed than those who have been openly unemployed or participated in other programmes run by the Public Employment Service. To some extent, however, support is given to people who would have started companies even if they had not received any support. What is more, the support probably distorts competition. The SNAO recommends that support for people starting their own company should be given priority among the programmes of labour-market policy. The Swedish Public Employment Service should also improve its monitoring and evaluation of the support to be able to increase its positive effects and reduce the negative ones. Support for people starting their own company is a labour market policy programme managed by the Swedish Public Employment Service. It can be given to people who are unemployed or at risk of becoming unemployed and who wish to start their own company.

Kasernen (RiR 2008:25)

The SNAO has examined Kasernen, a state-owned real-estate enterprise. The audit has focused on internal control at the enterprise and on its sale of buildings and shares in tenant-owners' associations. The objective of Kasernen is

to provide housing for employees of the Armed Forces. As regiments have been closed down and military demand for housing has thus fallen, Kasernen has sold a large number of buildings and shares in tenant-owners' associations. In all, about 90% of its holdings have been sold. The SNAO considers that the board of directors of Kasernen should have assumed greater responsibility and should have exercised direction over the enterprise in a more active manner. What is more, the sales of buildings and shares in tenant-owners' associations have not been carried out in a satisfactory way throughout. There is a lack of documentation of the selling process, and the SNAO also finds that selling prices in many cases were below estimated market values and average prices. The SNAO further finds that the Government has failed to ensure that the central government's interests in these sales were safeguarded.

Social exclusion and employment policy: The Government's reporting (RiR 2008:26)

The SNAO has examined the Government's reporting on the impact of employment policy and the use of social exclusion in setting objectives for employment policy. In addition, the SNAO has examined how the cost of reforms to employment policy is estimated and presented in fiscal policy bills. The audit shows that there is no clear definition of the notion of 'social exclusion'. The Government's objective for social exclusion to be reduced does not meet the requirements for clarity and monitorability imposed by the Riksdag and others on target variables. This contributes to making reporting on social exclusion in the fiscal policy bills unclear. The audit also shows that reporting on the impact of employment policy has improved over time but that there is still scope for improvement. For example, the assumptions underlying assessments are very seldom presented. Comparisons with earlier assessments of the impact of employment policy are also not made. Finally, no particularly detailed information is provided about how changes to estimation models have affected the assessment of the impact of the policy pursued.

Partial pensions for central government employees: Application and effects (RiR 2008:27)

The SNAO has examined whether the central government agreement on partial pensions helps central government employers wishing to retain older employees until the age of 65. This agreement allows employees aged 61–64 to work less while keeping a large proportion of their salary. It was concluded by the Agency for Government Employers and the central employee organisations that are parties to collective agreements with the central government. The SNAO's audit shows that the supply of labour has probably fallen rather than risen as a result of the agreement. There are several explanations. The financial terms of the

agreement are advantageous mainly for the employees but to some extent also for the government agencies. Further, the partial pensions' agreement seems to establish 65 as the standard retirement age, given that partial pensions cannot be granted to employees who are past that age. The SNAO proposes, among other things, that the Agency for Government Employers and the other government agencies should review how the application of the partial pensions' agreement can be developed to increase the supply of labour.

Protected jobs at Samhall: More rehabilitation for the money (RiR 2008:28)

The SNAO has examined whether the programme of protected jobs at Samhall, a type of support in the field of labour-market policy, is efficient and managed according to the rules. The aim of this support is to provide opportunities for people with extensive disabilities to enter the world of work and find paid jobs. The audit shows that Samhall, a state-owned enterprise charged with running this programme, has achieved the targets set by the Government and that the Public Employment Service manages the support in accordance with the applicable rules. There is, however, scope for increasing efficiency in the implementation of the support. The Government should make better use of that scope. The SNAO's audit also shows that the Government has failed to take action to adjust the operations of Samhall to the varying needs and circumstances of people with disabilities belonging to the target group. It also points to the existence of a potential to increase the number of cases where a person transfers from a protected job to work outside Samhall. Since the Government has failed to review its transfer target on a regular basis, it has been unable to exploit this potential. The audit also shows that the basis for the decisions determining appropriations for Samhall is inadequate and that the model used for funding Samhall does not allow direction to be effectively exercised.

Protection of dangerous goods (RiR 2008:29)

Transports of dangerous goods such as explosives or toxins would seem to represent an opportunity for terrorists to cause a great deal of damage in a relatively simple way. The SNAO has therefore examined whether the Government and the government agencies responsible have ensured that transports of dangerous goods are adequately protected against such threats. International and Swedish legislation as well as organisational structures to deal with criminal acts against dangerous goods have existed for a number of years, and regulations and other arrangements to

prevent accidents involving dangerous goods have existed and evolved for a very long time. The SNAO's audit shows that regulations and government agencies' supervision and organisation when it comes to protection for dangerous goods have shortcomings in several respects. There are also large differences in protective arrangements as well as in the nature of the shortcomings depending on whether dangerous goods are handled at airports, seaports, goods terminals or shunting yards. Even though criminal acts targeting dangerous goods have been identified as a very serious threat, they are not specifically addressed in the risk and vulnerability analyses performed by government agencies. What is more, the supervision of protection against criminal acts targeting dangerous goods is of very limited extent. The SNAO's overall finding is that the Government and the agencies responsible have not fully ensured that dangerous goods are protected in an acceptable manner.

Application of the framework of fiscal policy: The Government's presentation in the 2009 budget bill (RiR 2008:30)

The SNAO has examined the Government's application of the framework of fiscal policy in the budget bill for 2009. This framework consists of quantitative targets and restrictions such as the surplus target, the expenditure ceiling and the municipal balance requirement as well as rules relating to the preparatory process at the Government Offices and the decision making process in the Riksdag. The framework of fiscal policy has a key role when it comes to ensuring a long-term sustainable fiscal policy. The SNAO's audit shows that the Government has improved its presentation compared with previous fiscal policy bills, even though its follow-up of compliance regarding the surplus target remains unclear. This presentation is significantly less precise than for the expenditure ceiling, where specific estimates of the budget margin are provided. For the surplus target, no specific estimates of the deviation from the target are given. The audit also shows that the presentation as regards the Government's estimate of potential GDP remains very brief and that the budgetary effects of the Government's proposals are presented in a way which is difficult to understand. The SNAO further considers that the scope for additional spending which will be created in 2009–2011 as a result of the extra repayments made in 2008 by the Road Administration and the Rail Administration on their loans from the National Debt Office should have occasioned a downward adjustment of the expenditure ceiling to maintain its strictness relative to the surplus target.

Swedish social welfare systems abroad: Payments and claims management at the Swedish Social Insurance Agency and the Swedish Board for Study Support (RiR 2008:31)

International mobility leads to increased demands on the central government's handling of payments to and claims on people living abroad. The SNAO has therefore examined whether the arrangements for making payments and managing claims used by the Social Insurance Agency and the Board for Study Support function when it comes to people resident abroad. The Government's work in these fields has also been scrutinised. The SNAO has found shortcomings in the Social Insurance Agency's statistics on the number of people who live abroad and receive Swedish social-insurance benefits. The Agency's payments to people resident abroad have often been delayed and it has not done enough to collect claims abroad. The Board for Study Support should have done more to prevent incorrect payments relating to studies abroad. The SNAO is of the opinion that the Government should devote more attention to how government agencies handle claims on people living abroad. The Government should also consider changes that may make it easier for the Board for Study Support to collect claims in other countries.

Readjustment requirements in health insurance: Assessing whether people who are ill can do other types of work (RiR 2009:1)

The SNAO has examined the assessments made by the Social Insurance Agency of the extent to which people on sick leave can perform work other than their habitual one. If a person receiving sickness benefit is deemed unable to return to his or her previous job, the Social Insurance Agency must assess whether he or she is able to do a different job. The SNAO's audit shows that such assessments are made only after a long time, and not at all in one out of four cases. It also shows that there are indications that health insurance sometimes tends to function as occupational insurance.

In the past year, changes have been made to the rules governing health insurance which may cause more working capacity assessments to be carried out, and at an earlier stage. The SNAO considers that there is a risk that the Social Insurance Agency will make its decisions relying on insufficient information or at a later time than indicated in the framework of the 'rehabilitation process'.

The SNAO proposes that the Social Insurance Agency should ensure that assessments are made of the capacity of people on sick leave to perform other jobs. The Government has overall responsibility for health insurance and for ensuring the existence of adequate knowledge. The

Government should also review the role of physicians in working capacity assessments.

Purchases of IT solutions by the Swedish Social Insurance Agency (RiR 2009:2)

The SNAO has examined whether the purchases of IT solutions made by the Social Insurance Agency complied with applicable laws and been of high quality. The basis for the assessment was the provisions of the Public Procurement Act and the EU legislation underlying that Act. The aim of the Act is to ensure fairness among suppliers and bring down the costs to the central government. The SNAO finds that, in several respects, the purchases of IT solutions were carried out in such a way that the provisions of the Act were not complied with. The main shortcomings identified are that the specifications for suppliers and the procurement reports were of insufficient quality and that the deadlines were too tight. Another shortcoming is that sub-orders were placed under framework contracts in cases where it would have been more appropriate to perform a full procurement procedure. One main cause of these shortcomings is that the Social Insurance Agency devoted too little time to these large and complex purchases. As a result, competitive conditions were not as good as they could have been.

Tax deferment: The Government's reporting on deferment of capital-gains tax on home sales and deductions for pension savings (RiR 2009:3)

The SNAO has examined the Government's reporting on the deferment of capital-gains tax on home sales ('home-sale deferment') and the deduction that private individuals may make for their pension saving ('pension-saving deduction'). In both cases it may take a long time before the taxes are actually levied. Because of these long delays, there is a growing stock of deferred tax which today amounts to SEK 600–700 billion. If no tax is ever levied on these deferred amounts, the Government risks losing considerable tax revenues. This risk has grown in line with increasing internationalisation. The design of the tax deferments and the long periods involved also entail a financial risk to taxpayers if the rules change in the meantime. The SNAO's audit shows that the Government's reporting on tax deferments is incomplete and that very little is known about the efficiency of these deferments or their impact on public finances. What is more, the adjustment of the tax deferments to EU law has made the rules more difficult to enforce.

Swedfund International AB and its societal mission (RiR 2009:4)

The SNAO has examined how Swedfund International AB, a state-owned enterprise, fulfils its societal mission and whether the Government has exercised direction over the operations

of the enterprise in line with the Riksdag's decisions. Swedfund is a foreign aid operator whose task is to make investments in developing countries and Eastern European countries in order to contribute to Sweden's policy for global development and its development cooperation. The total volume of investments has increased from SEK 426 million in 2000 to SEK 1,475 million in 2008. The choice of projects to invest in should be governed by the expected developmental impact at the same time as all investments must be commercially viable. The audit shows that the viability aspect has determined Swedfund's choice of projects more than the development impact. It is only in recent years that Swedfund has developed its work on the latter. Further, the company has made investments in venture capital funds which can be questioned. The SNAO's overall finding, however, is that the Government has exercised direction in line with Sweden's policy for global development and that the enterprise has striven to act in accordance with the Government's directives.

An efficient and transparent planning and construction process? The example of noise (RiR 2009:5)

To reduce risks to the health of residents, the central government has laid down rules on the planning and construction of housing in environments exposed to noise. The SNAO has examined whether the Government's work on issues relating to noise has made it more difficult to obtain an efficient and transparent planning and construction process. The audit shows there to be shortcomings above all in the direction exercised by the Government but also in the work of government agencies. The Government has not made it clear how noise is to be assessed in the planning and construction process. Further, there is no coordination among building regulations and the general guidelines issued by the National Board of Housing, Building and Planning, the Environmental Protection Agency and the National Board of Health and Welfare. The supervision that county administrative boards exercise over the planning and construction sector also varies considerably as regards the assessment of noise. These shortcomings in the direction exercised by the Government have entailed that municipalities make different noise assessments in relation to the planning and construction of homes. These differences cannot be fully explained by reference to varying local conditions. This may lead to inefficient decision-making processes in municipalities as well as reduced competition.

Energy declarations: Little advice for the money (RiR 2009:6)

Starting in 2009, an energy declaration must be drawn up for most large buildings and all single family homes that are sold. The requirement for energy declarations derives from the EU Directive on the energy performance of buildings.

Energy declarations are intended to promote a reduction of the energy consumption of buildings. If energy savings can be obtained in a cost-effective way in a building, the declaration must propose measures to do so. By receiving proposals for measures, building owners are thought to become more inclined to make investments. However, the SNAO's audit shows that about half of the energy declarations contain no recommendations for measures. In other words, owners of buildings get little advice for their money. The audit also points to other problems in the quality of declarations. The SNAO's conclusion is that the present system for energy declarations does not ensure the quality of the declarations. The SNAO therefore proposes that the Government and the government agencies should improve the present system.

Decisions to grant sickness benefit: Does the Swedish Social Insurance Agency have sufficient information? (RiR 2009:7)

The SNAO has examined whether the Social Insurance Agency has access to adequate information on which to base its decisions to grant sickness benefit. Its finding is that such information is often lacking. This reduces the likelihood that decisions on sickness benefit will be correct and respect the principle of equality before the law. The SNAO's audit also shows that action is taken and information to underpin decisions is gathered at a remarkably late stage. The SNAO considers it important that actions to facilitate a return to work be carried out earlier in the sick-leave period. The audit has also identified certain differences in decisions, information underpinning decisions and processing time among various groups. The SNAO cannot determine whether these differences are the result of a departure from the principle of equal treatment, but it considers that the Agency should perform a systematic analysis to ascertain whether there are unjustified differences because of factors such as sex, age or income level. One proposal made is that the information provided by treating physicians should include a description of the individual's capacity to work – no such description is requested on the present form to be filled in by physicians.

Riksrevisionen (the Swedish National Audit Office, SNAO) is an independent body whose task is to scrutinise the operations of the central government. Its independence is laid down in the Swedish Constitution. The SNAO carries out audits and reports on any shortcomings identified in the Government's administration, in government agencies and in state-owned enterprises. It exercises influence by providing those responsible with information about how decisions made 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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