



## **Audit and Accountability in Local Government in Sweden**

Sweden has a unique system of auditing in the local governments, i.e. municipalities, county councils and regions, as compared to several other countries. The auditors are politicians and perform not only traditional financial audit, but also political and managerial audit. The local governments in Sweden have a lot of autonomy, which is also true for political accountability and auditing in local government. Hence, the auditors are independent from the state and there is no national supervision of the audit. The auditors are often considered a local democratic instrument for protection of the citizens' interests.

This is an overview of and a guide to the Swedish audit system in local governments.

### **The Local Government System in Brief**

Local authorities in Sweden have a strong autonomy and their responsibilities go very far. This autonomy (self-government) is historically very important and constitutes an essential element of democracy, guaranteed by the constitution. Since 1866 the municipalities and county councils also have the right to collect taxes.

The municipalities are responsible for social services, schools, spatial planning and building, health and environmental protection, refuse collection and waste disposal, rescue services, water and sewerage, and order and security. Optional municipality services are recreation activities, culture, housing, energy, industrial facilities and employment.

The county councils are responsible for health care, transport and regional planning.

### **The Auditors and the Audited**

All members of the municipal och county councils are elected in general elections every four years. Each council then appoints the members of their executive board and committees as well as auditors – a minimum of five persons. Their term of office is also 4 years.

The auditors' tasks (and how they are elected) can be found in the Local Government Act. Every activity of the executive board and the committees as well as of companies owned by the local government has to be audited every year.

The members of the executive board and other committees are accountable to the council and the citizens for their activities. They are therefore the objects of the auditors' examination and thus accountable in regard to the audit. The auditors judge whether or not they can be discharged from liability. This judgement is based on a mixture of political/democratic, legal and financial accountability. Moreover, the accountability is collective for the whole executive board and other committees as well as individual for each member.

### **Professional Support**

The politically elected auditors are in their practical work assisted by professional auditors. The auditors hire professionals (consultants or accountants) whom they contract themselves, often after a public purchasing process. A few local authorities have instead their own professional auditor department within their own organisation. The department, as well as the contracted professionals, works as consultants to the auditors. It is the politically elected auditors who are responsible for the audit and they decide for what purpose, how much and when the professionals are needed.

### **The Audit Tasks**

The audit tasks go further than a traditional audit approach. As the tasks are very extensive the auditors must choose what is most important to audit that particular year. The tasks, as stated in the Local Government Act, are to audit and judge if

...operations have been conducted consistently with their purpose stated by the council, and in a financially satisfactory and effective manner.

...the accounts are correct

...the internal control has been adequate

The audit is to be carried out according to the "Code of Audit in Local Government". The Code puts down the main principles for the audit, i.e. conditions for independence, finance, cooperation, communication, initiatives, transparency and demand on documentation of the audit, the professional support etc.

Effects and results of the audit are presented by and by in separate reports, finally resulting in a summarized annual audit report to the council.

The auditors choose independently what to audit, what methods to use and which experts to consult. They also make independent analyses and judgements. The auditors do not act party-politically in their auditing role nor do they perform any consultant work as auditors. They take great care to safeguard their integrity, and

therefore, disqualification and eligibility concerning any of the auditors is pointed out in the audit report.

### **The Councils and the Audit**

The municipal and county councils appoint the auditors, who are nominated by the political parties. The council is the auditors' principal - it communicates local auditing regulations, decides on the auditors' budget and receives the audit report. It is also the council who receives the auditors' opinion of recommending or not discharge from liability of the executive board and the committees and who ultimately decide in this matter. The council's decision has to be thoroughly motivated in order to make it transparent.

### **The Audit Process**

The audit process comprises all of the activities of the auditors during the year, like analysing risks and planning, the audit itself and the judgement in the audit report and finally the recommendation to the council regarding discharge from liability. Some parts of the audit process go on all year while others are more fixed in time. The different parts of the process (planning, audit and judgement) overlap and affect each other and are not always clearly defined.

### **Planning**

The auditors make active decisions of what to audit, based on collected as well as personal knowledge and judgments of risks and essentials. The starting point is the councils' commission, goals and guidelines for boards and committees. The auditors judge risks and essentials according to the boards' and committees' responsibilities following their own instructions to judge in the matter of discharge from liability. They identify, analyse and value obstacles, threats and risks - and they judge consequences and the probability for those consequences to occur.

The auditors' judgment in the matter of risks and essentials is summarized and documented in an audit plan. This plan embraces planned audit activities as well as informational, educational and "call on" activities as well as communication with the board, the committees, the media, citizens etc.

### **Audit**

Auditing must start by making sure that the statement in the audit report is founded on sufficient evidence. Every audit project is planned in detail based on the audit tasks, the audit plan and the audit question. Communication and dialogue is important throughout all auditing. To begin with the auditors introduce and start a dialogue with those who are to be audited, and afterwards the result is communicated to them.

The auditors follow up all audits in order to check if their criticism, opinions and judgements have changed the audited committees' or boards' ways of working.

### **Judgement**

The auditors test the accountability of members of executive boards and committees according to findings in the audit over the year. They summarize the audit and communicate their judgement in the annual audit report to the council. They participate in the council's discussion of the report and of the question of discharge from liability, but can of course not take part in the decision making.

Communication and dialogue with the council and those who have been audited is always essential. This is particularly important when the auditors decide to make a remark for shortcomings or recommend not to discharge the council or a committee from liability.

In the report the auditors account for the audit throughout the year. They present their opinion on the matter of accountability and discharge from liability. They also state if the annual report from the executive board and the annual financial statement can be accepted and if the goals for good economizing are fulfilled according to the council's decisions.

### **Testing Accountability**

The auditors' opinion in the matter of discharge from liability must be founded on facts and rest on substantiated, objective and unbiased evidence.

### **Accountability**

The council has to account for its activities every four years when there are general elections.

The council decides every year whether to discharge the executive board and committees from liability or not. The council's decision has to be justified in writing. Sometimes the auditors' report will also be the council's written justification. At other times the council's decision differs from the opinion of the auditors, which means that the council has to write its own.

### **Bases for Testing Accountability**

In the audit report the auditors can give word to two different opinions regarding members of the executive board and committees, recommendation not to discharge somebody from liability and remark.

The auditors recommend **not to discharge liability** when obvious and major shortcomings are identified of an executive board and/or a committee. The recommendation not to discharge liability is also applicable when previously

criticized shortcomings have not been corrected and/or if there are several remarks for the executive board and/or a committee.

The auditors suggest a **remark** for severe shortcomings, even if they have minor consequences for the performance. A remark is also addressed as a warning to the executive board and/or a committee. If the cause for the remark is not corrected it will almost certainly lead to a recommendation of not being discharged from liability the following year.

In the Code of Audit in Local Government there are eight reasons for testing accountability.

**1. Inadequate goal achievement, failure to observe the objectives and guidelines set by the council or in regulation.** This is about severe and obvious shortcomings and divergence. The executive board and/or committees are obviously not committed to the council's guidelines and directions.

**2. Deficient management, follow-up and control.** Shortcomings and negligence has been identified for the executive board and/or committees.

**3. Damage to the public trust or other intangible injury.** Other shortcomings than financial damages have been identified and they have great impact on the organisation and its operations. The public trust has been severely damaged and therefore the organisation as a whole has been damaged in a way where financial injury is hard to foresee.

**4. Financial injury.** Severe financial damage or obvious risk for such damage has occurred intentionally or unintentionally. Assets may have been damaged or disappeared.

**5. Unauthorized decision making.** Decisions have several times been made without the executive board's or a committee's supportive decisions or knowledge or without delegation from the council. The decisions have to be of great importance or fundamental.

**6. Operations not conforming to law, criminal conduct.**

**7. Insufficient preparation of decisions.** The council has been misguided through insufficient and/or unlawful foundation for decision making, which has lead to wrong decisions and results.

**8. Deficient accounting.** The accounts are incorrect or incomplete or have other severe faults.