

# Local government audit - an international survey

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## Introduction

*This document has the ambition to provide an overview of the ways in which auditing at the local level in other countries compares to that in Sweden. The publication is directed towards those who are interested in different audit models and ways of organising the audit. More exhaustive descriptions of audits, accountability and procedures for discharge from liability in the countries included in the survey can be found at [www.skl.se/revision](http://www.skl.se/revision).*

## Background

The audit is the tool that owners have at their disposal to check and ensure that the assignments they have commissioned are being performed in the intended manner. Audits are made in many different contexts and of different types of activities (central government, local government, regions, government agencies, limited companies, non-profit organisations, cooperatives, groups of companies and so on). The audit concept can vary between different forms of organisations and also between countries. However, there is one common denominator: the audit shall provide owners, members, financiers, employees and other stakeholders/interested parties with information that enables them to make an assessment of whether activities have been performed in a responsible and correct way.

In Sweden politically elected auditors, assisted by professional specialists perform audit in local governments. The audit assignment is extensive and they examine whether operations are conducted in accordance with their purpose, whether they are conducted in a financially satisfactory manner, whether the accounts provide a fair financial picture and whether the internal control for which the boards are responsible is adequate. Audits of local administrative bodies – committees, governing bodies and boards – are performed annually. The audits result in an examination of accountability. Decisions in respect of accountability are made by the council that has commissioned the audit.

The fact that the auditors are politically elected has sometimes been criticised since some people are of the opinion that the auditors are part of the system they audit and are therefore not sufficiently independent. In cases where the local council makes a decision in respect of accountability that is in conflict with the recommendations made by the auditors, the decision is regarded as provocative. The auditors, as well as the entire system for the examination of accountability, are called into question. The local government audit assignment is considered to be far too political and dependent. The fact that the council and the auditors are in full agreement in the absolute majority of cases is easily forgotten when the few cases in which disagreement prevails are given extensive coverage in the media.

In the debate on the audit different proposals have been presented which are based on changing and strengthening the local government audit in Sweden. Some proposals refer to the solutions adopted by our Nordic neighbours. For example, Denmark has an entirely professional audit and Finland has divided the audit assignment between politically elected auditors and professional auditors. Advocates of a local government audit agency at central government level have presented this as a proposal. This would resemble, for example, the systems used in Great Britain or Ireland. Others are of the opinion that local councils should act in the same way as the annual general meeting of companies and select authorised public accountants instead of having politically elected auditors. There are many variations on the theme.

All in all this raises some questions. What is the local government audit like in other countries in their respective contexts? What comparisons can be made? Are there processes and procedures for exacting accountability? We have not been able to find a study that provides answers to these questions and have therefore made a survey of our own. Our ambition has principally been to acquire broader and deeper knowledge that we can use ourselves when analysing and challenging our own audit system. We have collected some of our observations and reflections in this publication.

## **Our approach**

The survey has been made with the aid of studies of literature, searches on the Internet and personal contacts. The studies of literature have had the aim of producing a conceptual framework that would make it possible to examine the different countries included in the sample and to compare their audits, despite their internal differences. We have examined and defined the concepts of local authority, accountability and self-government with the aid of generally recognised concepts.

The study includes a sample of countries that we found important and interesting to examine – because they have similarities to us, because they are said to be interesting, because developments there have been interesting, and so on. The core of the sample consists of the Nordic countries and other countries in Europe. However, consideration is also given to other parts of the world, for example USA and Australia.

Information has been obtained via the Internet. It has been supplemented by personal contacts. A questionnaire has formed the basis of our study, see appendix. There is naturally a risk of misinterpretation of both questions and answers due to the different languages. It has not always been possible to establish personal contacts with good results. We would therefore make the reservation that some of the information presented may not be totally reliable. Whenever we have felt uncertain we state this in the report.

Contributions to the report have also been made by a number of students who have written papers for their master's degrees in the subject field. These are presented in a report produced by Gothenburg University: "Local Government Research in Western Sweden", KFI report no. 68, 2003 (in Swedish).

The study is to be regarded as an overall comparison of different countries' local government audits with the Swedish model. It does not claim to be scientific or complete. It has not always been possible to subject the information from other countries to quality assurance criteria. The information contained in the publication refers to the situation that pertained in the spring of 2005.

## **Definitions and concepts**

There is a risk that a comparison between local councils and their audit systems fills the basket with both pears and apples. Hardly any of the systems are fully comparable. Therefore, it has mainly been for our own sake that we have taken pains to create a conceptual framework for definition and reference purposes as a basis for the comparisons. We have tried to focus on the concepts of local authority, audit, accountability, and exacting accountability.

## WHAT IS A LOCAL AUTHORITY?

Our point of departure has been the concept presented by Anders Lidström, 1996. He focuses on the concept of local government and provides a number of criteria in respect of factors that define and characterise a local authority as well as the qualities that make them special and distinguish them from other organisations. In the main, four criteria must be met to permit a local authority to be defined as such (Statskontoret, 2002:22, p 13)

1. Local authorities work within a clearly defined geographical area in a state, or in a federal state in a federation.
2. Local authorities have a certain degree of autonomy or self-governance.
3. Local authorities have certain powers of authority over their citizens/members.
4. Local authorities have directly elected decision-makers and/or use local government meetings.

Another characteristic of local authorities is their position between the citizens and the state, which creates a potential conflict that must be handled. This situation has an effect on local self-government as well as on the process for exacting accountability. (Lidström, 1996).

We are of the opinion that there are local authorities that meet these criteria in all the countries we have studied.

## THE AUDIT AND ACCOUNTABILITY

When an activity is pursued on behalf of others and/or with the aid of their funds, a need arises to check and ensure that the activity is being performed in a reliable and desirable manner. It is mainly those for whom the activity is being performed (owners, members, financiers) – but also employees, users and other interested parties – that want to have information that enables them to assess whether the activity is being performed in a responsible and correct manner. There is a need to examine aspects of accountability and to exact accountability in one way or another. The mechanisms for doing this can be different.

The audit is the organisation or tool used by the body that has commissioned the assignment to audit (the principal), examine and check that the assignment/responsibility is being discharged in a satisfactory way. Information is needed that is true and fair and adequate in order to exact accountability from the person/organisation given the assignment to implement the activity (the agent). Therefore, the audit is a question of making the invisible visible to the body that has commissioned the assignment.

In this study we have mainly examined the external audit of the local level. In some countries in our sample the local level has two audits, internal and external. In cases where we have found an internal audit this is mentioned and sometimes also described for information purposes. Sometimes, the content of the audit is such that the internal and external auditors work together on audits similar to those performed by auditors in Sweden. In Sweden we refer to the audits performed by elected auditors as external audits. They can be considered to include the content of both an external audit and an internal audit. Here we have chosen to regard such audits as external audits.

It is the principal who has commissioned the assignment that shall finally make an assessment of the assignment, for example by allowing or disallowing discharge from liability in respect of the assignment. The examination of accountability can be regarded as a special process, undertaken by the principal who formally decides how the assignment has been performed and whether the agent who has performed the assignment shall continue to be entrusted with the assignment or responsibility.

The examination of accountability can take place at different levels in public organisations: through general elections and in the local authority. In the general elections the citizens vote for those they have confidence in for the next term of office. The internal examination of accountability in the system can be done by the auditors, for example through the system that exists in Sweden whereby the council (on behalf of the citizens) exacts accountability of committees and boards on the basis of the audit.

In this study we have mainly requested information on mechanisms for internal/local examination of accountability based on the audit. A number of situations can be identified in which accountability is exacted and in which the types of accountability exacted are different. Different systems exact different types of accountability. Accountability under the audit can therefore encompass different types of accountability in different countries, but it is exacted primarily on the basis of the audit that the auditors have performed during the year. The point of departure of accountability under the audit is that an assignment has been given, together with associated resources for its implementation. From an audit perspective the following types of accountability can be exacted at the local level in a country.

**Political accountability** is exacted primarily in connection with general elections. In Sweden a certain degree of political accountability can be exacted in connection with the examination of accountability in a local council, for example if a politician or a committee has implemented an assignment that is in conflict with the council's political goals.

**Legal accountability** is exacted primarily in a court of law. This can be a case of breach of trust, false certification, breaches of professional secrecy or violations of special laws. Liability for damages applies primarily in cases of damage to property and has the effect that the person concerned has to pay damages to the employer. Legal accountability of this type can also be examined in connection with the examination of the accountability of the council.

**Financial accountability** is exacted primarily in relation to the financial report and position. The agent is held responsible by the principal for the previous year's administration and the outcome of the assignment in reports on the assignment, in annual accounts, performance reports etc.

**Accountability under labour legislation** applies in situations where there is an employee/employer relationship. Where this is the case, there is usually special legislation that regulates the consequences for an employee who fails to discharge his obligations, for example dismissal or milder forms such as a reprimand or a transfer to another position. An audit can reveal circumstances that fall under labour legislation obligations.

## Special observations

*This section presents special observations and information we have obtained from the different countries.*

### **Sweden**

In Sweden the responsibility for the audit rests exclusively with the political level. This is reflected in the organisation of the audit since the politically elected auditors appointed by the council are responsible for the audit. These politically elected auditors engage professional assistance/professional auditors through procurement processes or direct employment. Thereby, in practice, the professional auditors function in the same way as the officers in other departments of the council. The professional auditors have formed an association of local government auditors (Swedish Association of Professional Local Government Auditors), which among other things, certifies the local government auditors. In the legislation there are no requirements that the auditors must engage *certified* professional assistants, they are to engage professional assistance.

In Sweden there is no single audit method that can be regarded as the standard method. However, there is a document on Code of Audit practice in Local Government, which the Swedish Association of Municipalities and Regions (SALAR) documents and interprets. The audit assignment and conditions for the audit are regulated in local government legislation and are interpreted in the Code of Audit practice. The auditors examine whether operations are conducted in accordance with their purpose, whether they are conducted in a financially satisfactory manner, whether the accounts provide a fair financial picture and whether the internal control for which the boards are responsible is adequate. In other words the assignment consists of both financial auditing and performance auditing, with an emphasis on the latter.

It can also be interesting to emphasise that, in general, there is no internal audit function in Swedish local authorities. The audit performed by the elected auditors thus includes both roles, even if the audit is considered to be external.

The local authorities have the freedom to levy taxes and most local authority financing derives from local taxes. The examination of accountability based on the audit report is made every year in the local council.

### **Denmark**

The audit is primarily an instrument for government supervision. The local council engages the auditors, but in practice the councils have only one company from which they order services. This means that the audit is strongly monopolised (even if some changes have taken place in recent years).

The methods used by the audit are drawn up by the professional organisations and are based on Generally Accepted Auditing Standards in Denmark. All auditors are voluntarily certified auditors and registered public auditors. There is no special legal requirement that only certified and registered auditors are entitled to audit local authorities in Denmark. The focus of the audit is mainly on financial auditing and only to a small extent on performance auditing. The responsibility to make performance audits was instituted in 1997.

The local authorities have a considerable degree of freedom where taxation is concerned and thus have the possibility to tax citizens. The auditors draw up an audit report for the executive board of the local council, which processes it and writes a document that comments on the audit report. This is sent to the regional governmental authorities for government supervision purposes. There is no annual local examination of accountability based on the audit report. However, it is possible for the regional supervisory authority to use sanctions against local authorities when they do not observe the law.

## **Norway**

Norway has a dual system with Kontrolludvalget (audit committee) and professional auditors. However, the audit committee are not responsible for conducting the audit, which is the main difference between Norway and Sweden. The position of the professional auditors is strong and they have well developed methods and rules for carrying out the audit. The focus of the audit is mainly on financial auditing and only to a limited extent on performance auditing. Several changes have taken place in Norway, for example the Norwegians are working actively to make the audit subject to competition.

Under the local government legislation in Norway the professional auditors must have expertise in accounting or auditing. Where the members in the audit committee are concerned, there are strict rules in respect of their competence to perform the audit, for example they may not be an officer working in a decision-making position in the local authority or in an organisation subordinate to the local authority. Nor can they have a relative or a close relationship with anyone in the body that is being audited. These rules are stricter than the Swedish rules.

The professional auditors' assignment is mainly financial auditing. In recent years it has also included some performance auditing. The task of the audit committee is to supervise, on behalf of the council, the local authority's administration and internal controls and to supervise that the audit functions satisfactorily. The audit committee present the audit report to the local council together with their own opinions and proposals.

The local authorities have limited powers where taxing citizens is concerned. There is no local examination of accountability based on the audit report. It is considered that the examination of accountability takes place in connection with general elections.

## **Finland**

The Finnish audit resembles the Swedish audit to some extent, but there is a dual responsibility. The local councils appoint an auditor committee, which consists of politically elected auditors, and also appoint one or more professional auditors. The chairman and deputy chairman of the auditor committee must be members of the council. The professional auditors must be engaged on the open market and may not be employees of the council. The auditor(s) appointed must be certified, i.e. approved by the CPFA-board (Finnish board for Chartered Public Finance Auditors).

The audit assignment is regulated in Finnish local government legislation and in special legislation on certification (this is a difference between Finland and both Denmark and Sweden, which do not have legal requirements for certification). The council adopts audit regulations locally. The auditors approved by the CPFA-board become members of an association, which has documented generally accepted auditing standards.

The task of the professional auditors is financial auditing and performance auditing. The task of the auditor committees is to prepare the audit of the council administration and finances and to assess whether the goals of activities and finances established by the council have been achieved. The committees process all matters concerning the audit for the council and coordinate the audit in the local authority.

The liability to be audited includes both local government officers and politicians. A mayor can be both a political appointee as well as an officer working for the local authority. The council makes the examination of accountability based on the audit report annually.

It can be worth noting that there is no intermediate local authority level in Finland. There is a type of association of local authorities that is run jointly by several local authorities, but there are no elections to this body. The local authorities have considerable freedom where taxing the citizens is concerned.

## **England**

Professional auditors perform the audit; politicians are not engaged directly in the audit work. The state has the responsibility for audits of local government through an independent body, the Audit Commission (AC), which is appointed by the Government. The audit responsibility includes financial auditing and some performance auditing. The assignment is to express the annual audit opinion and to submit an audit report to those in positions of responsibility in the audited entity, who shall also consider the report.

As the body responsible for the audit, the Audit Commission is also responsible for inspection of what is referred to as Best Value. This means that an examination is also made of the performance of activities. However, this examination differs from Swedish audits in respect of appropriateness and effectiveness since it is not included in the audit report, and is commissioned directly and thus not part of the activities selected by the auditors on the basis of an analysis of materiality and risk.

The audit in local authorities is regulated in British local government legislation, which has a special section on the audit. This is supplemented by a Code of Audit, which approved by Parliament on the basis of proposals made by the Audit Commission. Auditors must be members of a professional organisation for auditors. These organisations have extensive rules and regulations concerning professional standards that members must observe in order not to be excluded. Professional auditors therefore perform the audit and both local government officers and politicians have responsibilities in respect of the audit.

The auditors report to the local council and the Audit Commission. Accountability is not tested at the local level except in cases of legal issues (criminal offences). It is worth emphasising that those who are audited (persons in positions of responsibility) must consider and react to the auditors' recommendations. The fact that, in special cases, the auditors can choose to publish audit reports of public interest is interesting. In this respect the system differs from the Swedish system in which all audit reports are public. In England a published audit is thus of interest to the mass media. This exerts pressure on management to follow the auditors' recommendations.

The local authorities are mainly financed by government grants.

## **Ireland**

The audit is a state audit and is performed by professional auditors. The audit is similar to that in England even if there are certain differences, for example there is no Audit Commission in Ireland. The Ministry for the Environment and Local Government employs all auditors. The Director of Audit organises, leads and allocates resources in the audit organisation.

The audit is at ministry level and reports are made to parliament and the local level. The audit is regulated in the legislation (Local Government Act) and also through the Code of Audit, which are documented by the ministry's audit unit, which also carries out the audit. In order to be appointed as an auditor in a local authority, the person concerned must be a member of a recognised audit association/organisation. The audit's task is mainly financial auditing (audit of accounts, examination of legality and internal controls). In addition so-called Value for Money audits is also performed. The auditors' opinion and audit report are submitted to the members of the local council. The auditors also submit a management letter to the council administration.

Accountability is not a matter that affects individual persons, other than in cases of legal improprieties. It is considered that the testing of accountability is made on the basis of the audit report, which is interesting in light of the fact that it is considered that accountability is exacted in the general elections.

The local authorities are mainly financed by government grants.

## **France<sup>1</sup>**

The audit in France can be regarded as a state audit of the local level. There are many local authorities and they are often very small. The controls exercised by the French central government over the local level are strong and this is clearly reflected in the position and function of the audit.

The audit has a strong legal character in respect of the way in which the audit is organised and the assignment it has. The audit is divided. There is a state court of audit and 28 regional audit chambers. It is the state court of audit that allocates an annual budget to each regional audit chamber. The regional audit chambers examine the accounts and administration, as well as the management, of local authorities on behalf of the state. They are also responsible for examining issues relating to legality.

The audit of the local level is (with some exceptions) not done every year but, as a rule, every fourth year. Every auditor swears a special oath. There are also professional rules for the conduct of the profession. Accountability is not tested as a consequence of the audit report. An audit that results in criticism leads to the person responsible being given a confidential reprimand and the person concerned is expected to submit an explanation within two months. The state court of audit tests accountability based on the audit report in cases where legal improprieties have occurred.

Financing of the local level is mainly provided by the state and the local level has few possibilities to levy taxes.

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<sup>1</sup> The information on France is somewhat uncertain and is based mainly on studies of literature and Internet searches.

## **Spain**

Like France, the audit in Spain has a strong legal character, for example in the way it is organised and its examinations of legal accountability (punishable in law). The country's division into regions - where some are autonomous, having their own laws and a great degree of independence - makes it difficult to make comparisons. Spain has many small local authorities. This naturally has an effect on the design, duties and regulation of the audit.

The audit is divided. There is a state court of audit (al Tribunal de Cuentas) and a regional audit (los Organos de Control Externo Autonómicos). This regional audit is found in eleven regions and the state court of audit audits the other regions. The audit assignment consists of an examination of accounts and finances and an examination of the legality of operations.

The audit is done with the same methods throughout Spain. The audit is also regulated within the framework of the law. The auditors report their findings to the court of audit and thereafter the court exacts accountability for financial improprieties in the administration of public funds.

The regions have considerable freedom to decide on their own expenditures. Therefore, there are considerable differences in the ways in which regions are financed: through taxes and through different forms of government grants.

## **Austria**

The audit in Austria has a legal character, which is somewhat more decentralised than that, for example, in France. The audit is divided. There is an internal examination in the form of an audit committee and there is an external audit in the form of the Austrian Court of Audit (ACA). The external audit audits the local authorities and the provinces on behalf of the state. It is the ACA that appoints, employs and assembles an effective audit team. The audit mainly includes the accounts and an examination of legality.

An audit performed by the ACA is documented in an audit report. The report is submitted to the audited entity for comments: it has three months to report on the measures it has taken as a result of the audit. Thereafter, the ACA submits the audit and the response received from the local authority to the provincial authorities and federal authorities. As part of their supervisory role a province can take over the duties of a local authority if it does not discharge its statutory function. It also has the right to dissolve a Gemeinderat (municipal council) as a final measure. The audit reports are published and experience shows that this usually leads to the audited entity making the necessary changes proposed in the audit report.

Austria does not have a discharge from liability procedure of the type we have in Sweden. Improprieties found by the audit of the type that necessitate measures are cases that require disciplinary action or criminal offences that are reported to the law courts.

The local authorities are financed by the taxes they levy and part of the tax revenues collected at federal level, as well as earmarked appropriations, fees, charges and payments.

## **Germany<sup>2</sup>**

The audit is divided: a regional audit of the local level and an internal audit of the local level. The internal audit function is part of the local administration in the local authorities. The federal state audit is totally independent of the national audit even if it is similar in its organisational form.

The local council appoints the internal audit. Organisationally there is an audit office in each local authority and in some states it is laid down in the law that an audit committee shall be part of the council. The audit office works for this committee. The audit assignment includes an audit of the accounts and a certain amount of performance auditing. The examination made by the auditors is presented to the audited entity and, if the local authority has an audit committee, the report is also submitted to this committee. It is up to the audited entity to reach a decision on the audit report and there is no special procedure for testing accountability.

The federal state audit is made of both the state and the local authorities. The main audit assignment includes examining whether the accounts are true and fair and a legality examination. The audit report is submitted to the state parliament. Thereafter the audit report is published as a document from the state parliament. The audit report is used by parliament to approve or disapprove the actions taken by the state government for the financial year. Accountability in respect of all or part of state management is tested by parliament.

Taxes, government grants and fees finance the activities of the local authorities. The local authorities have the right, enshrined in the constitution, to levy taxes.

## **USA**

The audit is divided into an external and an internal audit. In the USA it is evident that even if methods, systems and education programmes are standardised for the internal and external auditors, the organisation is not. The different forms of self-government of the states have the effect that the organisation of the local authorities differs, which also affects the audit at the local level. It is the local authority that appoints internal auditors through an Audit Committee. This committee is appointed by the city council and consists of members of the council and some citizens.

The external auditors are engaged as the result of a procurement procedure made by the local authority. The internal auditors on behalf of the Audit Committee often make the procurements. It is also interesting to note that both external and internal auditors have a strong focus on financial issues in the local authority. It is true that the internal auditors make appropriateness and performance audits, but the focus of these audits is often based on an accounting perspective.

The presentation of a qualified audit report by the internal auditors does not lead to a special examination of liability. The main purpose of the audit is to examine in order to provide support. The presentation of a qualified audit by the external auditors results in a question of employment in which the director of finance is called to account.

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<sup>2</sup> The information is somewhat uncertain since it is mainly based on studies of literature.

## **Canada**

The internal auditors in Canada derive considerable benefit from contacts with the USA through their association NALGA (National Association of Local Government Auditors). Methods and systems for evaluations are common to internal auditors in both countries. Since Canada's 10 provinces have a large degree of self-government, the audit is organised differently in the different provinces. In this respect Canada is similar to the USA.

The Auditor General of Canada audits the provinces. In the large and medium-size cities there are usually both internal and external auditors. In the small towns only external audits are usually made of the local authorities. The internal auditors are given their assignments by, and report to, the City Council via an audit committee. The audit committee commissions the audit work and has the responsibility for evaluating the work of the auditors.

The internal auditors are responsible for examining internal controls and management; coordinating the external auditors and engaging them; and providing advisory services and holding consultations with the council in matters relating to finance, efficiency and productivity. The results of the audit are firstly presented in an audit report to the audit committee. However, the report is also presented to the city commissioner and the head of administration. There is no special procedure for testing accountability as a result of the audit.

## **New Zealand**

The audit in New Zealand is governmental. The Auditor General (AG) is appointed politically by Parliament and has the status of a civil servant. The Auditor General employs the staff for the audit and also engages private auditing firms to perform the audit.

The audit in New Zealand is also clearly done as a government assignment, in which the local level is examined on behalf of Parliament. The audit is regulated in the "Public Audit Act 2001" and is implemented with the aid of audit standards issued by the AG. It is the AG who employs audit staff and also engages private auditing firms to perform audit assignments.

The audit examines accounts, issues relating to legality, and goal fulfilment and efficiency of operations. The subject of the audit is the entire audited entity and individual local government employees or politicians.

Public insight into the work of the audit is considerably different to the Swedish principle of public access to official records. It is audit reports containing qualifications that are published as opposed to the situation in Sweden where all audit material is made public. There is no regular procedure for testing accountability in New Zealand. Qualified audit reports are submitted to Parliament by the AG and published in the annual report so that the general public is informed.

Local authorities can levy taxes independently.

## **Australia**

The audit in Australia is a central government responsibility and is similar in several respects to the audit in England and Ireland. The audit is not local as in Sweden

The audit has two roles, external audit and internal audit. The external audit is the responsibility of the Auditor General (AG) in each state. The AG organises the audit team and sometimes makes procurements of audit services. Each individual local authority appoints the internal auditors. The auditors' work is regulated in a document called the Code of Conduct, which is based on the law, principally the Public Service Act of 1999, and Australian National Audit Office policies.

The task of the external auditors is financial auditing and ensuring that the annual accounts are true and fair. The internal audit takes up the existence and application of internal controls and also examines performance.

The audit submits an audit report to the state parliament. The internal auditors report on each audit project to the chairperson of the local authority. In the final analysis it is the accountability of the elected representatives that is audited. There is no annual procedure for testing accountability based on the audit report.

The local level is financed by each state.

## Finally...

*Some final comments on examining accountability, the auditors' organisational standing in relation to the position of local government, and the audit assignment.*

### **Examining accountability**

Most countries state that examinations in respect of accountability take place in connection with general elections, i.e. that the citizens exact political accountability. The duty of the auditors is to examine with a view to providing support and therefore it is assumed that operations are corrected in line with the auditors' proposals. This is the situation in, for example, England, New Zealand and Norway.

Some countries in our study have legal procedures for testing accountability in the sense that the process is undertaken by a court of law in cases where criminal offences are suspected. In such cases both financial and legal accountability is exacted, for example in France and Spain. The most common situation is that the auditors examine financial and/or legal accountability in the different countries we have studied. In a few countries the auditors also examine political accountability.

A process for testing accountability takes place locally in Finland and Sweden each year, based on the audit report. In Sweden accountability is only tested in respect of politicians, while in Finland the accountability of local government officers is also tested. In both Finland and Sweden the task of the audit is to make examinations in order to provide support, as well as to test accountability. The accountability exacted is political, financial and legal accountability.

### **The auditors' organisational standing**

There is only one country with exclusively politically elected auditors: Sweden. In Finland there are politically elected auditors in the auditor committees, but these auditors are supplemented by professional auditors who have their own audit assignment. One common solution is that elected representatives are included on audit committees, for example in Norway, England, and USA. These committees have different standings and roles.

In most countries the auditors that audit the local level are professional auditors. In these countries local government officers usually have their own financial responsibilities, which are examined from aspects of accountability (normally legal). There is a logical process here that can be traced back to the person who is audited and the person who performs the audit. When politicians have responsibilities that are examined by auditors, it is politically elected auditors that carry out the audit. When it is the responsibilities of local government officers that are examined, professional auditors are responsible for carrying out the audit and examining accountability.

We can also see a pattern in the ways in which the local level is financed and the organisational form of the audit. In countries where the local level has a great degree of freedom to levy taxes, the audit is often local, for example Sweden, Finland and Norway. In countries where the local level is mainly financed by government grants or where the right to levy taxes is more restricted, the audit assignment is regional or governmental, for example New Zealand, Austria and Australia. Countries in which most of the financing for local government comes from central government often have an exclusively central government audit, for example England, France, Spain and Ireland.

One conclusion that can possibly be drawn from this is that the financier is also the one that is most interested in the results of the audit and therefore “owns” the audit. The extent to which the audit is organised on a court-like basis or in other ways is probably dependent on tradition in the country concerned. In France, Austria and Spain the audit is organised as a court audit. These countries have a similar tradition and history.

### **The audit assignment**

The accounts and the financial position are examined in all countries. Several countries also examine performance to a fairly great extent. Countries with a considerable element of performance audits are, for example, Finland and Sweden. Countries that have some elements of performance auditing are, for example, England, Denmark and USA. However, in England the so-called Best Value audits are an inspection assignment for the audit and not an audit assignment. This has the effect that performance auditing is relatively limited in England. In some countries performance audits are very limited, for example France and Spain. Some countries also have considerable elements of examining aspects of legality in their audits, for example France, Spain and Austria.

### **Some tendencies**

Our study of other countries shows that Norway's' audit is approaching the type of audit that is mainly found in Finland, as well as in Sweden. The audit committee (Kontrolludvalget) in Norway have the task of making procurements of auditing services and of exerting an influence, to a certain extent, on the focus of the audit. Kontrolludvalget has also been given its own administrator to assist it in its work. Trends in Norway have thus resulted in increasing the role of elected representatives. Kontrolludvalget is also similar to a large extent to the audit committees in, for example, England and the USA. The difference is that, in Norway, Kontrolludvalget consists of elected politicians.

Several of the countries in our material make procurements of auditing services, for example Australia, Norway, Finland and USA. In Norway the current trend is to make competitive procurements of auditing services. It is not unlikely that this will also become more common in several other countries in our material. Sweden has competitive procurements of auditing services at the local level and Finland also makes procurements of audit services.

In the audit world a debate is currently taking place that has its origins in the major scandals associated with Enron and WorldCom. There is an opinion that the auditors should also examine factors of confidence that is, relating to elected representatives. In our study we can see that England has increased the element of audit of operations, even if not all audits have a bearing on the audit report but are merely performed by the audit. The element of performance auditing is increasing in Norway and in this respect the Norwegian auditors' association is working on the development of standards and methods for performance audits.

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## Appendix

### Questionnaire

#### Introduction

##### *Description of your country*

- Constitution.
- Economy - what is the main industry, the public sector's share of GNI
- The responsibilities of the Government.
- The number of local authorities, regions
- Population of the country

#### Social order

*What is the constitution for the local and regional level, i.e. the status, construction etc of local authorities and county councils. Scope for local self-government. Relations with central government.*

- What is the role (organisation, obligations, governance) of local authorities in the country?
- What are the duties and responsibilities of local government in your country?
- What degree of self-determination (levy taxes, hold elections, exercise of public authority) do local authorities have in your country?
- What relations does central government have with local government?
  - degree of autonomy?
- What position do local authorities have in relation to the state?
  - degree of autonomy?

#### Audit of the system

*How is the audit constructed? The organisation, duties, financing results, effects etc. of the audit*

- What role does the audit play in the system?
- What is the task/mission of the audit?
  - examine the accounts, administration and management, internal controls, other aspects
- Who gives the auditors their assignment?
  - the government, the local authority, the region, other
- Who finances the auditors?

- How is the audit organised?
  - audit office (national, regional local etc), auditing firm, lay auditors etc.
  - a mix of bodies for different types of auditing?
- Degree of political influence in the audit?
- What is the result of the audit?
  - auditor's certificate, audit report etc.
- What do the auditors examine?
- To whom and how do the auditors communicate the result of the audit?
- To what extent is the audit independent (can the auditor freely chose what to audit and how to use the resources for the audit) in relation to the organisation that has commissioned the audit and other stakeholders?
- How are the auditors appointed?
- To what extent can the auditor also support the audited entity (are consulting assignments permitted)?

## Rules for the audit

*Laws, supervisory bodies, auditors etc.*

- According to the law, what regulates the local government audit in your country?
  - type of law, for example provision in the constitution
- Is there a supervisory body that exercises powers/quality assurance over the auditors?
  - how does this supervisory body function?
  - what powers does it have?
- Are common methods and standards used in the audits in the country?
- To what extent is the audit in local government systematised and governed in the country?
- How is the independence of the audit ensured (of the entity being audited, of the body that has commissioned the audit)?:
  - in laws or statutes
  - in regulations and similar
  - in other ways.
- Are there any rules under which auditors may be disqualified in the audit of local authorities?
- How is the disqualification of an auditor handled?
- Is there a minimum/maximum number of auditors for a local government audit?

- For how long can an auditor (lay auditor, elected auditor, professional auditor) be an auditor in the same local authority?  
Are sideline occupations allowed for auditors and, if so, what type of sideline occupations are permitted?

## **Examining accountability**

*The role of the audit in the process of testing accountability. Procedures in respect of examining accountability and exacting accountability. Elements of political influence. Elements of influence exerted by the citizens.*

- Describe the accountability system
  - whose accountability is examined, i.e. who is audited (management, politicians, both)?
  - is it possible to examine the accountability of individuals?
- How is accountability examined?
  - the council reaches decisions in respect of accountability
  - the citizens reach decisions in respect of accountability
  - the auditors reach decisions independently in respect of accountability
  - other procedures
- What is the procedure when the auditors find deficiencies that lead to a qualification in the audit report?
- What is the role of auditors in respect of examinations of accountability?
- How strong is the auditors' recommendation in this respect? What weight/influence does it have?
- What are the consequences if discharge from liability is not recommended/granted by the auditors? What happens?
- What role do the citizens play in the examination of accountability?
- Do the auditors have a dialogue/communication/contacts with the citizens?

## **Local government audit – an international survey**

This publication provides an outline of audit systems at the local level in a number of countries in Scandinavia, Europe and the world. The publication is directed towards those who are interested in local government auditing and ways in which it is organised. Our ambition is to provide an insight into different ways of arranging local government audits from different perspectives. The publication provides an outline description of the local level in the countries, their audits, and their procedures in respect of accountability.

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