

2005-06-14

Officer, title, telephone

Ulf Nersing, City Auditor
+46 (0) 11-15 17 96

Municipal Audit

Foreword to audit approaches

Our vision for Norrköping Municipal Audit is to be one of Sweden's best local government audit organisations. Norrköping Municipal Audit contributes to strengthening trust in the democratic system by conducting annual audits of all municipal operations according to generally accepted auditing standards. The audit strategy states Municipal Audit's long-term focus. The audit approaches deal with the general focus of various audit projects. Municipal Audit is the collective term for the elected representative auditors and the audit office.

Municipal Audit works strategically, in an outgoing manner and over the long-term to achieve the greatest possible impact. Municipal Audit's vision and overall and long-term standpoints on assignments and results, approach and relationships, internal and external cooperation, information, communication, evaluation and development are implemented in the audit strategy. The strategy forms the basis of both the focus of the audit and Municipal Audit's concrete working methods. It is also the basis of discussions with the Municipal Council.

The audit approaches applied by Norrköping Municipal Audit are management audit, effectiveness audit, special audit, economy audit, result audit, account audit and final audit. In this memorandum the seven (7) audit approaches are described in general. The concepts financial audit and performance audit were previously used.

The audit office on Municipal Audit's behalf has prepared draft documents of the audit approaches. The audit approaches deal with the general focus of various audit projects. In individual audit projects, one or more of the audit approaches can be applied. A final decision on the audit approaches was made at Municipal Audit's meeting of Tuesday 14 June 2005.

MUNICIPAL AUDIT

Robert Ahlqvist
Chairman

Ulf Nersing
City auditor

Foreword to audit approaches	1
Audit approaches	3
Management audit	3
Effectiveness audit	4
Special audit	5
Economy audit.....	6
Result audit.....	7
Account audit	8
Final audit.....	9

Audit Office

2005-06-14

Audit approaches

Generally accepted auditing standards in local government operations describe the audit process from materiality and risk analysis to the adoption inquiry www.skl.se. The Swedish Association of Professional Local Government Auditors has compiled a collection of norms for both the audit process and individual audit projects www.skyrev.se.

The audit approaches applied by Norrköping Municipal Audit are management audit, effectiveness audit, special audit, economy audit, result audit, account audit and final audit. In this memorandum the seven (7) audit approaches are described in general. The concepts financial audit and performance audit were previously used.

The audit approaches deal with the general focus of various audit projects. In individual audit projects, one or more of the audit approaches can be applied.

Management audit

The aim of the Management audit is to inspect the committee's management, overall administration and control. The Management audit is initiated by an audit dialogue with the respective committee. The starting point is the committee's self-evaluation in a questionnaire that covers a large number of issues. A selection of the basic data submitted in the questionnaire is quality controlled.

The Management audit covers the following areas of inspection:

- Management and administration
- Management control
- User relationships
- Internal control methods
- Organisation
- Security aspects

Furthermore, issues of how the Municipal Council's regulations, programmes and guidelines are implemented by the activity plan in the applied control model are included. Municipal Audit provides an overall assessment and assessments of each area within the scope of the Management audit.

The management audit is an important part of the distinctive municipal character of the audit field and generally accepted auditing standards in municipal operations. We have therefore established a guide for the management audit process.

The management audit's assessments are provided according to the descending scale of good, sufficient, barely sufficient and insufficient.

Audit Office

2005-06-14

Effectiveness audit

The effectiveness audit's aim is to study if the activity is conducted in a satisfactory and appropriate manner viewed from a purpose and financial viewpoint. The audit assessment bears upon the question of whether the activity is directed at the targets set by the Municipal Council.

The effectiveness audit concept is now used by the United Nations International Organization of Supreme Audit Institutions www.intosai.org, the European Court of Auditors www.eca.eu.int, the Swedish National Audit Office www.riksrevisionen.se and Norrköping Municipal Audit www.norrkoping.se/organisation/revision.xml.

The fundamental auditing question of the effectiveness audit is the following: Have the resources been administered in an economical, effective and purposeful manner and given the citizens value for their money?

The target of the effectiveness audit is to evaluate how well the Municipal Executive Board and the committees have applied the principles of purposeful municipal activities and good financial management.

Beyond their areas of responsibility and other specific tasks, the committees are responsible for the following, as per the Local Government Act and the general committee regulations:

- to prepare programme proposals, which are to be adopted by the Municipal Council,
- follow-up, evaluation and quality work,
- long-term planning and strategic development of the operations,
- to closely follow the general development and thereby work to promote a positive environment and good living conditions in the developed programme proposals,
- to provide assessments to the Municipal Executive Board on proposals, reports and motions etc. and fulfil the other tasks that the Council delegates to the committees,
- that activities are carried out in an appropriate and fiscally satisfactory manner,
- that the accounts are accurate,
- that internal accounting control is sufficient,
- that the budget from the Municipal Council is not exceeded, and
- to observe issues of the environment, the disabled, integration, diversity, the child convention and public health in its work.

Audit of the management's administration in Swedish Companies is another and more limited audit approach than effectiveness audits. As per the Companies Act, the aim of the audit of the management's administration is to investigate if the requirements of the Companies Act and the regulations of the articles of association are fulfilled.

Audit Office

2005-06-14

Special audit

The special audit bears upon additional inspection efforts beyond the annual audit plan, e.g. in feared improprieties, suspected fraud or other special circumstances. The special audit is adapted to the conditions applicable to the case in question.

The audit assignment of the special audit is expressed in the following manner in the Local Government Act and Audit Regulations:

If, in their audit, the auditors find there to be suspicions that a crime of a property law nature was committed or that a decision of the general administrative court was disregarded, they shall report the instance to the committee concerned. If after such a report the committee does not take measures without reasonable delay, the auditors are obliged to report the actions of the committee to the municipal executive board.

All committees, drafting committees and companies shall annually report observations to the audit office concerning theft, fraud and other improprieties as well as all police reports and judgments concerning improprieties.

The responsibility to prevent, discover and investigate errors and improprieties rests with the body responsible for the activity, i.e. the committee or board concerned. This constitutes an important part of the committees' responsibility for internal accounting control. Municipal Audit assesses if the checks made by the committees are sufficient.

In cases of suspected fraud, corruption or any other illegal activity discovered by the audit office, either through the audit work or when reported by a private person, this is immediately reported to Municipal Audit.

Discovered or suspected cases shall be reported to the board, committee or drafting committee responsible. This reporting obligation does not mean that the auditors are obliged to focus their audit on these issues. If, in their audit, the auditors find such cases, there is however an absolute requirement to take action with a report.

The Municipal Executive Board is the employing authority of the personnel that works within the committees' areas of responsibility. This means that it is the Municipal Executive Board that handles the issues of labour law that can become applicable upon impropriety.

Special audits also exist within the European Court of Auditors www.eca.eu.int and the Swedish National Audit Office www.riksrevisionen.se. Within the United Nations www.un.int there is an Office of Internal Oversight Services (OIOS) that works with special audits. The special audit can be a traditional audit as well as various forms of evaluations.

Audit Office

2005-06-14

Economy audit

The aim of the economy audit is to determine for boards and committees if the financial management is good, if the internal accounting control is sufficient and if the financial reporting is accurate. The economy audit investigates if the Municipal Executive Board, other committees and drafting committees followed the Municipal Council's budget decision. The audit also covers the municipal committees' annual accounts documentation in the form of annual reports with annual accounts and if the internal accounting control report exists.

The economy audit shall provide reasonable grounds for the following comprehensive assessment:

- whether or not the budget from the council to the committee has been exceeded. This is a crucial requirement for good financial management, economic balance and target fulfilment.
- if the internal accounting control report is available for the fiscal year and whether the internal accounting control is deemed sufficient.
- if the annual accounts and annual report for the committee have been prepared in accordance with the instructions and thereby provide an accurate picture of the committee's result in accordance with generally accepted accounting principles.
- if the income statement is prepared as per the guidelines and covers two years and if relevant key ratios are in the annual report.
- if the supporting schedules with sub-schedules are prepared for all current balance accounts.
- if the annual accounts documentation is otherwise compiled in a file and is in good order.

Audit Office

2005-06-14

Result audit

Municipal Audit takes a reinforced role in achieving good financial management. As per the Local Government Act, the auditors shall make written assessments of whether the interim report and annual report are in accordance with the Municipal Council's adopted targets on good financial management.

Together with the reference group for municipal audit issues and the consultation groups with elected representative auditors, the Swedish Association of Local Authorities and Regions are working with an interpretation of this new assignment of Municipal Audit. Please see www.skl.se

The City Auditor is a member of the reference group on local government auditing issues and our vice-chairman is a member of the consultation group with elected representative auditors in municipalities. This means that Norrköping Municipal Audit actively participates in the developmental work on modern local government auditing where target fulfilment is also assessed.

A prioritised development effort deals with the formulation of the auditors' assessment of target fulfilment in connection with the overall review of the interim report and the full audit of the annual report.

A development effort is also being conducted within the Swedish Association of Professional Local Government Auditors www.skyrev.se. This development work concerns, among others, the professional auditors' examination of the interim report and the annual report regarding target fulfilment and the new balance requirement.

Audit Office

2005-06-14

Account audit

The aim of the account audit is to determine if the accounting is accurate and to assess target fulfilment. The account audit examines if the interim report and annual report follow generally accepted accounting principles in municipal operations and is accurate. The review bears upon the committees, the municipality and the compiled accounting. The audit assessment also concerns an assessment of whether the accounting controls are sufficient.

Laws and generally accepted accounting principles set a number of rules for the accounting and the annual report. The audit of the annual reports and accounting (account audit) aims to examine whether these rule are fulfilled. If the company is a parent company in a corporate group, the auditor also often has a group accounting to audit.

Generally accepted standards provide the auditors relatively few possibilities to prioritise within the scope of the fundamental audit, and the materiality and risk analysis shall also primarily motivate in-depth audits. This is not totally accurate as the account audit is a part of the fundamental audit. Within the account audit, there is an annual prioritisation of audit approaches based on an analysis of essential accounts and the risks associated with them.

Generally accepted auditing standards in local government should therefore, for the account audit, consider lifting in concepts and working methods from International Standards on Auditing (ISA). ISA together with the Supervisory Board of Public Accountants' standardisation constitute the concept of generally accepted auditing standards for corporate auditing. In addition to this is the standardisation from the Swedish Financial Accounting Standards Council and the Council on Local Government Accounting. One of the challenges of the municipal account audit is, among others, to clarify what substantial sums are within the sector.

In the account audit, the risk concept is purposeful and well thought out. *Inherent risk* describes the imperfection in all accounting systems. *Control risk* addresses the fact that errors can arise, even if controls are built into the accounting routines. Which built-in controls or post-controls are ultimately chosen depends on the *discovery risk*, i.e. the possibility of tracing and discovering erroneous transactions. Thus there are clear concept definitions of risk within the account audit. Moreover, there is a theory that ties the concepts together and established practice.

An effect of the insufficient guidance in generally accepted auditing standards – and the excellent guidance in ISA – is that the part of the materiality and risk analysis dealing with accurate accounts has primarily become a matter for professional local government auditors.

Audit Office

2005-06-14

Final audit

The aim of the final audit is to summarise the annual audit by analysing and assessing the results. The written reporting is made in the audit report with the auditors' statement. The audit report is also presented verbally in the Municipal Council. In connection with the presentation, the council representatives have the opportunity to ask questions of Municipal Audit on the audit report with the auditors' statement.

The annual audit creates added value in the activities by every audit report concluding with a summary that contains observations, comments and proposed measures. After the final audit, every committee and board is provided an annual audit report from Municipal Audit.

In connection with the final audit of a committee, Municipal Audit makes the following summary judgement:

1. In the audit report, Municipal Audit recommends/opposes that the committee and the elected representatives in this committee be discharged from liability.
2. Municipal Audit addresses/does not address qualification to the committee in the audit report.
3. Municipal Audit directs/does not direct criticism at the committee in the audit report.
4. Municipal Audit provides the committee a summary assessment in the Management audit.
5. Municipal Audit indicates a number of proposed measures and comments after potentially implemented effectiveness audits in the audit report.
6. In the economy audit, Municipal Audit indicates if the committee achieved the target on budget balance set by the Municipal Council.
7. Municipal Audit also recommends that the Municipality of Norrköping's annual report be approved.