

## INTERNAL AUDIT IN LOCAL GOVERNMENT

### *The Nordic network for Public Sector Internal Auditors (NORPIA)*

According to a EUROSAI TFMA study (which was carried in late 2017 and covers 26 countries) there are various models of external audit of local government. External audit of local government is conducted by SAIs, private auditors, other institutions; all of them have different mandate and audit practice.

So far, the European Confederation of Institutes of Internal Auditing (ECIIA) has not conducted a questionnaire or a study about the current arrangements for internal audit in the public sector in the EU-member states. The Nordic network for Public Sector Internal Auditors (NORPIA) completed in early 2018 a comparative study about internal audit in the public sector. On a municipal level, the study covers only capital cities as it would have been too difficult to collect information in the study's timeline from hundreds of municipalities and regional governments.

As the United Kingdom represents good practices on how well the International standards for Internal Audit are considered on a local government level, we would like to present the differences between the UK and the five Nordic countries. This article is seeking to compare the audit arrangements in Local Government (Local Authorities) in the UK with the arrangements in Nordic Municipalities. There is also regional government level in Nordic countries but governance arrangements are not comparable.

#### Standards

The international standards for internal audit (IIA) and professional guidance set the general requirements and principles for the position and the nature of work. Independency being the most important yet the most vulnerable principle in the public sector.

In the main, UK local and central government internal audit follow the same format as both



are based on the international standards and frameworks. HM Treasury is the Relevant Internal Audit Standard Setters (RIASS) for Central Government and the Chartered Institute of Public Finance Accountants (CIPFA) sets the specific standards and guidance in Local Government. Whilst both follow the UK Public Sector Internal Audit Standards (PSIAS), CIPFA also produced a Local Government Application Note (LGAN) which interprets the standards for Local Authorities in England and Wales (recently updated). It takes the form of a 400+ line self-assessment, which needs to be validated independently every 3 – 5 years (5 years max) and the mandatory requirement for local authorities is that they achieve compliance with both the PSIAS and the LGAN together. In Nordic countries there's no equivalent statutory national standard setting body for internal audit in local government. In Nordic countries internal auditors comply more or less with the international (IIA) standards, but it has been discussed within the EC IIA Public Sector Committee if the EU-member states could have one model for the Internal Audit Standards for the public sector.

In UK failure to demonstrate compliance with the PSIAS needs to be recorded in the Annual Governance Statement. There are no equivalent mandatory reporting requirements in the local government sector in Nordic countries regarding compliance with the IIA standards. In Nordic countries the IIA standards are well recognized but they are less used in Denmark, where the Good Public Audit Standard, issued by the Danish National Audit Office, is more widely used.

	Denmark/ Copenhagen	Finland/ Helsinki	Iceland/ Reykjavik	Norway/Oslo	Sweden/ Stockholm
<b>Regulatory basis</b>	No laws or regulations. It is a council decision.	No laws or regulations. It is a council decision.	No laws or regulations. It is a council decision.	No laws or regulations. It is a council decision.	No laws or regulations.
<b>Structure / set-up</b>	Central unit	Central unit	Central unit	Central unit	Not applicable
<b>Use of IIA standards</b>	IIA standards are recognized but not much in use. But 'Good Public Audit Standards' from DK NAO is in use.	IIA standards are recognized and in use.	IIA standards are recognized and in use.	IIA standards are recognized and in use.	Not applicable
<b>Reporting line</b>	Council and Audit committee	Major and executive council	The executive council and audit committee	Head of departments and the executive council	Not applicable
<b>Public report</b>	Not directly from internal auditors, but on the committees' agenda and available on website	Depends on the issue	Depends on the issue, but generally public	Only upon request. Generally do not publish reports.	Not applicable

According to Nordic comparative study there are no mandatory requirements in national legislation or binding guidance about internal audit in local government (see table). It is up to the Councils in municipalities/cities to decide if internal audit is arranged or not and how. Internal audit is not very generally arranged in municipalities in the Nordic countries.

According to Nordic study the position of Internal Audit in municipalities is arranged either under the Council, Mayor, Executive Council or Central Administration: none of these Internal Audit units are directly under the accountable and executive Board.

There are some observations in Nordic countries that the nature of work and the position of Internal Auditor in the public sector organisations (local and government) can be misunderstood when the IIA standards are not recognized or implemented. Also “internal audit” can be understood as “internal controls”.

### Governance

In UK there is a requirement for an Annual Governance Statement (AGS) to be produced. In the UK the AGS includes Internal Audit’s Annual report and Annual Opinion. In Nordic countries there are no equivalent requirements to include Internal Audit’s report and Opinion to Annual reports.

In local government in the UK, the AGS is written by the Section 151 Officer (Treasurer) – Section 151 refers to the relevant section of the Local Government Act (LGA) which outlines the responsibilities of the Treasurer role. In local government, the format of the AGS is similar to Central Government, but must follow the CIPFA Delivering Good Governance in Local Government Framework Guidelines and demonstrate compliance with the 7 key principles contained therein.

In Nordic countries the requirements for AGS (or the like) are in legislation and the AGS is usually prepared by the Municipality Board that is responsible for the arrangement of proper internal controls and risk management system. The national Accounting Board (which in some countries operates under the auspices of some Ministry/the Government) have a statutory mandate to issue of general advice and instructions regarding AGS.

### Guidance

In the UK Local Government, there are many sources of guidance for internal audit from the Chartered Institute of Public Finance Accountants (CIPFA) on how Internal Audit should function: the most significant being the CIPFA Statement on the Role of the Head of Internal Audit (which has just been updated and will be launched in April 2019) and CIPFA: Audit Committee Guidance for Local Authorities and Police (also recently updated).

In Finland and Sweden there are Associations of Local and Regional Authorities that publishes several recommended guidance regarding good governance, internal controls, risk management etc. In Finland this guidance also includes internal audit.

### The definition of Audit Committee

From Internal Audit point of view the Audit Committee is accountable and executive management’s operational committee (appointed by the Council or Board) that has an oversight role for the work of Internal audit unit in cities/municipalities. In UK in local authorities, Audit Committees are made up of elected Members (local councilors) from across the borough or district, normally nominated and selected by the party, and there is normally political balance based on the political split of the borough. It’s very rare in Nordic countries that there is an Audit Committee.

It is important to notice that in Finland and Sweden every Municipality Council have a statutory Auditing Committee or Audit tasks. This statutory Committee/Task is different from the Audit Committee under the executive Board. *Auditing Committee* members or auditors in *Audit Task* are politicians or politically elected auditors. In Sweden political auditors’ hire professional auditors who they contract themselves.

Some of these political audit tasks overlap with the scope of work of internal auditors, especially in Sweden, which might be the reason why there generally are no internal auditors in municipal entities.

There are some regulations in national legislation about responsibilities of these Auditing Committees/Tasks. In Finland, Norway and Denmark there are no professional international or national standards or mandatory guidance for work of Auditing Committees or equivalent. In Sweden the Audit Task is to be carried out according to “Code of Audit in Local Government”. The Swedish Association of Local Authorities and Regions interprets and documents the code each 3-4th year.

Compared to these Auditing Committee/Audit Task auditors, Internal Auditors are not politically appointed but they are civil servants supporting the accountable and executive management responsibilities in management of internal controls and risk management. The most important condition for the work of internal auditor is independent position: the chief audit executive should have direct and unrestricted access to the accountable Board.

Writers: The Nordic network for Public Sector Internal Auditors (NORPIA) and Stephanie Donaldson (the Government Internal Audit Agency), formerly the Head of Internal Audit at the Liverpool City Region Combined Authority and current CIPFA Northwest Regional President.

Questions regarding the Nordic comparative study:  
Anna Margret Johannesdottir, The City of Reykjavik, email :  
[anna.margret.johannesdottir@reykjavik.is](mailto:anna.margret.johannesdottir@reykjavik.is)