



The local and regional authorities risk map
- English summary

Summary

Deloitte Norway has on behalf of the Norwegian Association of Local and Regional Authorities (KS), carried out an assessment to identify the risk map for local and regional authorities by looking at adopted performance audit plans. The assessment is intended to form the basis for KS's effort of strengthening the local and regional authorities work with internal control.

The assessment took place in the period from December 2016 to March 2017. It is based upon collected performance audit plans and a questionnaire sent to the Heads of the Control Committee.

The Control Committees of the local and regional authorities are legally required to develop a performance audit plan, at least once during the electoral term and at the latest before the end of the year after the constitution of the council, consisting of the performance audit projects they plan to implement. The council of the local or regional authority must then adopt the performance audit plan. The plan must be based upon a risk analysis of the local and regional authorities. More than 70 percent of the Heads of the Control Committee confirm that the performance audit plans reflect the key risk areas of their local or regional authority. We can thus use the identified projects drawn from the performance audit plans to deliver insight into the risk map of local and regional authorities.

Performance audit plans

This assessment has found that the majority of Control Committees have adopted a performance audit plan. Nonetheless, 17 percent of local government councils and 7 percent of the regional government councils (1 regional government) had not adopted such a plan at the time of this assessment. The assessment further found that in the majority of cases, the councils adopt the Control Committees proposed performance audit plans without making changes. Yet in some cases (12 percent in total), the councils amend the performance audit plans before adopting them.

Although most Control Committees have commissioned a risk analysis as a basis for the performance audit plan, this is not the case for all Control Committees (16 percent of the Heads of the Control Committee stated that this analysis was not commissioned, while 6 percent responded that they do not know). In addition, the work with the analysis and the scope of who is involved in the work varies. This assessment found that the Head of administration is involved in 69 percent of the risk analyses, while a much smaller share of the remaining administrative leaders and elected officials are involved in the risk analyses process.

A majority of the Heads of the Control Committee finds that the performance audit plan reflects the key risks facing the local and regional authorities (71 percent). There is large variation in the number of projects and the risk areas included in the performance audit plans. There is also variation in the number of projects the Heads of the Control Committee expect to carry out annually throughout the electoral term. The mean for local authorities is 1.3 projects per year, while the mean for regional authorities is 2.5 per year.

The local authorities risk map

The local authorities risk map revealed that the highest occurrence of risk areas were within the area *administration and organisation*. Within this area, *internal control* feature prominently, closely followed by the risk area *personnel, sick leave and HSE (Health, Safety and Environment)*. Further, the service area *healthcare* has the second highest occurrence. Within this service area, *mental health and substance abuse* is identified as the risk area with the highest occurrence.

The local authorities risk map corresponds with the risk map for the period from 2010 to 2016, when we examine completed performance audits sourced from the Performance Audit Database curated by the

Norwegian Association of Local Government Auditors (NKRF). Administration and organisation (categorised as "Other" in the Performance Audit Database) is the largest area, both in terms of completed and planned projects. The primary difference we found between completed and planned performance audits concerns their main emphasis. Whereas most of the *completed* projects emphasise regulatory compliance; there is more emphasis on management system, achievement of objectives, quality and productivity in the *planned* projects.

There are no material differences when comparing identified risk areas in the local authorities across counties or across municipality size. The distribution of identified risk areas in the various service areas appear to follow the same trend, even though we detected a few minor differences.

The regional authorities risk map

As was the case for local authorities, *administration and organisation* is also the service area with the most identified risk areas in the regional authorities. Included among the risk areas with the highest occurrence is *procurement* and *internal control*. The service area *upper secondary education* has the second highest occurrence.

The regional authorities risk map corresponds well with the risk map for the earlier period, when we examine completed performance audits from the period 2010-2016. As was the case for local authorities, the primary difference between planned and completed projects is concerns their main emphasis. For the regional authorities too, regulatory compliance stand out as the main emphasis in completed projects. While achievement of objectives is more frequently the main emphasis in planned projects.

When comparing identified risk areas for regional authorities, across regions, we found that *administration and organisation* is the leading area for all regions, although for one region the risk area *upper secondary school* was just as common.

The national risk map

Both for local and regional authorities, relatively clear risk maps emerge. The administrative and organisational processes stand out as identified risk areas. This is not surprising given that the risk areas linked to *administration and organisation* encompass many general processes that constitute a precondition for good governance at the local and regional level. Within the area *administration and organisation*, internal control is a topic that occur frequently, especially among the local authorities, but also among the regional authorities. It is outside the scope of this assessment to determine why certain areas are identified as risk areas more often than others are. Nevertheless, it is conceivable that the considerable emphasis put on internal control in the local and regional authorities in recent years play a role.

Even though *administration and organisation* as a service area have a high occurrence of identified risks, there are still two other topics related to service providing that are more frequent if we consider the topics independent of service area. These two are *healthcare* for the local authorities, and *upper secondary education* for the regional authorities. In addition, these service areas have at least four traits that might make them more prone to particular risks. First, both sectors are the largest measured in gross operating expenses for local and regional authorities respectively. Second, both sectors are largely subject to national regulations. Third, these sectors have clear requirements for qualifications. Fourth, the services rendered have a direct effect on the welfare of the citizens.

In addition to the Control Committees performance audits, several of the service areas of local and regional authorities are subject to state supervision. For some time it has been a stated objective that if the internal control of local and regional authorities is strengthened, then the corresponding state supervision could be reduced so that the total burden on the local and regional authorities' administration is not too large. This assessment found that completed and planned state supervision is not always taken into account when developing the performance audit plan. This is only done in about a third of the plans. In other words, there is considerable room for improvement in coordinating the development of performance audit plans with the supervision conducted by the state. At the same time, it is important to note that local and regional authorities' performance audits are different from state supervision. For instance they have a wider scope and they encompass larger parts of the administration in local and regional authorities. More than half of the proposed performance audits in the local authorities are in topics where state supervision is not

normally conducted. In the regional authorities, an even larger share of planned performance audits (75 percent) is not normally covered by state supervision. The service area with the highest occurrence of identified risk areas, *administration and organisation*, is also an area only partially subject to regular state supervision.



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