

Performance audit in practice

■ Examples from county and municipality audits

The Committee
for
Public Audit

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- Kommunernes Revision (KR)
- Revisionsdirektoratet for Københavns Kommune
- Revisionsaktieselskabet af 1/12 1962
- The Institute of State Authorized Public Accountants in Denmark (FSR)

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I. Why this pamphlet?

Since 1997, a formal requirement for the performance auditing of municipalities and counties has existed. This requirement is laid down in section 42 (2) of the Local Government Act (styrelsesloven), and stipulates that the audit must assess "whether implementation of local council and committee resolutions, and the management of municipality's affairs in general, is performed in a financially expedient manner".

This requirement for performance auditing means that the audit plays an ever-increasing role in connection with how municipalities and counties translate political resolutions into practical action. However, the audit cannot share any responsibility for resolutions that might jeopardise its independent position, cf. section 42 (5) of the Local Government Act. Performance audit is an independent assessment of whether municipalities and counties have appropriately structured management and control and whether they take into account economy, efficiency and effectiveness.

In subsequent years, a greater general implementation of performance auditing has been seen in municipalities and counties. At the same time, there has been a continuous trend towards clarifying the general conceptual basis for performance audit implementation.

Municipal and county administrations are under significant pressure to enhance efficiency. It is a question of getting as much as possible from scarce resources, and putting every penny to the best possible use.

Municipalities and counties are striving to meet these demands. Performance auditing is one of the aids – in dialogue between municipalities and counties and their selected auditors – for evaluating the results achieved against the objectives that constitute the foundation for municipal and county administration.

On this basis, members of the The Committee for Public Audit have assessed that a need exists to provide snapshot pictures of how performance auditing in municipalities and counties is carried out, and how subsequent reporting takes place. It is the Committee's objective to contribute to continued development in public sector auditing, so that it generates high quality and value for the individual municipality and county, regardless of who the auditor is and who is being audited.

This pamphlet has been prepared in order to support the individual presentations on **Performance audit in practice** project day and as such is intended for all those in municipalities and counties with an interest in performance auditing. This pamphlet is not designed to provide an actual theoretical introduction to the performance audit. For such an introduction we must refer to the pamphlet **Good Public Auditing Practice**. The Committee for Public Audit hopes here to provide a picture of how different performance auditing can be carried out, both with regard to extent and the manner of execution - a picture that shows how performance audit is adapted and targeted to specific conditions.

II. Ongoing and extended performance audit

The Local Government Act of 1997 introduced the performance audit as a new concept in municipal auditing. Until then, the audit had only focused on the financial audit, but now it became obligatory for municipalities also to carry out performance audit. In the explanatory notes to the Local Government Act, the terms **ongoing** and **extended** performance audit are used, meaning that ongoing performance audit must be carried out together with the regular audit and is obligatory, while extended performance audit is carried out as an additional project.

There are a number of differences between ongoing and extended performance audit, the most important of which are outlined in Table 1.

Table 1. Differences between ongoing and extended performance audit

Ongoing performance audit	Extended performance audit
<ul style="list-style-type: none"> ■ Carried out in conjunction with the financial and legal-critical audit. ■ The municipality's auditors, on the basis of dialogue with the municipality, make the final decision concerning examination. ■ The basis is those analyses and assessments carried out in support of the financial audit. ■ As a rule based on existing data and surveys. ■ As a rule highlights critical areas where a need for further examination exists. ■ Audit report submitted collectively for the ongoing audit. 	<ul style="list-style-type: none"> ■ Carried out independently from the ongoing audit and according to agreement with the municipality or county. ■ The municipality or county decides whether or not to carry out an examination. ■ Examinations are of a more in-depth and/or broader nature. ■ New data can be collected and new surveys performed. ■ Normally provides the opportunity of answering critical questions. ■ Audit report submitted independently.

Today, audit methods have evolved into being more process-oriented than previously, where to a great extent the audit focused on financial procedures.

The combination of the financial audit and the ongoing performance audit can be used at all levels of the municipality – from objectives and strategies to management supervision, core processes and procedures to performance measurement and quality assurance. The performance audit, with its emphasis on overall perspective, institutional processes and progressive intent with the audit, plays an ever-increasing role in the auditing of public sector enterprises.

The performance audit provides the individual municipal and county authorities with a tool for assessing economy, efficiency and effectiveness, as well as management and control - all with the aim of achieving an overall optimisation and higher level of quality of public sector service output. For example, focus can be directed at efficiency within selected administrative areas or assessments of economy of isolated actions.

Viewed in the light of the significant and far-reaching scope of municipalities' activities, the consequence is that in practice many different approaches and methods are used. The broad array of approaches and methods is indeed one of the strengths of performance audit. As such, an overall presentation of methods and content of performance auditing is not possible. However, these different approaches can be presented in the form of practical examples, which is precisely the aim of this pamphlet.

The practical examples have been selected because they are examples of best practice, where the audit provided noticeable results, for example, in the form of savings or improved efficiency. In our view, the municipalities and counties perform a great job. Consequently, a performance audit will not always culminate in, for example, large-scale savings. Therefore, the selected examples do not provide a picture of how great the savings or gains in efficiency a normal audit would produce. Indeed, we have chosen to select some of the best examples, but they provide a snapshot picture of how many different methods an auditor can employ in the performance audit process.

III. Ongoing performance audit

A. How is ongoing performance audit carried out?

Ongoing performance audit is carried out as an integral part of mandatory audit/standard audit, for example, where auditors have discovered improprieties that deserve a little closer scrutiny. For example, this could be an unusual development tendency in a given sector.

Action could take the form of a limited examination, building on surveys already undertaken in connection with the audit.

Typically, a survey – carried out as an ongoing performance audit – is based on a review of key figures, budget and accounts materials, and existing written materials – possibly supplemented by one-off, explanatory interviews with key personnel in the area under scrutiny.

The following are selected examples of ongoing performance audits of important sectors of activity in decentralised administration.

B. Examples of ongoing performance audit

a. Technical sector

The technical sector is characterised by a multitude of varying tasks from maintenance and construction of roads and park management to the fire service, staff canteens and service functions throughout the municipality. Below is an example of an ongoing performance audit of the staff canteen and attendant staff at a town hall.

Example 1. The staff canteen and attendant staff at a town hall

Objective

The auditors carried out an examination with the intention of defining and evaluating the procedures at a town hall for the leasing of conference rooms, food service, delivery of equipment, clearing away, etc.

Result

The examination showed that

- The leasing of conference rooms was managed by 3 different administrative units, each leasing out its own rooms
- The 3 administrative units used different systems to administer booking of conference rooms and food service
- Each unit was in the process of developing computer-based booking systems.

On that basis, the auditors recommended that

- It would make more sense to allow an administrative unit to manage booking
- Only one computer-based booking system should be developed encompassing all the conference rooms at the town hall
- On the grounds of security, procedures informing the attendant personnel of all meetings should be considered for implementation.

b. Revenue sector

Revenue is of course an important element of municipal economy. Therefore, it may be necessary to place greater emphasis on established levying procedures in current revenue areas, or in the collections area in general. The following are 3 specific examples.

Example 2. Efficiency of collections procedure

The objective was to assess the efficiency of a municipality's collections procedure. Therefore, the audit chose, among other things, to examine the average number of months between the final due date for payment and the sending of the first reminder.

The result showed that for 224 out of 248 cases, the reminder was sent from between 1 to 11 months after elapse of the final due payment date. Therefore, the municipality had the possibility of both enhancing efficiency and ensuring a more uniform case administration.

Example 3. Directions for housing for the elderly

The objective of the audit examination was to calculate the municipality's outstanding rental income as a result of housing for the elderly remaining unoccupied over a longer period.

The audit subsequently **concluded** that outstanding rental income from 1996 to 1998 had fallen by 46 %.

Example 4. Parking fines vs. a friendly reminder

In connection with the audit of the revenue sector of the municipality's roads and parks department, the auditors noticed in particular that the parking sector in recent years had maintained the practice, on a given day immediately prior to Christmas, of not issuing parking tickets. Motorists instead received – in order for the parking sector to attain some goodwill – a friendly reminder that they were breaking the parking regulations.

Losses were significant, and the city council subsequently decided that the practice should be discontinued.

c. Social sector

According to legislation on civil rights and administration of the social sector, the individual city council is responsible for how the municipality plans and performs its work. Expenditure is also very high in this sector. Therefore, the social sector is also a prime candidate for ongoing performance audit.

Example 5. Audit of social services in a municipality

Objective

In order to increase efficiency and quality in the social sector of a municipality, the audit undertook a so-called comprehensive audit of the social sector. Generally, the examination touched on welfare benefits, job creation and activation schemes, rehabilitation, flex and light-duty jobs, early retirement pension, sick pay and housing subsidies.

The comprehensive audit comprised:

- A key figure comparison of the expenditure level in the municipality with selected comparative municipalities
- An assessment of the administrative value of the political objectives
- An assessment of information to management and existing management tools
- An assessment of appraisal procedures
- An assessment of case administration.

The data forming the basis of the comprehensive audit were a mix of written materials and interviews with key personnel in the specific areas concerned.

The result

The auditors found that the municipality should

- Tighten up case administration, not least with regard to sick pay, where expenditure was significantly higher than in the compared municipalities, but also in other areas,
- Develop social profiles and resource profiles within the welfare benefits and job creation/activation sector in order to create a common basis for dialogue on objectives and measures for the future,
- Create common and visible goals from politician to administrative management to case administration and citizens, as well as
- Strengthen information to management with development-oriented information.

From 1 January 2001, government reimbursement to municipalities for sick pay expenditure was reduced, so municipalities had to pay half the costs for periods of sick leave between 9 and 52 weeks, as well as all costs incurred for longer periods of illness. In order to keep costs related to long-term sick leave down, the amended rules have augmented the need for an efficient case administration in this sector.

Example 6. Key figure survey on sick pay sector

Objective

As part of the mandatory performance audit, a survey was undertaken of the sick pay sector in order to assess case administration in the area.

Result

Generally, the municipality had a relatively uniform flow of cases during 1998-2000. However, the total number of cases grew significantly during the period, primarily due to a longer case processing time. As such, the proportion of cases with a duration in excess of 39 weeks in the years 1998, 1999 and 2000 constituted 19 %, 27 % and 36 % of the total number of cases, respectively.

According to the auditors' experience from other municipalities this meant that case processing time could be reduced significantly. Therefore, the municipality was advised to re-examine problem cases and their progress from first appraisal, granting of benefits and follow-up until the case might potentially be concluded or change category to rehabilitation or early retirement pension, for example.

It was also recommended that a comparison be made of the case administration of the municipality with that of other municipalities, for example:

- A mapping of specific case administration
- A comparison of the municipality's practices with those of a number of other municipalities

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- An index of ideas of alternatives to current practice based on the experience of other municipalities
 - A list of obstacles preventing quick, smooth and cost-effective case administration.

The survey could be extended to include welfare benefits and early retirement pension, especially as the opportunities for savings rested with creating efficient case administration, which overall led to shorter benefits-dependency periods.

IV. Extended performance audit

A. How is extended performance audit carried out?

Extended performance audit is carried out independently from, but often as an extension of, the ongoing audit - for example, if the audit highlights areas that warrant closer attention. More specifically, such examinations often concern management of selected areas, including

- Assessments of resource management
- Structural planning of work
- Calculation of financial latitude for use in political prioritisation
- Procedural analysis
- Assessments of the quality of case administration
- Assessments of target achievements and appropriateness of designated objectives.

Examinations may be performed by the municipal auditors alone or through co-operation between the auditors and the municipality. If the examination takes the form of a joint project, the specific distribution of work will be clarified in the project contract. The following are selected examples of extended performance audit in important areas of municipal activity.

B. Examples of extended performance audit

a. Supply sector

The supply sector differs from other municipal activities by being largely user-financed rather than tax-financed. This entails a greater level of enterprise-related management, for example cost management, contract management, company formation and outsourcing. In continuation of this, we are seeing a greater interest in cross-municipal co-operation in the technical sector, and many municipalities are considering amalgamating several utility companies into a common supply source. The objective with both models is to achieve increased efficiency and rationalisation benefits, better management and improved service for current and future customers alike. The following is a description of a specific example of extended performance audit in the technical sector.

Example 7. Amalgamation of utility companies

Objective

The municipality concerned contacted the auditors in connection with an impending project concerning the amalgamation of the municipality's utility companies into a common supply source. In this connection, the municipality requested a proposal on how best to approach the amalgamation. The examination included

- Mapping and assessment of organisational conditions with regard to administration and management
- Assessment of the administrative work of such a common supply
- Identification of the consequences such an amalgamation of utility companies would have on general administration and operation – including relevant interfaces.

The survey was carried out on the basis of interviews with relevant parties as well as financial data, function descriptions and other written materials.

Result

On the basis of the survey the auditors, among other things, submitted

- Proposals for the establishment of common supply
- A specific draft for a chart of accounts structure with regard to common supply.

The auditors subsequently functioned as a sparring partner in connection with the implementation of a strategic action plan for common supply.

b. Child care

The children and youth sector consists primarily of outlay to day-care institutions, SSP (Schools, Social Services and Police), PPR (Educational-Psychological Advisory Service), etc. Sector expenditure is, of course, directly related to the number of children, which necessitates an ongoing adjustment of activity levels to demographic development. An example is presented below of **placement in residential care** of children and young people.

Example 8. Placement in residential care of children and young people

Objective

The auditors made an assessment of the management of placement in residential care of children and young people. This was based on repetitive overspending of budgets over recent years. The aim of the examination was to assess the budget in relation to objectives, goals and performance demands in the sector. In addition, the auditors had to identify the more important risk areas and in that connection submit proposals for improvements within these fields.

Result

The auditors suggested the municipality develops work with objectives and goals in order to establish a better correlation between the intention with the placement in care and related budgetary procedures.

The auditors submitted the following findings:

- The municipality's model for distribution of the budget between placement in care in residential care and foster care could provide local social centres the incentive to place children and young people in significantly more expensive residential care homes instead of in foster care.
- The quality of case administration in care placement cases was generally good, and the legal foundation and primary guidelines were adhered to.
- Children and young people over the age of 15 were seldom consulted as to their opinions - in contravention of the rules.
- Generally, the municipality did not undertake systematic assessments of whether its actions had the desired effect on the child's or young person's continued development.
- There was not full exploitation of the municipality's allocation at residential care homes, and internal communication in the municipality did not build upon systematic knowledge of which homes or institutions had vacant slots. This gave caseworkers a considerable amount of extra work.

In relation to the last point, the auditors suggested that information on the individual residential care home's target group and vacant slots should be made accessible via the Intranet.

c. Education and culture

The school sector, one of the most expensive items in the municipal budget, constitutes a key sector of municipal financial management. The following is a specific example of a survey of school financial management.

Example 9. Overspending of school budget in a municipality

Objective

The primary objective of the survey of the school system was to clarify and assess the financial management. In addition, the latitude for political prioritisation with regard to minimum standards in legislation, as well as the Ministry of Education's advisory weekly lesson figures, had to be examined. More specifically, the objective was to assess the implementation of the proposed guidelines for the sector, procedures for the planning of the school year – including administrative tools for allocation of lessons – and the distribution of responsibility in this context.

The survey's methodology and data basis included interviews, miscellaneous fiscal data and information on timetable planning in the form of extracts from *Skoledata*, etc.

Result

The survey resulted in proposals for

- Improved planning, where the risk of increased consumption in relation to the teacher salaries budget is reduced
- Procedures that would ensure co-ordination between the parties involved in financial management
- How the municipality could make better use of teaching resources – including through higher levels of activity placement of teaching hours in connection with planning of the school year.

Financing of extensive special education was amended in 2000, which has given counties difficulty in relation to expenditure budgeting. As such, extensive special education is also a subject for performance audit.

Example 10. Extensive special education

Objective

The objective of the survey of extensive special education in the county was to create a basis for improving budgetary preparations and resource management in the sector, as well as providing the county with a status report of the sector. The survey included

- A comparison of key figures on expenditure levels for extensive special education in selected counties – including the county itself
- An assessment of resource management – including existing management tools
- An assessment of the existing form of operation.

As such, the survey built on data from Ministry of the Interior and Health key figures, financial and activity figures, as well as a number of interviews with relevant parties in the sector.

Result

The survey of extensive special education in the county concerned led to an assessment of the possibilities for a better resource management of the sector – including specific recommendations for alternative forms of operation.

d. Care of the elderly

Both the number of users and the demands and expectations of citizens in relation to the elderly sector have increased significantly in recent years. At the same time, the municipal budget is under general restraint. Therefore, an efficient exploitation of resources taking into account employee working environments is crucial – not least in the elderly sector, which constitutes a large portion of aggregate municipal expenditure. The following are 2 descriptions of specific surveys that provide the municipality with a future basis for managing the elderly sector.

Example 11. Resource consumption in caring for the elderly

Objective

The municipality wanted to investigate the possibilities of increasing efficiency within the area of home care for the elderly. The objective was to use the liberated resources for new activities and improve quality in the elderly sector.

Results

The audit resulted in

- A specific and general assessment of resource exploitation in the structuring of work and planning in the sector
- Proposals for new resource management tools, including a key to the distribution of resources between the municipality's 3 districts
- Specific proposals for the reduction of sick leave, meetings and overtime.

Example 12. Aids and appliances sector

Objective

One municipality had observed a steady increase in costs in connection with aids and appliances. The sector was characterised by relatively highly specialised professional standards, which could make it difficult to exercise qualified supervision. At the same time, the municipality was also considering outsourcing elements of the work. Therefore, the municipality wanted to know if the increased costs were exclusively the result of objective demand, such as more users and a broader and more varied supply of aids and appliances. Furthermore, a qualified basis was required in order to conclude the municipality's deliberations on outsourcing.

Results

The surveys indicated that

- Objective demand was increasing and service levels sliding
- Existing guidelines and instructions were not being followed correctly, resulting in increased costs.

On the basis of this, new guidelines for funding and service levels were drafted and implemented. Likewise, a new competence plan and new procedures were developed and implemented. The result of this was rapid significant savings, which did not even give rise to more complaints.

e. Social conditions in general

Constant amendments to legislation and other codes of practice, combined with increased 'demand' for the various social services require frequent adjustments of work organisation, etc. Therefore, a service check of the sector would perhaps be a positive contribution to future adjustments, restructuring and prioritisation.

Example 13. Service check of the social sector

Objective

The municipality wanted an assessment of the social services department's resource utilisation and task performance. More specifically, the municipality wanted an assessment of quality, expeditiousness, efficiency and prioritisation of task performance in a broader context. Included in this was an assessment of the quality of case administration.

Result

The survey resulted in

- A general and specific evaluation of individual departments
- Proposals for adjustment and improvement of procedures, distribution of resources, case administration content, implementation of new initiatives and political prioritisation
- Proposals for new directives and procedural descriptions.

f. Hospitals

The hospital sector is the county's positively highest expenditure item and consequently also a sector subjected to constant critical analysis. Typical areas of survey are the correlation between finance and quality, the interaction between administration and the respective hospital departments, the specific organisation of work and the choice of supplier in different areas. As such, these topics are also focused on in connection with extended performance audit. The following is a description of an example of **benchmarking between hospital departments** as well as an example of a survey of **choice of supplier in connection with dialysis treatment**.

Example 14. Benchmarking between hospital departments

Objective

One department at a hospital had for years experienced problems with long waiting times for treatment and long waiting lists. As a result of this, the department was allocated additional funds from 2001. In addition, it received a special grant towards a waiting list project to be implemented in 2001. The objective of implementing a benchmarking of the department was to obtain a picture of whether the structuring of work in the department was appropriate when viewed in comparison to other similar departments in Denmark.

The survey focused on both identifying the disparities between the departments in relation to the structuring of the individual phases in patient treatment and on charting the duration of each phase of the treatment for 3 selected diagnoses. In addition, the survey included a log of patient waiting times.

Result

All the departments involved received the opportunity to explain deviations in waiting times as well as expenditure in connection with treatment, on the basis of a specific cataloguing of work processes. This provided the opportunity to consider making changes in these areas with regard to reducing patient waiting times.

Example 15. Choice of supplier in connection with dialysis treatment

Objective

Dialysis treatment is one of the high cost areas for the hospital sector and consequently in recent years has also received attention in the form of projects designed to improve efficiency in the hospital sector. The objective of the survey was to reveal important causes of rising costs in dialysis treatment in the county in question. Furthermore, on the basis of this, the objective was to provide the county with more general information on the area.

The survey included

- A general uncovering of the financial conditions surrounding dialysis treatment in the county
- A look at financial and other conditions in relation to the existing agreement between the county and the dialysis equipment supplier
- A comparison of prices of dialysis treatment in the county in question with prices in the Copenhagen Hospital Corporation ("H:S") – including a look at H:S' model for choice of supplier
- A comparison of prices of dialysis treatment in the county concerned with prices for equivalent treatment in a Swedish or Norwegian county – including a look at the employed model for choice of supplier.

The survey was based on key figures, financial and operational figures as well as information provided through supporting/explanatory interviews.

Result

The survey resulted in a number of assessments of whether the current practice for dialysis treatment in the county concerned is performed in an optimal manner, seen from a financial point of view. In addition, the county was presented with a number of proposals for an overall financial optimisation of the area.

g. Integration

With the new legislation on integration and Danish language instruction, municipalities took over county integration commitments for newly arrived immigrants in 1999 – which included Danish lessons. For each newly arrived immigrant the municipality has to prepare a plan of action that takes into consideration individual skills, qualifications and motivation. As part of this, the municipality must provide Danish lessons at a level suited to the individual's qualifications. It is recommended that language

schools are consulted in the drafting of the part of the action plan that concerns co-ordination of Danish lessons with job creation schemes. The new challenges that local authorities face in this connection have given rise to the desire for external assistance with regard to ideas for structuring the co-ordinated effort in relation to Danish lessons and job creation schemes. A specific example of an extended performance audit is described below.

Example 16. Integration

Objective

The objective of the survey of the integration sector was to assess the municipality's possibilities for controlling the correlation between Danish lessons and job creation schemes. For example, management possibilities were to be assessed according to both the current structure and alternative organisational forms.

A significant proportion of the basis forming the basis of the survey's assessments and recommendations was interviews with key personnel – including the head of administration, integration employees and management staff of the municipal language schools.

Result

Among other things, the survey led to assessments of

- The municipality's management possibilities taking into account the Integration Act's intentions of unity and correlation of the different elements of the introduction process
- The correlation between the language element and the job creation side of the process
- Whether the current structure of the introduction process provided sufficient opportunity to realise the objective of correlation.

A number of alternative structural models, as well as the financial advantages and disadvantages of the different models were presented to the municipality.

h. Payroll management

Many counties and municipalities have now adopted the "New Pay" method for large segments of their personnel, whereby a portion of pay has become dependent, for example, on individual qualifications and results. Therefore, the transition to "New Pay" places greater demands on payroll expenditure management than previously. There is an ever-increasing interest in municipalities and counties for working with payroll management, which is considered the way forward as it is no longer possible with "New Pay" to administer payroll expenditure by norms – "number of heads" – alone. In connection with the transition to payroll management, a large number of factors need to be taken into account, including established personnel and pay policies, competence rules for self-management, accessibility of

management tools, etc. In other words, payroll management is a complex area and one that has demonstrated a great need for the extended performance audit.

Example 17. Payroll management

Objective

The objective of the survey in the municipality was to provide assistance to a municipal working group created in connection with payroll management. Part of this involved the drafting of proposals on how the municipality could approach the introduction of payroll management.

This assistance included

- Introductory dialogue on the objective of payroll management and management issues
- Collaboration with regard to defining competencies and the division of responsibility in relation to future payroll management
- Collaboration with regard to defining primary ground rules for payroll management and the budgeting process
- Advice regarding which demands need to be addressed by a payroll management device.

The consultant's role was in part to initiate dialogue in the working group – among other things via specific proposals in connection with working group meetings – and in part to record those decisions taken during the process.

Result

On the basis of the working group meetings, etc., proposals included

- A specific proposal for how the municipality could introduce payroll management in the form of an action plan, whereby all the sub-elements of the process were outlined in natural succession
- Supportive memorandums that outlined possible obstacles for future work as well as ways of getting round these.

i. Cross-sector issues

Municipalities and counties are also currently working increasingly on the digital challenge, as great improvements in efficiency are expected by going “on line” with a number of work processes. Digitalisation is also expected to contribute to improved service for citizens as a consequence of information from public administration becoming more easily accessible. It can be difficult for the individual municipality to fully appreciate the security implications, for example, of electronic document processing, etc. Therefore, increased demand for advice on IT security conditions surrounding electronic work practices is also being seen. A specific example of an extended performance audit project in the **IT sector** is described below. In addi-

tion, there are 3 examples of examinations of **expenses subject to VAT, purchasing optimisation** and **financial management of a local fire service**.

Example 18. Focus on IT security policy

Objective

The objective of the survey was to assist the municipality with the drafting of an IT security policy which in part would ensure senior management an overview of general IT security, and partly clarify responsibility and competence.

The survey included

- A risk analysis, where risks and vulnerability with regard to IT security were determined
- Advice with respect to content of an IT security policy.

Result

On the basis of the survey the municipality was presented, among other things, with a number of specific recommendations in relation to

- Achieving a general level of security
- Integrating IT security as a natural element in organisational procedure.

Example 19. Expenses subject to VAT

An increasing number of municipalities involve private companies in performing tasks in the welfare benefits sector. Not all municipalities allocate in accordance with the Ministry of the Interior and Health's authorised allocation rules. As a majority of the private companies are registered for VAT, possible allocation mistakes can lead to increased costs for the municipality in the form of outstanding VAT rebates from the local VAT settlement scheme.

The auditors therefore undertook a nationwide benchmarking survey. The survey showed that across the country a relatively high difference in allocation practice exists, where municipalities reported between 0-2 % of all relevant expenses for VAT rebate.

One survey of a specific municipality gave cause for recommendations concerning the reassessment of allocation practice and a review/specification of the municipality's VAT registered cooperation partners, as the municipality had not reported relevant expenses. The survey indicated that the municipality should be able to report expenses of up to some DKK 5.4 million for VAT rebate. Under these conditions the municipality could make a saving of some DKK 1.1 million. Although government rebate has to be deducted from this, the municipality's net gain from amending its allocation practice on a yearly basis could reach some DKK 0.5 million.

Example 20. Purchasing optimisation

Background

The demands on public institutions for improved service and quality, and consequently improved efficiency of administrative functions, are increasing all the time. Several surveys have shown that there is a great difference in the range of prices public institutions accept when purchasing. In addition, the political work with purchasing policies and structuring of the purchasing function has decisive significance for how cheap a municipality can perform its purchasing. Great demand can be seen from municipalities and counties for external assistance in enhancing efficiency of the purchasing process.

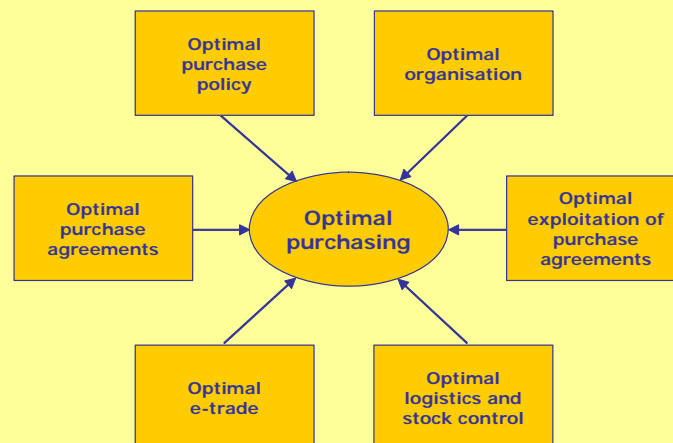
Objective

The survey objective in one municipality was to reveal and assess the possibilities for optimising aggregate purchasing. During a financial mapping of purchasing and of the structure of the purchasing function – including the relationship between central and decentralised purchasers – the particular objective was to highlight different aspects of economy and efficiency.

The financial element of the survey is performed on the basis of data from the municipality's finance system, list of suppliers and information on purchasing agreements concluded. The data forming the basis of the remainder of the survey consisted of personal interviews with both central and decentralised purchasers from selected institutions as well as existing written material.

Result

The survey led to a number of assessments and recommendations that relate to 6 parameters of significant importance for optimal purchasing (cf. chart below).



On the basis of the survey several future scenarios on the purchasing sector were presented. The overall report provided a basis for decision for the political management who were faced with making great savings in next year's budget and who would naturally rather make these cuts without disrupting core services.

Example 21. Financial management of a local fire service

Objective

The objective was to analyse the financial management of a local fire service. The survey looked at management processes initiated with a view to exploiting resources and structuring activities so the objectives were met in the best possible way.

Result

The examination included a service department that oversaw the maintenance of equipment.

The auditors found that the department's registration systems – used for the collation of both financial and non-financial information – provided a good start for further work on the development of management tools for departmental resource consumption and production.

The system did not yet provide, however, a general overview of the extent of the department's total production. Therefore, it was difficult to completely compare the extent of what the department produced with departmental consumption of resources.

The auditors thought it very positive that the fire service had initiated a project undertaking a significantly more detailed process of registration, and the auditors expressed their hopes that this work would be extended to encompass the entire department.

Appendix. Working group mandate and composition

The working group has operated under the following mandate:

"The working group shall clarify the term 'performance audit'. Subsequently, the working group shall focus on performance audit in practice. In a simple and understandable manner, it shall be explained how performance audit is carried out in practice. Descriptions of case studies/best practices shall be allocated high priority in the group's work. Accounts of good examples/success stories in performance auditing will provide the basis for a sound and informative process".

Members of the working group have been:

Morten Levysohn, Head of Department, until 31 December 2001, NAOD
Jørgen Mohr, Deputy Auditor General, from 1 January 2002, NAOD
Henning Jacobsen, Director, Revisionsaktieselskabet af 1/12 1962
Steen Andersen, Deputy Managing Director, Kommunernes Revision (KR)
Henning I. Jensen, State Authorized Public Accountant, Ernst & Young
Niels Andersen, Accountant, Revisionsdirektoratet for Københavns Kommune
Jens Lund Andersen, Chief Consultant, NAOD

Since October 2001, the working group has convened 7 times.

