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Extract from Rigsrevisionen's report on

the ministries' supervision of reimbursement to municipalities

submitted to the Public Accounts Committee



1849
147.281
237
1976
114.6
22.480
908

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1. Introduction and conclusion

1.1. PURPOSE AND CONCLUSION

1. This report concerns the supervision of the Danish municipalities' administration as exercised by the Ministry of Employment, the Ministry for Children and Social Affairs and the Ministry of Immigration and Integration in respect to the policy areas where the municipalities can seek reimbursement from the central government for expenditure defrayed. The central government will reimburse expenditure defrayed by the municipalities concerning services provided in certain areas such as personal assistance to disabled citizens, job-rotation programmes or assistance to refugees. In 2017, the central government allocated DKK 29.5 billion in the fiscal budget for reimbursement to the municipalities within the remits of the three above-mentioned ministries. DKK 16.5 billion of this amount is transferred to the municipalities based on their requests for reimbursement of expenditure.

2. The municipalities are eligible for reimbursement if services and efforts have been provided in accordance with the legislation, the expenditure has been entered in the accounts in compliance with the regulations, and the requirements of the Danish Executive order on the preparation of financial statements, including the bookkeeping and audit requirements, have been met. The point of departure for the report is the ministries' responsibility for the correctness of the appropriation accounts presented to the Danish parliament and proper use of the appropriations in compliance with the purposes intended by the Danish parliament, cf the Constitutional Act of Denmark, section 46, sub-section 2.

3. The municipal councils are responsible for ensuring that administration in the municipalities complies with current regulations. The respective ministries are responsible for the supervision of appropriations. The ministries also have a non-statutory right and obligation to monitor management of legislation within their remits, including whether legislation is generally complied with and still relevant. The ministries supervise the legality and administration, ie how the municipalities administer relevant legislation within the remits of the ministries, and they supervise the municipalities' achievement of the objectives defined for the services and efforts they administer. This study concerns the ministries' supervision of legality and administration, ie whether the municipalities defray and administer reimbursable expenditure correctly. Thus, this study does not cover the ministries' supervision of the municipalities' achievement of objectives.

EXECUTIVE ORDER ON THE PREPARATION OF FINANCIAL STATE- MENTS

This executive order from 15 December 2016 has no. 1617. It concerns central government reimbursement and grants, and preparation of financial statements and auditing in certain policy areas with the areas of responsibility of the Ministry for Children and Social Affairs, the Ministry of Immigration and Integration, the Ministry of Transport, Building and Housing and the Ministry of Education.

The Ministry of Employment issues the executive order following consultation with the other ministries.

CONSTITUTIONAL ACT, SECTION 46, SUB-SEC- TION 2

Expenditure can only be defrayed if provided for by the Finance Act, or by a Supplementary Appropriation Act, or by a Provisional Appropriation Act passed by the Folketing.

In addition to the supervision performed by the relevant ministries, the Social Appeals Board supervises the municipalities and regions' observation of the regulations applying to public authorities (the municipal supervision). In April 2017, the Social Appeals Board took over the responsibility for municipal supervision from the State Administration. Rigsrevisionen has examined the municipal supervision in the report on the State Administration's supervision of municipalities that was submitted to the Public Accounts Committee in February 2016.

4. Transfers from central government to the municipalities are significant, and there have been indications of errors in some of Rigsrevisionen's previous audits of the municipalities' administration of reimbursable expenditure in individual areas. Studies of general practice conducted by the Social Appeals Board also point to problems concerning non-compliance with the legislation that governs municipal reimbursement.

Rigsrevisionen initiated the study in March 2017.

5. The purpose of the study is to assess whether the Ministry of Employment, the Ministry for Children and Social Affairs and the Ministry of Immigration and Integration are performing their supervision of the municipalities' administration of reimbursable expenditure in an appropriate manner. The report answers the following questions:

- Do the ministries have sufficient knowledge of the municipalities' administration of reimbursable expenditure to be able to perform their supervision effectively?
- Do the municipal reimbursement cases meet the eligibility criteria defined by the ministries?

CONCLUSION

It is Rigsrevisionen's assessment that the Ministry of Employment, the Ministry for Children and Social Affairs and the Ministry of Immigration and Integration should improve their supervision of the policy areas where the municipalities can seek reimbursement for their expenditure. The current supervision is not providing sufficient assurance that the government accounts concerning reimbursement are correct. Rigsrevisionen's sample shows a high error rate in the municipalities' processing of cases where expenditure is eligible for reimbursement by the central government.

Rigsrevisionen finds that the ministries' current supervision is based on sources that do not provide the ministries with an adequate basis for determining whether the municipalities administer the areas correctly and request and receive correct reimbursement. The supervision performed by the three ministries is based on the Executive order on the preparation of financial statements, which prescribes certain requirements for the audit in the municipalities. Municipal audit reports are important sources of knowledge, but they do not provide the ministries with assurance that the audit has sufficiently covered all appropriations in the budget, and the ministries and auditors have not coordinated their assessment of errors in terms of their potential impact on reimbursement.

It is Rigsrevisionen's assessment that the requirements prescribed by the ministries in the Executive order on the preparation of financial statements are too detailed and leave it to the ministries to make assessments that should rightly be made by the auditors. Instead the ministries should, for instance, insist that the auditors provide an overall conclusion for each individual appropriation, determine how an error should be defined, and specify levels of materiality. The ministries should not specify how the auditors should perform the work that leads to the conclusion.

The ministries receive the audit reports almost one year after the audit of the individual cases has been completed, and so late that the ministries have had to approve the accounts before the audit. Rigsrevisionen finds that the ministries should ensure correct reimbursement to the municipalities over a number of years, and set off ineligible claims against the municipal reimbursement. If warranted by the auditors' conclusions, the ministries could also consider setting aside entire categories of cases. It is Rigsrevisionen's assessment that this could serve as an incentive for the municipalities to improve their administration of reimbursement.

The three ministries' supervision is also, with variations, based on monitoring of the expenditure for municipal reimbursement. Monitoring expenditure generates more updated knowledge than that provided in the audit reports. The Ministry of Employment is more inclined to use these data than the other two ministries. The study also shows that the Ministry for Children and Social Affairs does not use its data on fluctuations in expenditure to the extent necessary, and only rarely combines this knowledge with other data on the municipal administration. For instance, expenditure in the budget account concerning *isolated incidents of assistance provided to refugees etc.* was allowed to grow for six consecutive years, before the ministry decided to make an extended analysis of the spending. Rigsrevisionen's study has identified a number of errors in cases concerning isolated incidents of assistance provided to refugees etc.

Since the framework defined for the ministries' supervision of municipal reimbursement does not provide the ministries with sufficient knowledge of whether the municipalities receive correct reimbursement, Rigsrevisionen has reviewed a random sample to determine whether the cases are eligible for central government reimbursement.

In a sample of 170 cases, 47 cases (28%) – distributed between the three ministries – failed to meet one or several of the eligibility criteria. The sample showed that the main reason for failure to meet the criteria is the fact that important steps in the processing of cases are not appropriately documented. This means that the municipalities lack documentation for their legal authority to claim reimbursement and may therefore have received reimbursement for non-eligible expenditure. Another random sample of 275 cases showed that five out of seven municipalities (a 5% error rate) had entered expenditure for services in the policy areas of the Ministry for Children and Social Affairs and the Ministry of Immigration and Integration incorrectly in the accounts.

Rigsrevisionen recommends that the Ministry of Employment, together with the other ministries, reconsider and tighten the audit requirements prescribed in the Executive order on the preparation of financial statements to ensure that the auditors submit conclusions that provide the ministries with a better basis for taking corrective action and ensuring correct government accounts. Rigsrevisionen finds that the ministries should define what constitutes an error in the areas where they are responsible for appropriations, and they should determine when such errors should have an impact on reimbursement.